RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2017

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2017

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RRB's fiscal year 2017 Performance and Accountability Report is available online at: www.rrb.gov

MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2017 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 programs provided under the Railroad Retirement Act (RRA), and the unemployment and sickness insurance benefit programs 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), Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2016 through September 30, 2017, were reduced by 6.9 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2018, a sequestration reduction of 6.6 percent will be applied starting on October 1, 2017.

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 government-wide 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 a material weakness identified by the Office of Inspector General (OIG) for financial 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.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

October 31, 2017

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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 1930s 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 1930s, 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 1930s 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 1930s, numerous other railroad laws have 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 1930s. 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. Congress subsequently enacted the 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 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 I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier II 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. In fiscal year 2017, the RRB trust funds realized a net of $4.1 billion, representing 37 percent of RRB financing sources (excluding transfers to/from the NRRIT and the change 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 are paid 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 OIG. These funds consist of three administrative funds, four trust funds, three general funds, one American Recovery and Reinvestment Act of 2009 fund, and two Worker, Homeownership, and Business Assistance Act of 2009 funds.

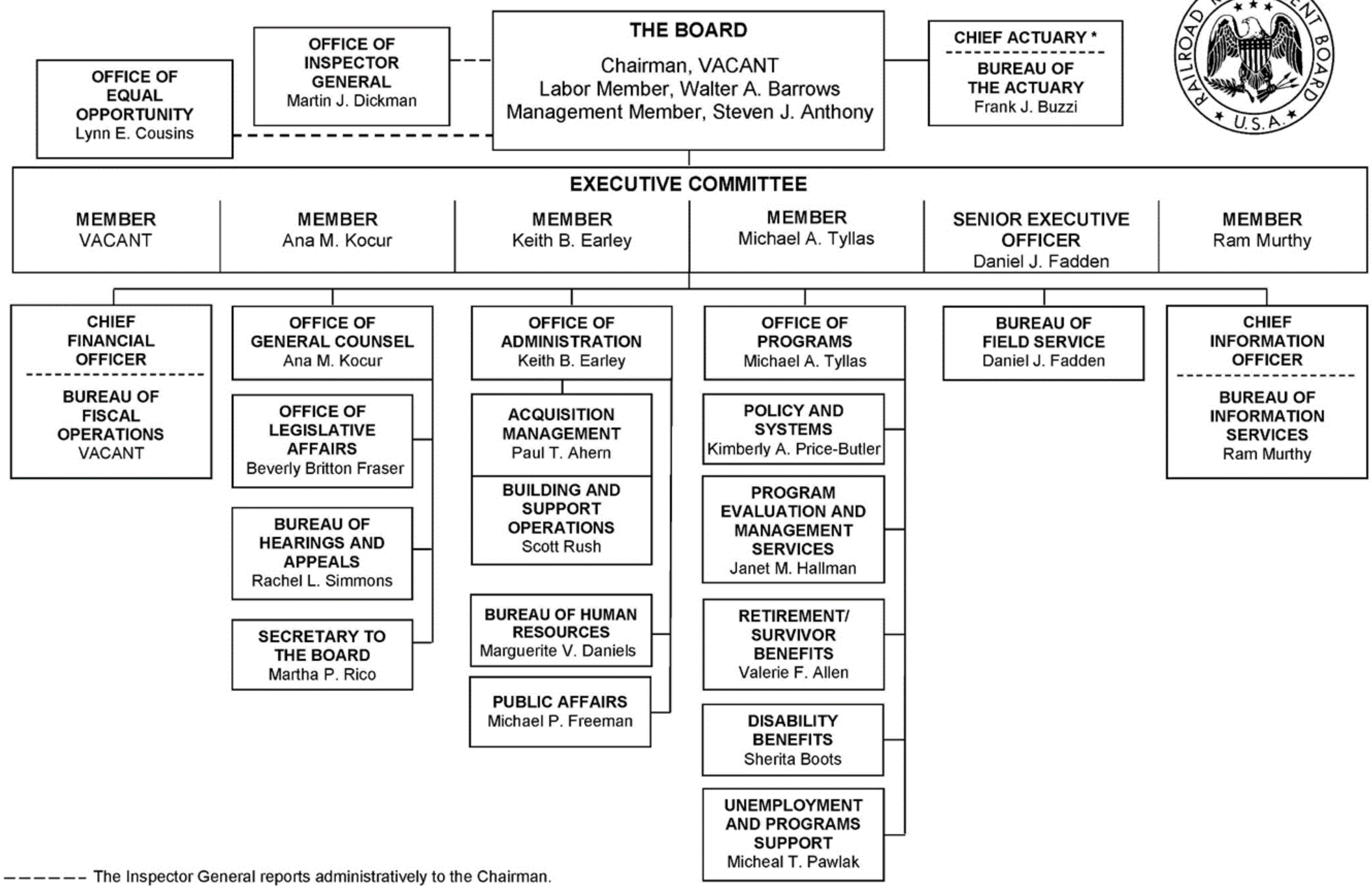
RRB Organizational Structure

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 position of Chairman of the Board is currently vacant, the Labor Member is Walter A. Barrows, and the Management Member is Steven J. Anthony. 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 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.

RRB ORGANIZATIONAL CHART



------ 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 2017

RRB FIELD OFFICE MAP

October 2017

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.

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)

	2017	2016
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$589.9	$129.5
Railroad Retirement Account 1/	26,510.8	25,444.0
Railroad Retirement Administrative Fund	30.9	32.9
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	70.2	59.6
Administrative Expenses	11.7	11.7
Limitation on the Office of Inspector General	1.9	0.4
Dual Benefits Payments Account	8.4	9.6
Federal Payments to the Railroad Retirement Accounts	15.5	15.4
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.5	9.5
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	133.1	133.6
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$27,381.9	$25,846.2
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,691.4	$7,347.7
Railroad Retirement Account 2/	6,374.0	5,574.0
Railroad Retirement Administrative Trust Fund	119.9	116.7
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	115.0	105.1
Administrative Expenses	-	-2.0
Limitation on the Office of Inspector General	10.3	8.7
Dual Benefits Payments Account	23.4	28.9
Federal Payments to the Railroad Retirement Accounts 3/	-	-
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	0.5	.1
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$14,334.5	$13,179.2
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$7,230.9	$7,336.5
Railroad Retirement Account	5,307.1	5,097.7
Railroad Unemployment Insurance Trust Fund -		
Unemployment Insurance	47.6	79.4
Sickness Insurance	57.0	52.9
Dual Benefits Payments Account	24.0	27.9
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	0.4	0.0
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$12,667.0	$12,594.4

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

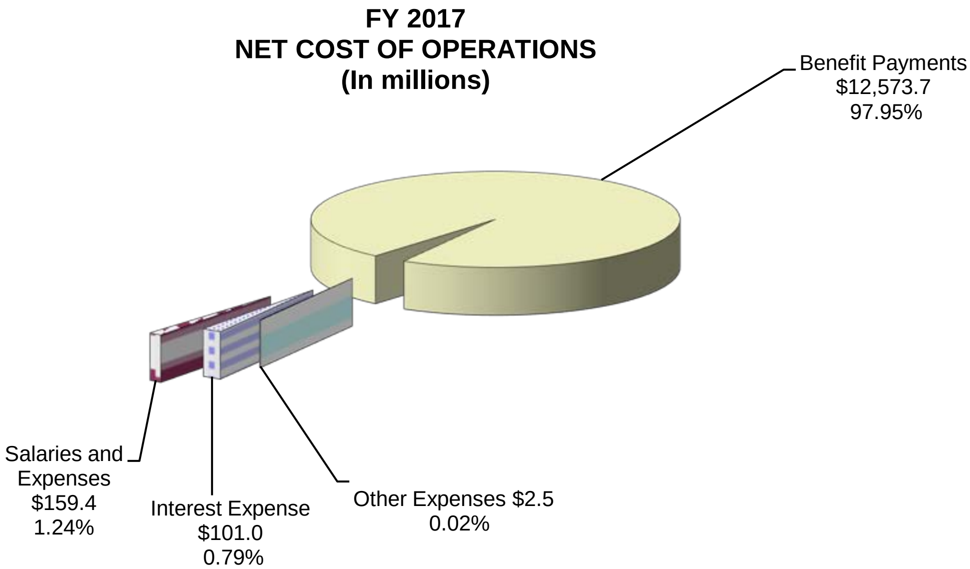
The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance, Changes in Social Insurance Amounts, and notes which are an integral part of the statements. We also present as required supplementary information 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

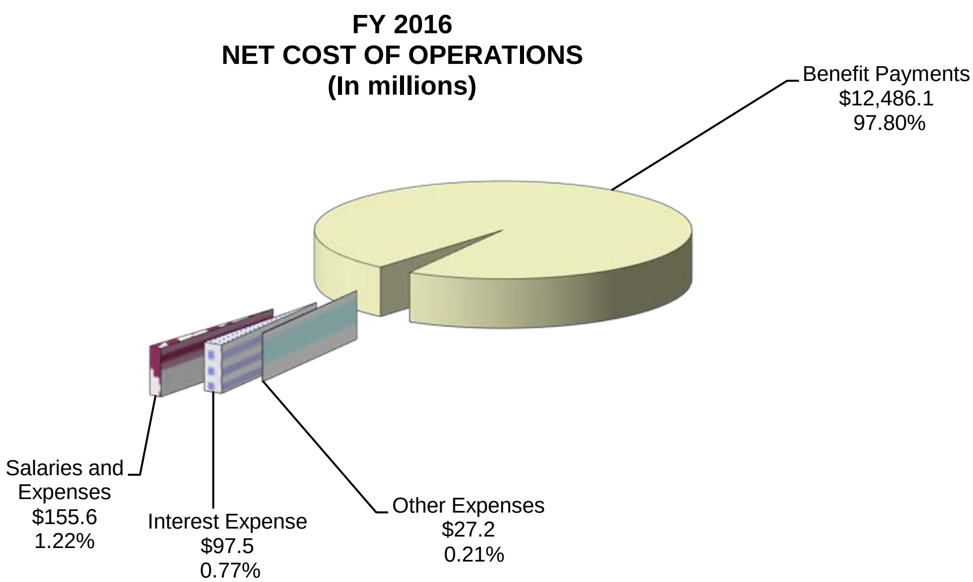
The net cost of operations for fiscal years 2017 and 2016 was $12,797.8 million and $12,717.8 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2016 to fiscal year 2017 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2017 and 2016 is shown on the following pages.

NET COST OF OPERATIONS (In millions)

	FY 2017	FY 2016	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 101.0	$ 97.5	$ 3.5	3.6%
Salaries and expenses	159.4	155.6	3.8	2.4%
Benefit payments – RRB	12,573.7	12,486.1	87.6	0.7%
Other expenses	2.4	27.2	(24.8)	(91.2)%
Subtotal	12,836.5	12,766.4	70.2	0.5%
Less: Earned revenues	38.7	48.6	(9.9)	(20.4)%
Net cost of operations	$12,797.8	$12,717.8	$ 80.0	0.6%



Totals $12,836.6 million, excluding reimbursements and earned revenues of $38.7 million.



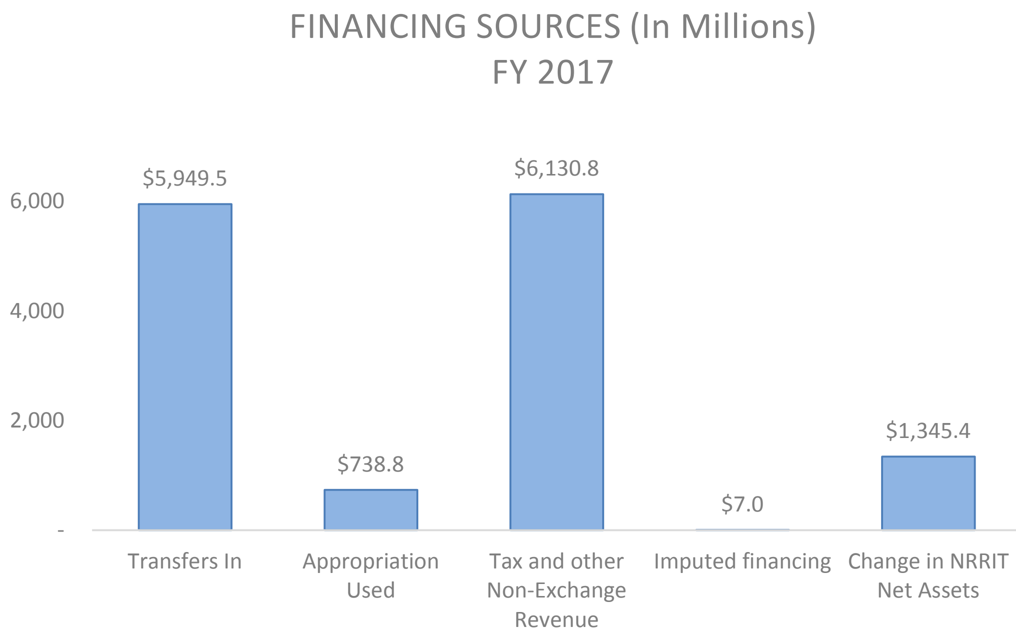
Totals $12,766.4 million, excluding reimbursements and earned revenues of $48.6 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2016 to fiscal year 2017.

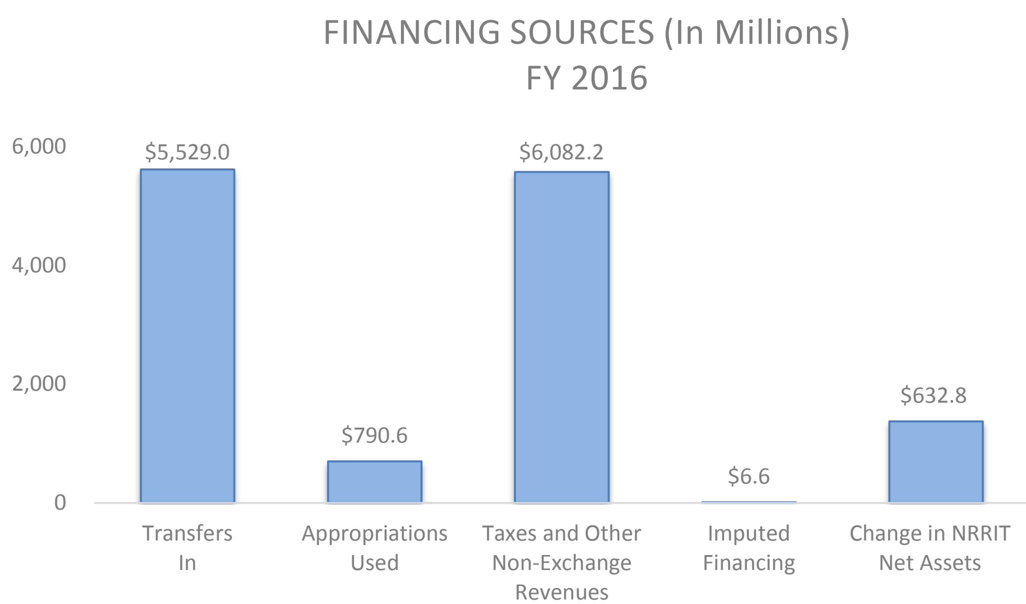
FINANCING SOURCES (In millions)

	FY 2017	FY 2016	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 738.8	$ 790.6	$ (51.8)	(6.6)%
Taxes and other non-exchange revenues:				
Payroll taxes	5,968.2	5,930.9	37.3	0.6%
Interest revenue and other income	33.6	37.5	(3.9)	(10.4)%
Carriers refunds – principal	(2.1)	(3.4)	1.3	(38.2)%
Railroad Unemployment Insurance (RUI) Revenue	131.1	117.2	13.9	11.9%
Subtotal	$ 6,130.8	$ 6,082.2	$ 48.6	0.8%
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	7.0	6.6	0.4	6.1%
Transfers in:				
Financial Interchange, net	4,128.5	4,119.0	9.5	0.2%
NRRIT	1,821.0	1,410.0	411.0	29.1%
Subtotal	$ 5,949.5	$ 5,529.0	$ 420.5	7.6%
Other:				
Change in NRRIT net assets	1,345.4	632.8	712.6	112.6%
Subtotal	$14,171.5	$13,041.2	$ 1,130.3	8.7%
Less: Transfers out to NRRIT	0	0.0	0.0	0.0%
Add: Gain/(Loss) in Contingency	163.0	138.0	25.0	18.1%
Subtotal	163.0	138.0	25.0	18.1%
Total	$14,334.5	$13,179.2	$ 55.3	8.8%

The most significant difference between the RRB's financial statements for fiscal year 2016 and fiscal year 2017 was the change in NRRIT net assets. The increase in NRRIT net assets of about $1,345.4 million is due to market fluctuations during the past year. There is a section later in this publication that describes the NRRIT, and the NRRIT net assets balances for 2016 and 2017 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $14,171.5 million, excluding $163.0 million gain contingency.



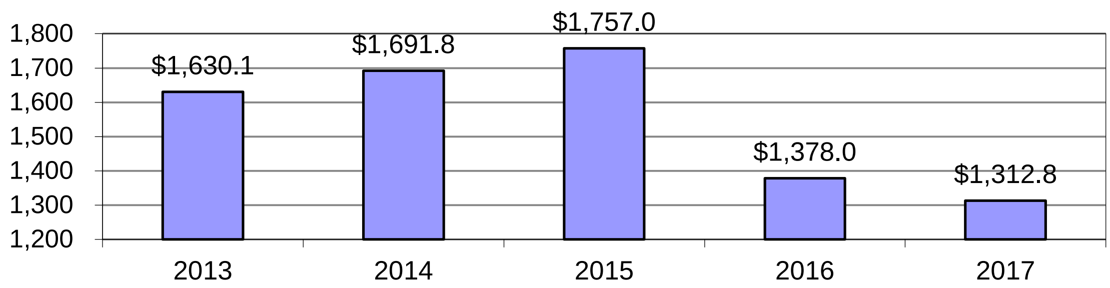
Total Financing Sources $13,041.2 million, excluding $138.0 million gain contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, decrease to $1,312.8 million as of September 30, 2017, from $1,378.0 million on September 30, 2016 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2013, through September 30, 2017.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2013 - 2017

(In millions, excluding NRRIT net assets)



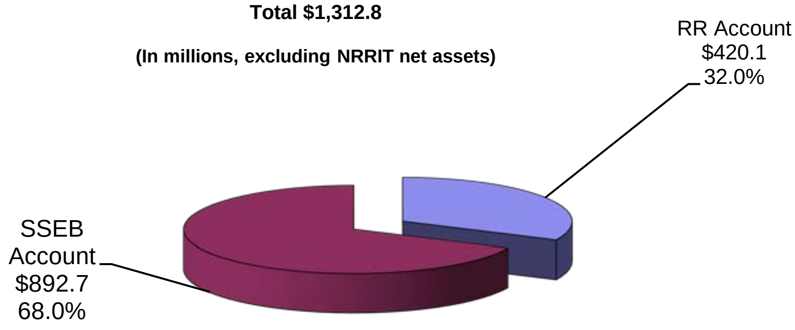
The following chart shows the portfolio of the railroad retirement investments as of September 30, 2017.

R

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2017

AT BOOK VALUE
Total $1,312.8

(In millions, excluding NRRIT net assets)



Railroad Retirement Account

On September 30, 2017 and 2016, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $420,119,798 and $686,360,093, respectively. The balance on September 30, 2017, consisted of $419,397,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2017, and $722,798 in accrued interest. The balance on September 30, 2016, consisted of $685,303,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2016, and $1,057,093 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, 2017 and 2016, the book values of the SSEB Account investments, including accrued interest, totaled $892,700,696 and $691,615,922, respectively. The balance on September 30, 2017, consisted of $891,502,000 in 3.000 percent par value specials maturing on October 1, 2017, and $1,198,696 in accrued interest. The balance on September 30, 2016, consisted of $690,656,000 in 3.000 percent par value specials maturing on October 1, 2016, and $959,922 in accrued interest.

<u>National Railroad Retirement Investment Trust</u>

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 2017 (ended September 30, 2017), railroad retirement and survivor benefit payments totaled $12.6 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $104.6 million in fiscal year 2017, net of recoveries and offsetting collections. During fiscal year 2017, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.6 billion to about 116,000 beneficiaries.

In fiscal year 2017, 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 2017 included:

- Providing payments to about 548,000 retirement and survivor beneficiaries.
- Providing payments to about 12,000 unemployment insurance beneficiaries.
- Providing payments to about 16,000 sickness insurance beneficiaries.
- Processing 21,784 retirement, survivor, and disability applications for benefits (through April 30, 2017).
- Processing 145,610 applications and claims for unemployment and sickness insurance benefits (through April 30, 2017).
- Issuing 259,062 certificates of employee railroad service and compensation (mailed on June 10, 2017).

During fiscal year 2017, the RRB used 25 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 $113,500,000 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 2017 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2017, 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 2017, 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 2017, 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 2017 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.

Validation of Performance Information. 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 Budget and Government Performance and Results Act Report.

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

- Collecting data related to each objective,
- Testing and validating performance data to ensure accuracy,
- Retaining source documents for future reference, and
- Attesting to the accuracy of performance information reported.

Members of 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.

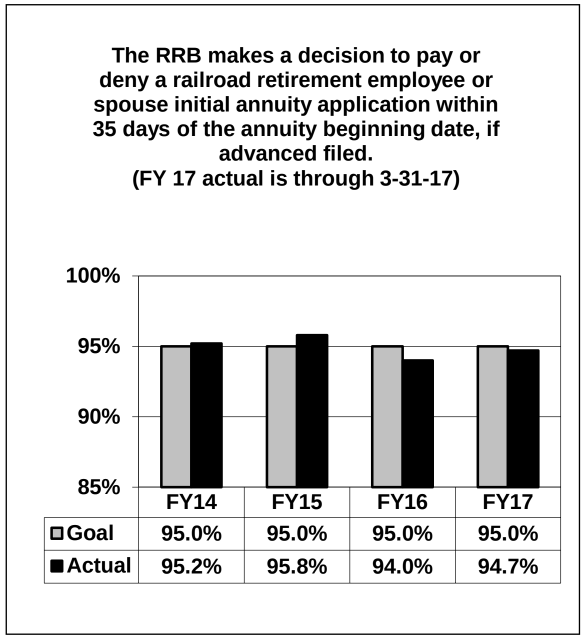
<u>Key performance indicator 1:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-1)

FY 2017 goal: 95.0%
Our FY 2017 performance: 94.7%
through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2017. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2016 goal: 95.0%
Our FY 2016 performance: 94.0%

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



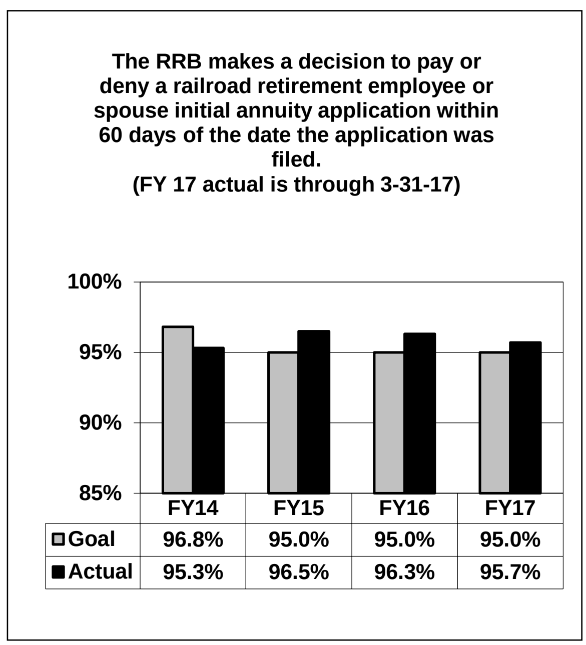
<u>Key performance indicator 2:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-2)

FY 2017 goal: 95.0%
Our FY 2017 performance: 95.7%
through the 2nd quarter

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

FY 2016 goal: 95.0%
Our FY 2016 performance: 96.3%

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



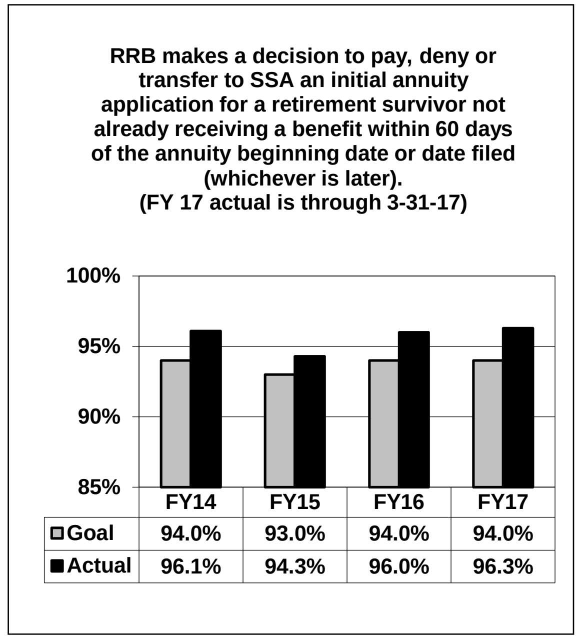
<u>Key performance indicator 3:</u> Timeliness of new survivor benefit payments (Objective I-A-3)

FY 2017 goal: 94.0%
Our FY 2017 performance: 96.3% through the 2nd quarter

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

FY 2016 goal: 94.0%
Our FY 2016 performance: 96.0%

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



	FY14	FY15	FY16	FY17
Goal	94.0%	93.0%	94.0%	94.0%
Actual	96.1%	94.3%	96.0%	96.3%

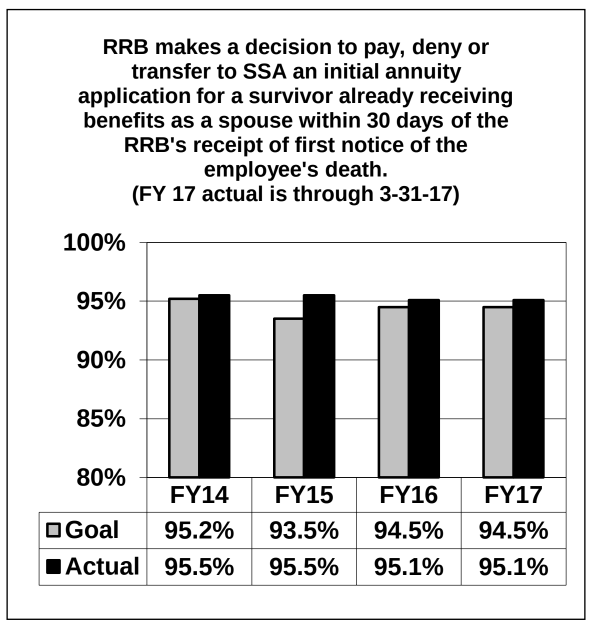
<u>Key performance indicator 4:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-4)

FY 2017 goal: 94.5%
Our FY 2017 performance: 95.1% through the 2nd quarter

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

FY 2016 goal: 94.5%
Our FY 2016 performance: 95.1%

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



	FY14	FY15	FY16	FY17
Goal	95.2%	93.5%	94.5%	94.5%
Actual	95.5%	95.5%	95.1%	95.1%

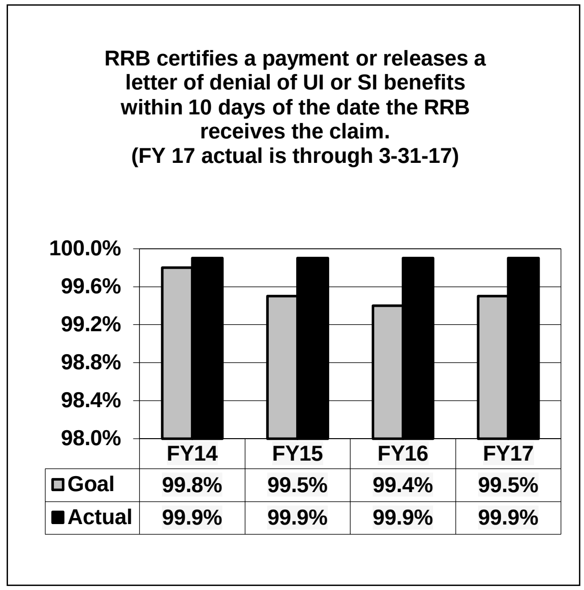
<u>Key performance indicator 5:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-6)

FY 2017 goal: 99.5%
Our FY 2017 performance: 99.9% through the 2nd quarter

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

FY 2016 goal: 99.4%
Our FY 2016 performance: 99.9%

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

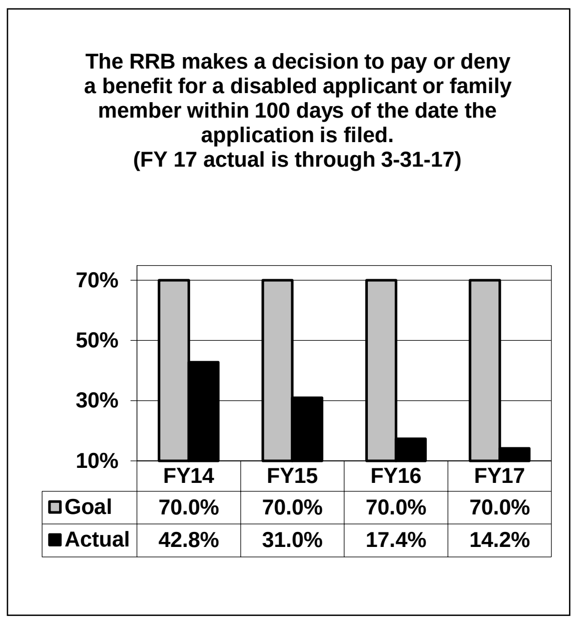


<u>Key performance indicator 6:</u> Timeliness of disability decisions (Objective I-A-7)

FY 2017 goal: 70.0%
Our FY 2017 performance: 14.2% through the 2nd quarter

We are not yet achieving our goal.

FY 2016 goal: 70.0%
Our FY 2016 performance: 17.4%



Initial disability decision timeliness performance was below the goal of 70% within 100 days for multiple reasons, including a continued effort to make decisions on cases that were greater than 2 years old. At the start of the fiscal year, pending work from 2015 and earlier was 22.5%; as of March 31, 2017, it is 13.9%.

Also, new instructions (IM 15-08) required specialist exams for all disability claims citing a primary orthopedic or mental condition that is not an impairment that meets SSA's listing level or is a disqualification by the railroad employer. The new policy and procedure for requiring specialist examinations increased time frames significantly because it required a modification of the contract with the medical services contractor that initially proved challenging to implement. For example, some specialists had long wait times and locating a particular specialist close to some claimant's homes was difficult. By the end of the second quarter there was significant improvement in the number of claimants waiting to be scheduled for an exam, such that 94.2% of them were waiting 35 days or less. In addition, the new policy did not exclude cases that were filed prior to the exam policy revision. This required scheduling additional exams for those cases as well because the case was not yet rated.

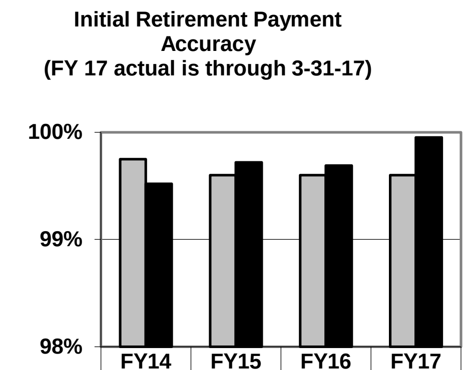
Although our Disability Benefits Division (DBD) hired additional initial claims examiners, the initial training phase takes approximately 36 weeks. The FY 2016 new hires are beginning to provide beneficial impact on production. DBD staff also provided significant support to the many new hires in our field offices.

As new hires in DBD and the field service gain experience and we reduce the wait time for examinations, we expect improvement in our timeliness performance over a period of time.

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

<u>Key performance indicator 7:</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.



	FY14	FY15	FY16	FY17
Goal	99.75%	99.60%	99.60%	99.60%
Actual	99.52%	99.72%	99.69%	99.95%

FY 2017 goal: 99.60%
Our FY 2017 performance: 99.95% through the 2nd quarter

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

FY 2016 goal: 99.60%
Our FY 2016 performance: 99.69%

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

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

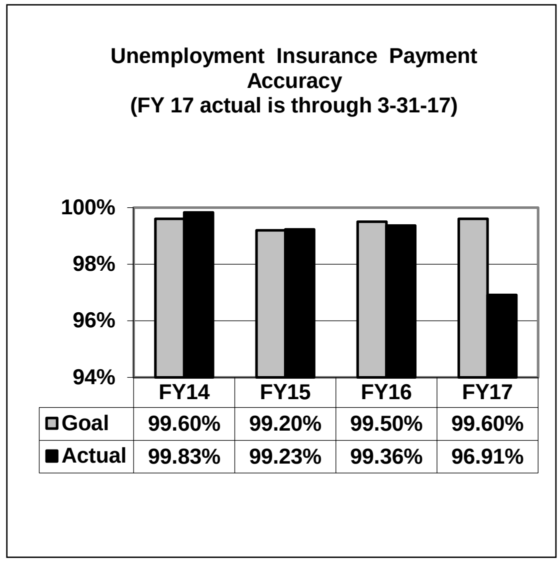
<u>Key performance indicator 8:</u> Unemployment insurance payment accuracy (Objective II-B-2a)

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

FY 2017 goal: 99.60%
Our FY 2017 performance: 96.91%
through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2017. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2016 goal: 99.50%
Our FY 2016 performance: 99.36%



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.

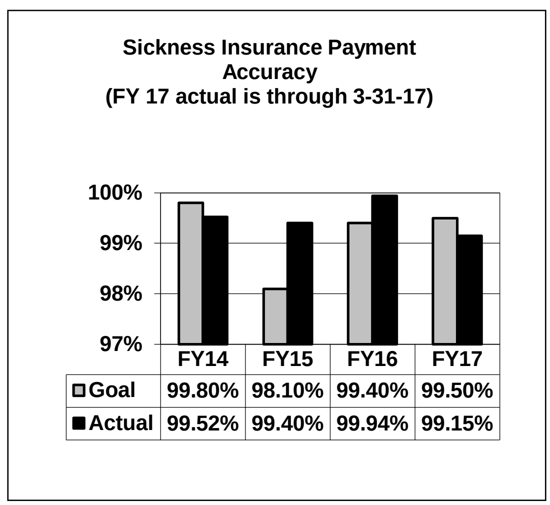
<u>Key performance indicator 9:</u> Sickness insurance payment accuracy (Objective II-B-2b)

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

FY 2017 goal: 99.50%
Our FY 2017 performance: 99.15%
through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2017. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2016 goal: 99.40%
Our FY 2016 performance: 99.94%



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.

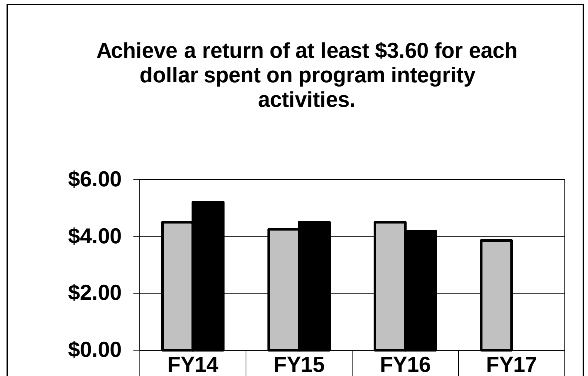
<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective II-B-5)

FY 2017 goal: $3.85 : $1
Our FY 2017 performance: N/A

FY 2017 data will be available in FY 2018.

FY 2016 goal: $4.50 : $1
Our FY 2016 performance: $4.18 : $1

We did not meet our goal. Our fiscal year 2016 goal was to achieve a return of $4.50 for each dollar spent on program integrity activities. We achieved a rate of return of $4.18 for each dollar spent.



	FY14	FY15	FY16	FY17
Goal	$4.50	$4.25	$4.50	$3.85
Actual	$5.20	$4.49	$4.18	$0.00

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' (CMS) utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via data exchange files, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

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

Future Plans/Objectives

Program Improvements.

- **Medicare Systems Modernization –** The RRB's Information Resource Management Strategic Plan has identified System Modernization as a major issue. Legacy software systems often resist evolutionary change because of their inability to adapt, and therefore, their strategic value has diminished through factors not exclusively related to the systems' functionality. The RRB has analyzed the existing application and determined that the Medicare System poses a risk to the agency and is in need of modernization. In FY 2016, we began the process of upgrading our Medicare System, replacing the existing flat file processing with a more flexible database processing system that more readily supports future program changes. This work is expected to be completed in September 2018.

  Work on the Medicare Payment System (MPS) was completed in December 2016, and promoted to production in January 2017. MPS was developed to allow users to create award activities for refunding Medicare premiums and paying Medicare Part A hospital insurance benefits for services furnished in Canada.

  Funding for both projects was made available through CMS, through the established reimbursable agreement. Work on the project, including the development of the requirements and project plan, was done through contractor support.

- **Medicare Access and CHIP Reauthorization Act of 2015 –** The Medicare Access and CHIP Reauthorization Act of 2015 includes a provision which calls for the removal of the social security number from the Medicare card. CMS will replace the social security number with a new Medicare Beneficiary Identifier. The Act also granted the RRB $3,000,000 in FY 2015 for the project. CMS is meeting with partner agencies, medical providers, and other affected external business partners in an effort to develop their project plan and project requirements. Project implementation is scheduled to begin in the first quarter of fiscal year 2018. The RRB will issue new Medicare cards to all of its Medicare beneficiaries by June 30, 2018.

- **Employer Reporting System –** To date, 27 automated services exist for employers to notify, request or provide a means for correcting and transmitting data electronically to and from the RRB via our web-based platform ERSNet. Two additional services will be added this year with the completion and implementation of the Form G-73a.1, Notice of Death of Annuitant, and the Form RL-5a, Notice of Annuity Award, which will bring the total number of available services to 29 in the ERSNet system.

  The RRB will continue to pursue enhancements in fiscal year 2018 with the development and implementation of the Form G-251A, Job Information Report and the Form G-117a, Designation of Contact Officials. This will add two additional services to the system.

  In fiscal year 2019, RRB in-house staff will develop on-line ERSNet processes for the Form RL-13g, Notice to Employer of relinquishment of Rights of Disability Annuitant Who Attained Age 65, and the AESOP, Employee Retirement Estimate File.

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 fiscal year 2018,
    - continued development in fiscal year 2018 of the Medicare Information Recorded, Transmitted, Edited and Logged (MIRTEL) Online Inquiry database to include Medicare Part B premium collection history, scheduled for completion in fiscal year 2018,
    - continued development in fiscal year 2017 of System Processing Excess Earnings Data (SPEED), a multi-phase automation initiative designed to process annuity adjustments resulting from excess earnings and work deductions on a timely basis, and
    - continued development of enhanced electronic data processing (EDP) policing to monitor earnings information and reduce manual handlings of records.

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 2017, responsible officials performed in-depth reviews of 7 assessable units, assessed all 44, and certified 43. As the result of an OIG audit recommendation, there will be an additional assessable unit in fiscal year 2018.

Since fiscal year 2014, the OIG identified a material weakness in Financial Reporting. The material weakness is due to communication with the NRRIT's auditor and ineffective controls. The OIG recommended that the Accounting Procedures Guide (APG) be updated in fiscal year 2015. The Bureau of Fiscal Operations updated the APG in July 2015. Additionally, corrective actions have taken place in fiscal year 2016. Specifically, the financial statement note *Reconciliation of Net Cost of Operations to Budget* was substantially automated in the agency's Financial Management Integrated System (FMIS). In addition, portions of our APG were rewritten with detailed instructions for operating within a new cloud shared service capability. Finally, internal quality assurance meetings were held during fiscal years 2016 and 2017 to discuss voucher exceptions and a voucher review program was initiated in fiscal year 2017 in an effort to address the OIG recommendations for the portion of the material weakness. These actions have improved accuracy and consistency of recorded amounts and effectiveness of controls.

Since fiscal year 2016, the OIG asserted that a material weakness existed in the RRB's Control Environment. Control Environment is classified as a material weakness because the OIG believes that one of five principles related to control environment is ineffective. The RRB disagrees with the control environment material weakness cited by the OIG.

The agency is committed to resolving the reported weakness related to financial reporting and will closely monitor progress during fiscal year 2018.

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 (A), we are issuing a modified statement of assurance considering the OIG-identified material weakness 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 Government Performance and Results Act and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identified Financial Reporting and the Control Environment as material weaknesses.

Description of OIG-Identified Material Weaknesses

Since fiscal year 2014, the OIG identified a material weakness in Financial Reporting. Financial Reporting is classified as a material weakness due to ineffective controls and deficiency resulting from differing interpretations of NRRIT oversight legislation.

Since fiscal year 2016, the OIG asserted that a material weakness existed in the RRB's Control Environment. Control Environment is classified as a material weakness because the OIG believes that one of five principles related to control environment is ineffective.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, 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 remote servers, mainframe, local area network and personal computer systems.

The RRB's financial management system uses a comprehensive proprietary software application from CGI Federal – Momentum Enterprise Solution – that resides on a cloud hosting service. The RRB's system is referred to as the Financial Management Integrated System (FMIS). Momentum meets the core financial system requirements set by the Financial Systems integration Office (FSIO) and is Federal Enterprise Architecture compliant. The hosting service is also provided by CGI Federal which is a commercial shared service provider for financial system services. Its cloud system has achieved compliance with the General Services Administration's (GSA) FedRAMP security requirements and is an authorized cloud service provider.

FMIS supports the RRB's budget formulation and execution, general ledger and trust fund accounting, procurement, contract management, fixed assets and administrative accounts payable and receivable requirements. The RRB migrated its previous legacy Program Accounts Receivable system to FMIS in June 2016. It supports management of receivables arising from benefit payment programs and complies with debt collection legislation. In addition, the RRB, with the support of its shared service provider, successfully met the reporting requirements deadline set by OMB for rollout of the Data Accountability and Transparency (DATA) Act in May 2017. The RRB has also invested in system upgrades to support electronic invoicing, which Treasury's Fiscal Service has directed all agencies to transition to by the end of fiscal year 2018.

The RRB currently utilizes both commercial and Federal shared service providers for other E-Government functions, including payroll/human resources (GSA), travel (CWGTSatoTravel) and employee relocation services (Bureau of the Public Debt). The payroll and travel functions are integrated with FMIS through electronic interfaces. The RRB also signed an Agency Participation Agreement with Treasury's Fiscal Service to interface its financial system with Treasury's Invoice Processing Platform as its strategy to be compliant with the requirement for all agencies to move to a standard platform to electronically process vendor invoices by the end of fiscal year 2018.

Summary of Actuarial Forecast

The Statement of Social Insurance (SOSI) presents an actuarial analysis of the financial position of the railroad retirement system as of October 1, 2016, 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 during fiscal years 2017-2091, 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 three employment assumptions for the 11 fiscal years 2017-2027. The results indicate that the Railroad Unemployment Insurance (RUI) Account will remain solvent during the 11-year projection period.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed in the Financial Section presents our assets, liabilities, and net position. Total assets for fiscal year 2017 are $33.0 billion, a 4.8 percent increase over last year. Of the total assets, $26.5 billion relates to funds held by the NRRIT. The net asset value of funds held by the NRRIT increased from fiscal year 2016 by 5.3 percent. Our investments totaled $1.3 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 2017 are $5.6 billion. Liabilities decreased by $37.5 million or 0.7 percent in fiscal year 2017. Also, benefits due decreased by $9.2 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed in the Financial Section presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2017, our net cost of operations was $12.8 billion, an increase over last year of $80 million, or 0.6 percent. A table for the net cost of operations for fiscal years 2017 and 2016 can be found on page 15.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed in the Financial Section reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2017 is $27.4 billion. The statement shows an increase in the net position of the agency of $1,536 million attributable to the change in cumulative results of operations. Total financing sources for 2017 are $14 billion. A table for financing sources for fiscal years 2017 and 2016 can be found on page 18.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance (SOSI) as a basic financial statement. The SOSI presents the present values of estimated future revenue and expenditures of the railroad retirement program. The SOSI 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.

Last year the valuation period for the SOSI was changed from a calendar-year basis to a fiscal-year basis. The net present value of estimated future expenditures less estimated future revenue (net expenditures) for all participants over the next 75 years (open group) changed from $24.6 billion as of September 30, 2015 to $24.9 billion as of September 30, 2016, a net change in the open group measure of $0.23 billion, when rounded.

As can be seen on the Statement of Changes in Social Insurance Amounts, a change in the open group measure of about $0.1 billion is due to changes in economic data, assumptions and methods. Select assumptions for Cost-of-Living Adjustment (COLA) and wage increase rates were updated in 2017, as described in the footnotes to the Statement of Changes in Social Insurance Amounts. The change in the valuation period (from fiscal years 2016-2090 to fiscal years 2017-2091) had a minimal effect, resulting in a change of less than $0.1 billion in the open group measure. There were no changes in demographic assumptions, but there were updates to demographic data. Changes in demographic data, assumptions and methods, resulted in a change of about $0.1 billion. This year there were no changes in law, policy or methodology and programmatic data.

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 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.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	As reported in FY 2017	As reported in FY 2016	Increase / $	(Decrease) %
COSTS[1]				
Total Financing Sources	$14,334.5	$13,179.2	1,155.3	8.8
Less: Net Cost	$12,797.9	$12,717.8	80.1	0.6
Net Change of Cumulative Results of Operations	$1,536.6	$461.4	1,075.2	233.0
NET POSITION[2]				
Assets	$32,992.2	$31,494.0	1,498.2	4.8
Liabilities	$5,610.3	$5,647.80	(37.5)	(0.7)
Net Position (Assets minus Liabilities)	$27,381.9	$25,846.20	1,535.7	5.9

Dollars in ***BILLIONS***	10/1/2016	10/1/2015	Increase / $	(Decrease) %
SOCIAL INSURANCE[3]				
Social Insurance Net Expenditures (Open Group)	$24.9	$24.6	0.23	0.9%

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). In prior years, social insurance amounts covered calendar year timeframes January 1 through December 31. Beginning in 2016, social insurance amounts are on a fiscal year basis, from October 1 through September 30. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The SOSI 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. Note that detail may not add to total due to rounding.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

> The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the entity in accordance with Federal Generally Accepted Accounting Principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

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PERFORMANCE SECTION

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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Performance Section – Government Performance and Results Act Report

The following performance report is based on the major goals and objectives for fiscal year 2017 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.

To date, 27 automated ERSNet services exist for employers to notify, request or provide a means for correcting and transmitting data electronically to and from the RRB. Two additional services will be added this year with the completion and implementation of the Form G-73a.1, Notice of Death of Annuitant, and the Form RL-5a, Notice of Annuity Award, which will bring the total number of available services to 29 in the ERSNet system.

The RRB will continue to pursue enhancements in fiscal year 2018 with the development and implementation of the Form G-251A, Job Information Report, and the Form G-117a, Designation of Contact Officials. This will add two additional services to the system.

In fiscal year 2019, RRB in-house staff will develop on-line ERSNet processes for the Form RL-13g, Notice to Employer of Relinquishment of Rights of Disability Annuitant Who Attained Age 65, and the AESOP, Employee Retirement Estimate File.

Our Citizen Services Improvements initiative was started in 2016 to provide RRB customers additional online services to securely file for retirement benefits. This digital service enables railroad workers to submit their application for an employee retirement annuity to the RRB through an online application. The online retirement application service will utilize the U.S. General Services Administration (GSA) Login.gov solution for identity proofing and multi-factor authentication services. The Login.gov service will identity proof individuals who seek benefits or services from Federal agencies. Rather than requiring individuals to have a separate login process to access each Federal agency's electronic system, GSA is creating a process that allows individuals to access information or request services from any of the different federal agencies that have opted to use Login.gov with a single sign-on. We will monitor customer satisfaction via the American Customer Satisfaction Index, a national indicator of customer evaluations of the quality of goods and services available to U.S. residents. Survey results from 2015 will form the baseline for customer satisfaction improvements.

Work continued on SPEED, 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 is being built in a multi-phase approach. In fiscal year 2016, we completed the SPEED version which:

- Processes an award in response to a work estimate report being submitted (i.e. handles retirement temporary work deductions).
- Enters retirement work deductions or adjust the work deduction already in force.
- Sets up cases for award processing and release of letters.

In addition, in fiscal year 2017, we will complete work with the contractor to automate the last pre-retirement non-railroad employer and regular permanent work deductions which is the most complex phase of the SPEED project to-date. Although this work will be completed in fiscal year 2017, it will not be placed into production until January 2018.

Work continued during fiscal year 2017 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications (commonly referred to as Retirement Adjudication System Initial to Application Express [RASI to APPLE] Conversion). The enhanced process will improve the accuracy and efficiency of initial retirement claims. 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 July 2017, the target for completion of the enhanced system is fiscal year 2018. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

During fiscal year 2016, we implemented phase two of the Overpayment Recovery and Correspondence System to support RUIA overpayments. The third phase, which extended the system's support to Medicare billing and overpayments, was completed in June 2017.

In fiscal year 2012, work began on a project to enhance our EDP policing program, which will address the internal handling and automatic matching of earnings information received from our data match with SSA. The first phase involved the automation and capture of excess and last person employer earnings information stored on the Retirement On-Line Calculations (ROC) system, an on-line system for calculating and paying retirement annuities. Fiscal year 2015 saw the completion of phase two, which integrated the ROC data file into EDP Policing processing to filter out records properly adjudicated using the SSA earnings amount. In fiscal year 2016, we completed work to integrate data from our Payment, Rate, and Entitlement History database to further filter out records in which the annuitant is not subject to excess earnings policing; this allowed us to eliminate redundant information and reduce the number of records referred to the claims adjudication units. In fiscal year 2017, we began work to extract data from SPEED processing to eliminate records where earnings reports have already been received. We anticipate finalizing this project and moving it into production in calendar year 2018.

Sequestration of RUIA Benefits

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2016, through September 30, 2017, are being reduced by 6.9 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2018, a sequestration reduction of 6.6 percent will be applied starting on October 1, 2017, and beyond.

Succession Planning and Training

Strategic Management of Human Capital – Like many agencies, the RRB has an aging workforce. About 50 percent of our employees have 20 or more years of service and over 24 percent of the current workforce will be eligible for retirement by the end of fiscal year 2017. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. We have completed a workforce analysis that identifies historical data, trends and projected attrition to evaluate and prioritize future needs and vacancies in our workforce. The results from this analysis form the basis for formulating specific strategies, hiring plans and initiatives that will support the agency's succession plan. We also identify potential areas of skills and knowledge gaps in an agency-wide skills gap analysis. These gaps will need to be addressed in order to strive for a relatively smooth, seamless transition while continuing to achieve the mission of the agency. This process identifies areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions. It also identifies areas of new skills that may need to be addressed through outside hires.

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, and we have provided meaningful training programs for our employees. We have offered courses in the areas of performance management and managerial and supervisory development, and we recently provided negotiation training and "train the trainer" sessions and Microsoft Office training for employees. We utilize the results from training needs assessments and surveys to prioritize these needs. We also make use of technology in this area, utilizing the recently acquired Learning Management System, an internet-based program which effectively formalizes all aspects of training for all agency employees, while also providing self-assessments to the student and feedback to supervisors on their progress. In addition, all field managers now have access to the latest webinar technology to facilitate the remote training of new employees, as well as the ongoing training of experienced field staff. These initiatives are particularly useful to employees and managers in the agency's field offices.

The Federal Employee Viewpoint Survey provides our employees the opportunity to influence change by submitting feedback about their work environment, leadership, and many other aspects of our organization. We were pleased that of the 870 employees invited to participate, 449 completed the survey, for a response rate of 52 percent in 2017, an increase of 14 percent from last year. Fifty-five survey items increased since 2016 while only 11 survey items decreased since 2016. We are pleased to report that our Engagement Index score met the Office of Personnel Management's (OPM) goal for 2017 (69 percent).

Systems Security

In FY 2017, we continued to make progress towards a compliant Information Security program to improve the RRB's security posture. The RRB has implemented an Information Security Continuous Monitoring (ISCM) Strategy as outlined in OMB Memorandum M-14-03: Enhancing the Security of Federal Information and Information Systems. This strategy addressed the gaps in the Information Security program. We have partnered with the Department of Homeland Security (DHS) in the Continuous Diagnostic and Mitigation (CDM) program. This partnership with DHS will further improve our Information Security program pertaining to vulnerability assessment, hardware and software management, configuration management, and privileged account management. We have also enrolled in the DHS EINSTEIN-3 Accelerated (E3A) program that ensures all of the Domain Name System (DNS) and Simple Mail Transfer Protocol (SMTP) are monitored by these services.

We continue to manage the risk of the critical infrastructure considering asset management, remote access, identity management, and network protection. Specifically:

- Assessment Management – we have enrolled in the DHS CDM Continuous Monitoring as a Service (CMaaS) to provide better visibility of current hardware and software and to automatically detect unauthorized hardware and software. The CDM solution is scheduled to be implemented in December 2017.

- Identity Management – we now have a multi-factor authentication solution in place and as part of CMaaS, we will be implementing credential management for general users and privileged access management for system administrators.

- Remote Access – we deployed managed services for hardware encryption and have upgraded our Cisco ASA firewalls to strengthen information security controls for VPN remote access.

- Network Protection – as part of CMaaS, we will further improve the Defense in Depth configuration in place, namely the Intrusion Prevention System (IPS), Network Access Control (NAC), and the Security Information and Event Management (SIEM).

Program Evaluations

Program Evaluation	Results in Fiscal Year 2017
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Annual actuarial report required by the Railroad Retirement Act of 1974 and the Railroad Retirement Solvency Act of 1983	The report, which was completed in June 2017, addresses the 25 calendar year period 2017 through 2041. It indicates that cash flow problems do not arise during the projection period under any of the three employment assumptions. The report did not include any recommendations for financing changes.
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 2017, addresses the 11 fiscal year period 2017 through 2027. The report indicated that even as maximum benefits are expected to increase 46 percent from 2016 to 2027, 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 2016, released in March 2017, showed that program integrity activities resulted in the establishment of about $10.3 million in recoverables, recovery of $9.2 million, benefit savings of $1.6 million, and referral of 22 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA and RUIA 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. Initial disability determination accuracy is evaluated by quality assurance staff within PEMS and by an external contractor (Juncture). 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. Case review audits were completed in 2000 and 2008; the agency is in its second year of a contract with the advisory doctors. In FY 2017, the advisory doctors completed a 100 case review to determine the effectiveness of Specialist Consultative Examinations.

Program Evaluation	Results in Fiscal Year 2017
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 through 42 of this section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Information" section.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Information" section.

The next page begins a consolidated presentation of our actual performance for fiscal years 2014 through March 31, 2017 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2016. At the time this report was prepared, we had incomplete information on our fiscal year 2017 performance. The discussion of any unmet fiscal year 2017 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board Fiscal Year 2017 Performance Plan	2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Planned [1/] (At $113.5m)	2017 Actual [1/] (At $113.5m)
STRATEGIC GOAL I: Provide Excellent Customer Service					
Strategic Objective: Pay benefits timely**.** Goal leader for objectives I-A-1 through I-A-5; I-A-7 and I-A-8: Michael Tyllas, Director of Programs Goal leader for objective I-A-6: Dan Fadden, Director of Field Service 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)	95.2%	95.8%	94.0%	95.0%	94.7%
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)	95.3%	96.5%	96.3%	95.0%	95.7%
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)	96.1%	94.3%	96.0%	94.0%	96.3%
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 benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (Measure: % ≤ 30 days)	95.5%	95.5%	95.1%	94.5%	95.1%

Railroad Retirement Board **Fiscal Year 2017 Performance Plan**	**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Planned [1/] (At $113.5m)**	**2017 Actual [1/] (At $113.5m)**
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)	98.4%	98.1%	98.0%	98.0%	96.8%
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)	99.9%	99.9%	99.9%	99.5%	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)	42.8%	31.0%	17.4%	70.0%	14.2%
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)	95.6%	95.8%	92.6%	94.5%	93.4%
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)	270	261	239	221	221

Railroad Retirement Board Fiscal Year 2017 Performance Plan		**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Planned [1/] (At $113.5m)**	**2017 Actual [1/] (At $113.5m)**
Strategic Objective: Provide a range of choices in service delivery methods. Goal leader: Michael Tyllas, 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)		19 services available	19 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 ERS; number of services available through electronic media)	a) Employers using ERS:	98.3%	99.0%	99.0%	99.0%	99.0%
	b) Internet services:	26 Internet services available	27 Internet services available	27 Internet services available	29 Internet services available	27 Internet services available
STRATEGIC GOAL II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources						
Strategic Objective: Ensure that trust fund assets are protected, collected, recorded, and reported appropriately. Goal leader: Shawna Weekley, Deputy Chief Financial Officer						
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)		91.33%[2/]	99.58%	90.73%	87.36%	85.00%

Railroad Retirement Board Fiscal Year 2017 Performance Plan		**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Planned [1/] (At $113.5m)**	**2017 Actual [1/] (At $113.5m)**
Strategic Objective: Ensure the accuracy and integrity of benefit programs. Goal leader II-B-1(a)(b) and II-B-3, 4, and 5: Michael Tyllas, Director of Programs Goal leader II-B-2a: Dan Fadden, Director of Field Service Goal leader II-B-2b: Micheal Pawlak, Director of Unemployment Payment Support Division						
II-B-1. Achieve a railroad retirement benefit payment accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payment	99.52%	99.72%	99.69%	99.60%	99.95%
	b) Sample post recurring payments	100%	99.91%	99.70%	99.60%	99.88%
II-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment	99.83%	99.23%	99.36%	99.60%	96.91%
	b) Sickness	99.52%	99.40%	99.94%	99.50%	99.15%
II-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy)		98.6%[4/]	95.8%[5/]	94.4%	96.00%	FY 17 Data Not Available
II-B-4. Maintain the level of RRA improper payments below the OMB threshold. (Measure: prior to fiscal year 2014, below 2.5%; beginning fiscal year 2014, below 1.5%)		0.59%[6/]	0.58%[6/]	0.60%	1.00%	FY 17 Data Not Available
II-B-5. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal year 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent)		$5.20: $1.00	$4.49: $1.00	$4.18: $1.00	$3.85: $1.00	FY 17 Data Not Available

Railroad Retirement Board Fiscal Year 2017 Performance Plan		2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Planned [1/] (At $113.5m)	2017 Actual [1/] (At $113.5m)
Strategic Objective: Ensure effectiveness, efficiency, and security of operations. Goal leader: Ram Murthy, 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)		No. The target date for PREH conversion is delayed due to higher priority project (TPAM) mandated by the U.S. Treasury. New target: April 30, 2015.	Yes. The target date for the RUIA XR modernization and Medicare Database conversion has been met. PREH conversion is delayed due to staff working on higher priority project. The new target date is September 30, 2016.	No. The modernization of the Tax Database will now be incorporated in the multi-year Mainframe Applications Re-engineering project.	Project complete	Project complete
II-C-2. Deliver – Deliver on Budget. Percent of IT Projects costs within 10% of budgeted costs.		New Performance Goal for FY2016	New Performance Goal for FY2016	100%	85%	100%
II-C-3. Deliver – Meet Customer Expectations. WWW.RRB.GOV Internet Services (Mainline and Employer Reporting System) continuous availability experienced by end users.	a. Continuous availability target	New Performance Goal for FY 2016	New Performance Goal for FY2016	98.7%	99.0%	99.3%
	b. Hours of outage allowed per month	New Performance Goal for FY 2016	New Performance Goal for FY2016	9.38	7	6.5

Railroad Retirement Board Fiscal Year 2017 Performance Plan	**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Planned [1/] (At $113.5m)**	**2017 Actual [1/] (At $113.5m)**
II-C-4. Innovate – Design for Modularity. Strategy for Continuity of Operations Improvements.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	No	Implement automatic failover of email system to alternate facility.	Completed applying HTTPS-only standard to www.rrb.gov.
II-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	50%	98.5%	100%
II-C-6. Protect – Email Data Loss Prevention. Percentage of externally bound emails and their attachments automatically encrypted that contain personally identifiable or credit card information.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	99.82%	99%	100%
II-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification card to authenticate.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	74%	100	78.3%

Railroad Retirement Board Fiscal Year 2017 Performance Plan	2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Planned [1/] (At $113.5m)	2017 Actual [1/] (At $113.5m)
Strategic Objective: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Ana M. Kocur, 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.	Yes	Yes	Yes	Yes	Yes

1/ Planned amounts reflect the fiscal year 2017 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on May 23, 2017. Actual results represent status as of March 31, 2017, unless otherwise noted.

2/ The published Performance and Accountability Report for FY 2015 shows that the 2014 actual results (at $110.3m) was 95.1%. This percentage represented the status as of March 31, 2014. This publication is corrected to show that the 2014 actual result (at $110.3m) was 91.33%.

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

4/ FY 2014 performance was used to establish a baseline.

5/ There was no performance goal established for FY 2015. The first year this goal was reported is FY 2016.

6/ Actual IP rates for FY 2014 and 2015 have been adjusted to accurately show that fiscal year data reviewed matches the fiscal year data reported.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2016

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator 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) Our fiscal year 2016 goal was 95.0%, and the actual was 94.0%.	Retirement Benefits Division (RBD) did not reach its goal of 95.0% for applications filed in advance due to the decrease in staff specifically in the legal partition section, which impacted RBD's ability to award initial retirement and disability applications timely.
Performance Indicator I-A-7. 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. (Measure: % ≤ 100 days) Our fiscal year 2016 goal was 70.0%, and the actual was 17.4%.	Disability Benefits Division (DBD) did not meet the 2016 performance target due to DBD's focus during the second and third quarters on decreasing backlogged cases; specifically, cases with filing dates 2015 and earlier.
Performance Indicator 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) Our fiscal year 2016 goal was 94.5%, and the actual was 92.6%.	RBD did not reach its goal of 94.5% for payments to disabled applicants within 25 days of the date of decision, or earliest payment date, due to the decrease in staff specifically in the legal partition section, which impacted RBD's ability to award initial retirement and disability payments timely.
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 2016 goal was 20 services available and the actual was 19 services available.	Policy and Systems did not meet the projected goal of 20 services available due to higher priority projects.

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator I-B-2b. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: percentage of employers who use the on-line ERS; number of services available through electronic media) Our fiscal year 2016 goal was 29 services available and the actual was 27 services available.	Policy and Systems did not meet the projected goal of 29 Internet services available for the following reasons: 1) Application development from the scheduled RL-5a, Notice of Annuity Award, was changed to the G-251a, Job Information Report, since it is a higher priority for the agency. 2) The Bureau of Information Services (BIS) found that the ERSNet source control program, Visual Safe Source, was not updating the system with new application coding. BIS had to review all coding for the entire ERSNet system and moved the data to a new software system called Team Foundation Server.
Performance Indicator II-B-2a. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2016 goal was 99.50%, and the actual was 99.36%.	Field Service did not meet its goal of 99.50% for unemployment payment accuracy due to a dramatic increase in the unemployment workload and the loss of 30+ experienced claim representatives in FY 2016. In FY 2016, there were record levels of high unemployment throughout the rail industry, which resulted in a significant increase of unemployment applications (+77.56% over FY 2015) and claims (+113.45% over FY 2015). Field Service has also been experiencing high attrition rates over the last few years, which resulted in a loss of experienced claim representatives. A significant number of new claim representatives were hired last year, but their lack of experience is also a contributing factor as to why Field Service did not reach its unemployment payment accuracy goal for FY 2016.
Performance Indicator II-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy) Our fiscal year 2016 goal was 96.00%, and the actual was 94.4%.	The Disability Benefit Division (DBD) did not meet its goal of 96.00% for disability determination accuracy due to limited examiner experience. The DBD initial staff consists of 13 examiners of which 11 were recent hires. The initial training phase takes approximately 36 weeks, but in order for a disability examiner to become proficient in their job, it takes two to three years. This impacts the examiners production and quality of work. DBD management continues to focus on training related to eligibility, medical severity, and vocational factors to help the examiners become more proficient in their work.

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator II-B-5. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure: recoverables and savings per dollar spent.) Our fiscal year 2016 goal was $4.50: 1 and the actual was $4.18: 1.	The analysis by Program Evaluation and Management Services revealed the agency did not meet its goal of $4.50:$1.00 for each dollar spent on program integrity activities. As of February 2016, the CMS death match process was reviewed, resulting in the screening process being changed and also closing out any duplicate cases where a second death match investigation already existed. Although these changes to the CMS process had an impact on lowering the program integrity ratio, they improved the overall quality and integrity of the CMS process, and also helped reduce the possibility of overstating any dispositions.

FINANCIAL SECTION

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RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(in dollars)

	FY 2017	FY 2016
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$268,433,925	$304,793,097
Investments (Note 4)	1,312,820,493	1,377,976,015
Accounts Receivable (Note 6)	4,864,277,435	4,617,907,487
Total Intragovernmental	**6,445,531,853**	**6,300,676,599**
NRRIT Net Assets (Note 5)	26,494,665,253	25,149,221,659
Accounts Receivable, Net (Note 6)	46,598,105	38,055,871
General Property, Plant and Equipment, Net (Note 7)	4,833,433	5,548,151
Other	542,340	544,907
TOTAL ASSETS	**$32,992,170,984**	**$31,494,047,187**
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	$583,699,949	$588,899,949
Debt	3,752,924,494	3,615,966,150
Other	2,015,222	1,657,181
Total Intragovernmental	**4,338,639,665**	**4,206,523,280**
Accounts Payable	1,142,045	798,873
Benefits Due and Payable	1,070,061,592	1,079,289,457
Other	200,473,059	361,207,831
TOTAL LIABILITIES	**$5,610,316,361**	**$5,647,819,441**
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	15,505,338	15,470,032
Unexpended Appropriations - All Other Funds	148,170,964	149,309,072
Cumulative Results of Operations - Funds from Dedicated Collections (Note 17)	27,215,393,767	25,677,990,029
Cumulative Results of Operations - All Other Funds	2,784,554	3,458,613
Total Net Position - Funds from Dedicated Collections (Note 17)	27,230,899,105	25,693,460,061
Total Net Position - All Other Funds	150,955,518	152,767,685
TOTAL NET POSITION	**27,381,854,623**	**25,846,227,746**
TOTAL LIABILITIES AND NET POSITION	**$32,992,170,984**	**$31,494,047,187**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(in dollars)

	FY 2017	FY 2016
Gross Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 10)	$12,699,060,156	$12,588,997,626
Less: Earned Revenue	28,601,407	32,214,022
Net Program Costs	12,670,458,749	12,556,783,604
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 10)	137,384,203	177,403,754
Less: Earned Revenue	10,043,595	16,389,717
Net Program Costs	127,340,608	161,014,037
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	34,984	24,512
NET COST OF OPERATIONS	**$12,797,764,373**	**$12,717,773,129**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(in dollars)

	FY 2017			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balance	$25,677,990,029	$3,458,613		$25,681,448,642
Budgetary Financing Sources:				
Appropriations Used	714,902,967	23,864,284		738,767,251
Non-Exchange Revenue	6,130,873,820	(68,827)	(9,950)	6,130,795,043
Transfers in from NRRIT (Note 11)	1,821,000,000			1,821,000,000
Transfers in/out Without Reimbursement	4,128,503,000			4,128,503,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	6,985,164			6,985,164
Change in NRRIT Assets	1,345,443,594			1,345,443,594
Gain/(Loss) Contingency	163,000,000			163,000,000
Total Financing Sources	14,310,708,545	23,795,457	(9,950)	14,334,494,052
Net Cost of Operations	12,773,304,807	24,469,516	(9,950)	12,797,764,373
Net Change	**1,537,403,738**	**(674,059)**	**0**	**1,536,729,679**
Cumulative Results of Operations	**27,215,393,767**	**2,784,554**		**27,218,178,321**
Unexpended Appropriations:				
Beginning Balances	15,470,032	149,309,072		164,779,104
Budgetary Financing Sources:				
Appropriations Received	715,043,017	25,000,000		740,043,017
Appropriations transferred in/out				
Other Adjustments	(104,744)	(2,273,824)		(2,378,568)
Appropriations Used	(714,902,967)	(23,864,284)		(738,767,251)
Total Budgetary Financing Sources	**35,306**	**(1,138,108)**		**(1,102,802)**
Total Unexpended Appropriations	**15,505,338**	**148,170,964**		**163,676,302**
Net Position	**$27,230,899,105**	**$150,955,518**		**$27,381,854,623**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(in dollars)

	FY 2016			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balances	$25,217,589,345	$2,392,309		$25,219,981,654
Budgetary Financing Sources:				
Appropriations Used	762,690,663	27,885,510		790,576,173
Non-Exchange Revenue	6,081,213,960	1,085,283	(128,563)	6,082,170,680
Transfers in from NRRIT (Note 11)	1,410,000,000			1,410,000,000
Transfers in/out Without Reimbursement	4,119,039,000			4,119,039,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	6,594,143			6,594,143
Change in NRRIT Assets	632,850,121			632,850,121
Gain/(Loss) Contingency	138,010,000			138,010,000
Total Financing Sources	13,150,397,887	28,970,793	(128,563)	13,179,240,117
Net Cost Of Operations	12,689,997,203	27,904,489	(128,563)	12,717,773,129
Net Change	**460,400,684**	**1,066,304**	**0**	**461,466,988**
Cumulative Results of Operations	**25,677,990,029**	**3,458,613**		**25,681,448,642**
Unexpended Appropriations:				
Beginning Balances	15,376,925	156,606,846		171,983,771
Budgetary Financing Sources:				
Appropriations Received	762,883,571	28,000,000		790,883,571
Appropriations transferred in/out				0
Other Adjustments	(99,801)	(7,412,264)		(7,512,065)
Appropriations Used	(762,690,663)	(27,885,510)		(790,576,173)
Total Budgetary Financing Sources	93,107	(7,297,774)		(7,204,667)
Total Unexpended Appropriations	**15,470,032**	**149,309,072**		**164,779,104**
Net Position	**$25,693,460,061**	**$152,767,685**		**$25,846,227,746**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(in dollars)

	2017	2016
Budgetary Resources		
Unobligated balance brought forward, October 1	$174,325,287	$181,928,605
Adjustment to unobligated balance brought forward, Oct 1 (+ or -)	0	0
Unobligated balance brought forward, Oct 1, as adjusted	174,325,287	181,928,605
Recoveries of unpaid prior year obligations	1,573,785	480,680
Other changes in unobligated balance (+ or -)	2,858,460	(8,177,400)
Unobligated balance from prior year budget authority, net	178,757,532	174,231,885
Appropriations (discretionary and mandatory)	9,428,372,158	9,548,793,391
Borrowing authority (discretionary and mandatory) Note 20	4,089,100,000	3,921,400,000
Spending authority from offsetting collections (discretionary and mandatory)	163,444,853	172,728,020
Total budgetary resources	**$13,859,674,543**	**$13,817,153,296**
Status of budgetary resources		
New obligations and upward adjustments (total) Note 18	13,684,573,070	13,642,828,009
Unobligated balance, end of year:		
Apportioned, unexpired accounts	5,038,416	5,595,585
Unapportioned, unexpired accounts	158,689,432	156,419,553
Unexpired unobligated balance, end of year	163,727,848	162,015,138
Expired unobligated balance, end of year	11,373,625	12,310,149
Unobligated balance, end of year (total)	175,101,473	174,325,287
Total budgetary resources	**$13,859,674,543**	**$13,817,153,296**
Change in obligated balance		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$1,010,157,417	$993,910,806
New obligations and upward adjustments	13,684,573,070	13,642,828,009
Outlays (gross) (-)	(13,681,642,127)	(13,626,100,718)
Recoveries of prior year unpaid obligations (-)	(1,573,785)	(480,680)
Unpaid obligations, end of year	1,011,514,575	1,010,157,417
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(134,355)	(197,603)
Change in uncollected pymts, Fed Sources (+ or -)	75,069	63,248
Uncollected pymts, Fed sources, end of year (-)	(59,286)	(134,355)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	$1,010,023,062	$993,713,203
Obligated balance, end of year (+ or -)	$1,011,455,289	$1,010,023,062
Budget authority and outlays, net		
Budget authority, gross (discretionary and mandatory)	13,680,917,010	13,642,921,411
Actual offsetting collections (discretionary and mandatory) (-)	(168,756,951)	(173,767,000)
Change in uncollected pymts from Fed sources (discretionary and mandatory) (+ or -)	75,069	63,248
Recoveries of prior year paid obligations (discretionary and mandatory)	5,237,028	975,731
Budget authority, net (total) (discretionary and mandatory)	**$13,517,472,156**	**$13,470,193,390**
Outlays, gross (discretionary and mandatory)	$13,681,642,127	$13,626,100,718
Actual offsetting collections (discretionary and mandatory) (-)	(168,756,951)	(173,767,000)
Outlays, net (total) (discretionary and mandatory)	13,512,885,176	13,452,333,718
Distributed offsetting receipts (-)	(4,843,396,016)	(4,881,721,696)
Agency outlays, net (discretionary and mandatory)	**$8,669,489,160**	**$8,570,612,022**

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

Railroad Retirement Board

Statement of Social Insurance (Note 14, Note 15)

Actuarial Surplus or (Deficiency)

75-year Projection as of October 1, 2016

(Present values in billions of dollars)

	10/1/2016	10/1/2015	1/1/2015	1/1/2014	1/1/2013
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$88.2	$85.3	$85.4	$82.8	$81.1
Expenditures for scheduled future benefits	135.7	131.2	130.6	125.8	122.6
Present Value of estimated future revenue less estimated future expenditures	(47.5)	(45.8)	(45.1)	(43.0)	(41.5)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	91.1	92.5	88.0	85.5	84.2
Expenditures for scheduled future benefits	97.5	99.0	97.2	96.8	96.2
Present Value of estimated future revenue less estimated future expenditures	(6.5)	(6.5)	(9.2)	(11.3)	(12.0)
Net estimated present value of future revenue less future expenditures for current participants (closed group measure)	(54.0)	(52.4)	(54.4)	(54.4)	(53.5)
Plus: Treasury securities and assets held by the program	26.6	26.3	27.6	27.6	25.5
Closed group surplus/(unfunded obligation)	($27.5)	($26.1)	($26.8)	($26.7)	($28.1)
Future participants:					
Contributions and earmarked taxes	$61.0	$58.0	$63.2	$62.8	$64.0
Expenditures for scheduled future benefits	31.9	30.2	34.9	34.5	34.3
Present Value of estimated future revenue less estimated future expenditures	29.2	27.8	28.3	28.3	29.7
Net estimated present value of future revenue less future expenditures for current and future participants (open group measure)	(24.9)	(24.6)	(26.1)	(26.0)	(23.9)
Plus: Treasury securities and assets held by the program	26.6	26.3	27.6	27.6	25.5
Open group surplus/(unfunded obligation)	$1.7	$1.7	$1.5	$1.6	$1.6

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 Period Ended September 30, 2016

(in billions of dollars)

Net Present Value end of calendar year 2014/beginning of year 2015	$ (26.1)
Reasons for changes in the NPV during the year:	
Changes in valuation period[1]	(0.3)
Changes in demographic data, assumptions, and methods[2]	-
Changes in economic data, assumptions, and methods[3]	1.8
Changes in law or policy[4]	NA
Changes in methodology and programmatic data[5]	NA
Changes in Medicare healthcare and other healthcare assumptions[6]	NA
Other changes	NA
Net change during 2015 (Through 9/30/2015)	1.5
Net Present Value end of fiscal year 2015	$ (24.6)
Reasons for changes in the NPV during the year:	
Changes in valuation period[1]	-
Changes in demographic data, assumptions, and methods[2]	(0.1)
Changes in economic data, assumptions, and methods[3]	(0.1)
Changes in law or policy[4]	NA
Changes in methodology and programmatic data[5]	NA
Changes in Medicare healthcare and other healthcare assumptions[6]	NA
Other changes	NA
Net change during fiscal year 2016	(0.2)
Net Present Value end of fiscal year 2016	$ (24.9)

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

NOTES:

Beginning with the fiscal year 2016 reporting period, the valuation period for the Statement of Social Insurance (SOSI) was changed from calendar year to fiscal year. The valuation date for the Statement of Social Insurance was set back three months, from January 1, 2016 to October 1, 2015. This meant that the primary reasons for the changes in the 2016 Statement of Changes in Social Insurance Amounts (SCSIA) were for the 9-month period between 1/1/15 and 10/1/15. The 2016 SCSIA is <u>not</u> exactly comparable to the 2017 SCSIA, which presents the primary reasons for the changes in social insurance amounts for the 12-month period between 10/1/15 and 10/1/16.

1. Changes in valuation period –

   Between 1/1/2015 and 10/1/2015:
   Changes in the valuation period from calendar years 2015-2089 to fiscal years 2016 - 2090 resulted in a change of about ($0.3) billion on the open group measure between 1/1/2015 and 10/1/2015.

   Between 10/1/2015 and 10/1/2016:
   Changes in the valuation period from fiscal years 2016-2090 to fiscal years 2017-2091 had a minimal effect on the open group measure between 10/1/2015 and 10/1/2016.

2. Changes in demographic data, assumptions, and methods –

   Between 1/1/2015 and 10/1/2015:
   Demographic assumptions were not changed between the SOSI as of 1/1/2015 and the SOSI as of 10/1/2015. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure between 1/1/2015 and 10/1/2015.

   Between 10/1/2015 and 10/1/2016:
   Demographic assumptions were not changed between the SOSI as of 10/1/2015 and the SOSI as of 10/1/2016. Changes in demographic data had a change of about ($0.1) billion on the open group measure between 10/1/2015 and 10/1/2016.

3. Changes in economic data, assumptions, and methods –

   Between 1/1/2015 and 10/1/2015:
   Ultimate economic assumptions were not changed between the SOSI as of 1/1/2015 and the SOSI as of 10/1/2015, but select economic assumptions were. The actual COLA of 0.0% was used for 2016 in place of the 0.5% COLA assumed for 2016 in the prior year's report. A 0.5% COLA was used for 2017 instead of a 1.6% COLA, and a 1.6% COLA was assumed for 2018 instead of a 2.7% COLA. A wage increase assumption of 2.5% was used for 2015 instead of a 3.7% wage increase assumption. Also, the actual 2015 investment return of 0.2% was lower than the assumed 7.0% investment return used for 2015 in the prior year's report. Economic data, assumptions, and methods had the greatest effect on the open group measure, resulting in a change of about $1.8 billion from 1/1/2015 to 10/1/2015.

Between 10/1/2015 and 10/1/2016:
Ultimate economic assumptions were not changed between the SOSI as of 10/1/2015 and the SOSI as of 10/1/2016, but select economic assumptions were. The actual COLA of 0.3% was used for 2017 in place of the 0.5% COLA assumed for 2017 in the prior year's report. A 1.9% COLA was used for 2018 instead of a 1.6% COLA, and a 2.3% COLA was assumed for 2019 instead of a 2.7% COLA. A wage increase assumption of 2.0% was used for 2016 instead of a 3.7% wage increase assumption. Economic data, assumptions, and methods resulted in a change about ($0.1) billion from 10/1/2015 to 10/1/2016.

4. There were no changes in law or policy.

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

6. Medicare healthcare and other healthcare assumptions are not applicable to the railroad retirement program.

Notes to the Financial Statements: Fiscal Years Ended September 30, 2017 and 2016

1. Summary of Significant Accounting Policies

A. *Basis of Presentation*
Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the RRB as an agency required to prepare audited financial statements for fiscal year 2003, and subsequent years. OMB guidance requires that Performance and Accountability Reports for fiscal year 2017 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2017. 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 current and prior year balance sheet net asset amounts for the NRRIT are unaudited figures that are within acceptable materiality amounts. The audited net asset NRRIT amount used in the computations for the SOSI is from the prior fiscal year. The balance sheet NRRIT amount is reasonable, not restated and was used to meet the goal of November 15 for the release of RRB's financial statements.

B. *Reporting Entity*
The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231f(c)(1).

- Social Security Equivalent Benefit 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

- Dual Benefits Payments 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 a fund from dedicated collections. 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 a fund from dedicated collections. 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 of the delegated properties. Funds carried over may only be expended for operation and maintenance 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, 112-96, and 112-240. Account 60X8237 is considered a fund from dedicated collections.

- 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 a fund from dedicated collections. 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 a fund from dedicated collections. 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 a fund from dedicated collections. Our authority to use these collections is Public Law 115-31.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: 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, and Public Law 112-240, American Taxpayer Relief 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. 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 Dual Benefits Payment 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, 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. *Funds from Dedicated Collections*
SFFAS No. 43, Funds from Dedicated Collections, amends SFFAS No. 27, Identifying and Reporting Earmarked Funds. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Funds from Dedicated Collections should be shown as a separate presentation and disclosure in the financial statements. The three required criteria for funds from dedicated collections are:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;

- Explicit authority for the fund to retain revenues and/or 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/or other financing sources that distinguish the fund from the Federal Government's general revenues.

Refer to Note 17, Funds from Dedicated Collections.

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 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 non-governmental 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 2017 and 2016, net payroll taxes transferred to the RRB by Treasury were $6.0 billion and $6.0 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 2017 and 2016, investments, including accrued interest, totaled $1.3 billion and $1.4 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 2017 due to the financial interchange advances during fiscal year 2016 included principal of $4.0 billion and interest of $99 million. The amount paid by the RRB to Treasury in fiscal year 2016 due to the financial interchange advances during fiscal year 2015 included principal of $3.8 billion and interest of $97 million.

- 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. In fiscal year 2017, the RRB trust funds realized $4.5 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 $1.6 billion for fiscal year 2017 and $1.5 billion for fiscal year 2016.

- CMS participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $637 million and $657 million to CMS in fiscal years 2017 and 2016, 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 2017 and 2016 were $28.5 million and $32.2 million, respectively.

- GSA provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.1 million for fiscal year 2017 and $3.3 million for fiscal year 2016.

- The Department of Labor invests RUIA contributions. Accounts receivable with the Department of Labor amounted to $76 million and $68.0 million for fiscal years 2017 and 2016, respectively.

- NRRIT transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2017 and 2016, the NRRIT transferred $1,821 million and $1,410 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:

	2017	2016
1. Fund Balances:		
(1) Trust Funds	$101,873,515	$137,382,423
(2) General Funds	166,560,411	167,410,674
(3) Other Fund Types	0	0
Total	$268,433,925	$304,793,097
2. Status of FBWT		
(1) Unobligated Balance		
(a) Available	$5,038,416	$5,595,585
(b) Unavailable	158,689,432	156,419,551
(2) Obligated Balance not yet Disbursed	104,706,077	142,777,960
(3) Non-Budgetary FBWT	0	0
Total	$268,433,925	$304,793,097

3. 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 funds from dedicated collections, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2017	$1,310,899,000	$1,921,493	$1,312,820,493
Non Marketable Par Value 2016	$1,375,959,000	$2,017,015	$1,377,976,015

The balance on September 30, 2017, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2017. The balance on September 30, 2016, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2016. 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, 2017 and 2016. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2017 and 2016.

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:

	2017	2016
Financial Interchange – Principal	$4,799,200,000	$4,545,300,000
Financial Interchange – Interest	(11,100,000)	4,600,000
Department of Labor	76,177,435	68,007,487
Total	$4,864,277,435	$4,617,907,487

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2017	2016
Accounts receivable – Benefit overpayments	$56,379,393	$49,908,964
Accounts receivable – Past due RUI contributions and taxes	56,621	127,184
Accounts receivable – Interest, penalty & administrative costs	5,084,894	523,443
Total	$61,520,908	$50,559,591
Less: Allowances for doubtful accounts	14,922,803	12,503,720
Net Total	$46,598,105	$38,055,871

The RRB's September 30, 2017 accounts receivable balance (prior to the application of the allowance for doubtful accounts) of $61,520,908 includes $54,761,828 (89.01%) in railroad retirement program receivables, $6,739,671 (10.96%) in railroad unemployment insurance program receivables, and $19,409 (0.013%) in employee debt receivables. The total allowance for doubtful accounts is $14,922,803. This includes $13,624,743 (91%) for the railroad retirement program and $1,298,060 (9%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, including debts classified as currently not collectible, by averaging the percentages determined from the past five fiscal years of amounts due the RRB that would probably not be collected, and applying those percentages against accounts receivable.

7. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Beginning with fiscal year 2014, acquisitions are capitalized if the cost is $50,000 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, 2017		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$ 2,723,731	$ 2,723,731	$0
ADP software	5 years	26,692,215	24,402,426	2,289,789
Equipment	5-10 years	7,042,673	6,859,173	183,500
Internal-Use Software in Development		2,360,144	0	2,360,144
		$38,818,763	$33,985,330	$4,833,433

		At September 30, 2016		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$2,723,731	$2,723,731	$0
ADP software	5 years	26,692,215	23,247,534	3,444,681
Equipment	5-10 years	6,985,178	6,590,707	394,471
Internal-Use Software in Development		1,708,999	0	1,708,999
		$38,110,123	$32,561,972	$5,548,151

8. Liabilities

Liabilities at September 30 consisted of:

	2017	2016
A. Intragovernmental:		
(1) Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$402,040	$540,953
B. Public:		
(1) Other – Accrued Unfunded Leave	$6,612,588	$6,481,900
Total Liabilities Not Covered by Budgetary Resources	$7,014,628	$7,022,853
Total Liabilities Covered by Budgetary Resources	5,603,301,733	5,640,796,588
Total Liabilities	$5,610,316,361	$5,647,819,441

- *Debt*

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

	2017	2016
Beginning Balance, Principal	$3,576,700,000	$3,497,900,000
New Borrowing	4,090,500,000	3,921,400,000
Repayments	(3,955,500,000)	(3,842,600,000)
Ending Balance, Principal	3,711,700,000	3,576,700,000
Accrued Interest	41,224,494	39,266,150
Total	$3,752,924,494	$3,615,966,150

- *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 $14,566,634 and $14,263,555, at September 30, 2017 and 2016, 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 10,797 benefit cases, estimated at $5.3 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	2017 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,613,182	$1,613,182
Unfunded FECA Liability		402,040	402,040
Other Liabilities With Related Budgetary Obligations		0	0
Total Intragovernmental		2,015,222	2,015,222
Accrued Unfunded Liabilities		6,612,589	6,612,589
Accrued Payroll		2,982,775	2,982,775
Accrued RRB Contributions – Thrift Savings Plan		(743,452)	(743,452)
Other Unfunded Employment – Related Liability		289,514	289,514
Contingent Liability (see Note 9 for details)	$180,600,000	0	180,600,000
Other		10,731,633	10,731,633
Total Other Liabilities	$180,600,000	$21,888,281	$202,488,281

	Non-Current	Current	2016 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,116,228	$1,116,228
Unfunded FECA Liability		540,953	540,953
Other Liabilities With Related Budgetary Obligations		0	0
Total Intragovernmental		1,657,181	1,657,181
Accrued Unfunded Liabilities		6,481,900	6,481,900
Accrued Payroll		2,915,528	2,915,528
Accrued RRB Contributions – Thrift Savings Plan		(288,926)	(288,926)
Contingent Liability (see Note 9 for details	$116,000,000	227,600,000	343,600,000
Other		8,499,329	8,499,329
Total Other Liabilities	$116,000,000	$246,865,012	$362,865,012

9. Commitments and Contingencies

The RRB is involved in the following actions:

- One railroad filed suit requesting a refund of $75.0 million (not including interest) representing the employer and employee share of taxes previously paid with respect to the exercise of non-qualified stock options granted to its employees, the vesting of restricted stock and restricted stock units granted to employees and certain ratification payments made to union members. The RRB's general counsel has determined that the likelihood of loss is reasonably possible.

- Another railroad filed suit requesting a refund of $12.6 million (not including interest) representing the employer's share of taxes related to non-qualified stock options, restricted stock and ratification payments exclusive of interest. The RRB's general counsel has determined that the likelihood of loss is reasonably possible.

- Another railroad filed suit requesting a refund of $12.0 million for tax on stock transferred to its employees upon the exercise of non-qualified stock options and the vesting of performance stock or restricted stock units. The refund request also includes tax on relocation benefits for the railroad employees and their families. The RRB's general counsel has determined that the likelihood of loss is reasonably possible.

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $79.5 million in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for $58.7 million, and the remaining $20.8 million 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, 2017, the RRB had contractual arrangements which may result in future financial obligations of $103.9 million.

- We also recorded a contingent liability in the amount of $180.6 million, for forthcoming adjustments to the financial interchange for military service credits due SSA. The fiscal year 2016 military service credit contingent liability was understated by $900,000. The correct amount should have been reported as $344.5 million instead of $343.6 million.

10. Intragovernmental Costs and Exchange Revenue

	2017	2016
Railroad Retirement Act (RRA) Program		
Intragovernmental Costs	$131,905,252	$127,264,511
Public Costs	12,567,154,904	12,461,733,115
Total RRA Program Costs	$12,699,060,156	$12,588,997,626
Intragovernmental Earned Revenue	$28,603,425	$32,198,145
Public Earned Revenue	(2,018)	15,877
Total RR Act Program Earned Revenue	$28,601,407	$32,214,022
Railroad Unemployment Insurance (RUIA) Program		
Intragovernmental Costs	$0	$0
Public Costs	137,384,203	177,403,754
Total RUIA Program Costs	$137,384,203	$177,403,754
Intragovernmental Earned Revenue	$0	$0
Public Earned Revenue	10,043,595	16,389,717
Total RUI Act Program Earned Revenue	$10,043,595	$16,389,717

These totals do not include $34,984 and $24,512 of earned revenues not attributable to either program for fiscal years 2017 and 2016, 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.

11. Transfers To/From NRRIT

The RRB received a total of $1,821 million and $1,410 million from the NRRIT during fiscal years 2017 and 2016, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

12. Undelivered Orders at the End of the Period

	2017	2016
Undelivered Orders	$26,289,112	$27,875,879

13. 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, 2016, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2017, since the RRB's Performance and Accountability Report is published in November 2017, and OMB's MAX system will not have actual budget data available until after the RRB's PAR is published.

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

		Fiscal Year 2016 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2016	13,817	13,643	4,882	8,571
2.	Expenditure Transfers from Trust Funds	(120)			
3.	Unobligated Balance, Brought Forward October 1, 2015 as adjusted	(182)			
4.	Recoveries of Prior Year Unpaid Obligations	(.5)			
5.	Sickness Insurance Benefit Recoveries	(16)			
6.	Administrative Expense Reimbursement	(33)			
7.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(763)			
8.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,287)			
9.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(376)			
	Financial Interchange				
10.	Accrued Receipts from the OASI and DI Trust Funds			(67)	67
11.	Accrued Transfers to the Federal Hospital Insurance Trust Fund			611	(611)
	NRRIT				
12.	NRRIT Obligations / Outlays	1,477	1,477		1,477
13.	Intrafund Transfers: NRRIT Transfer to RRA	(1,410)		1,410	(1,410)
14.	Proprietary Receipts: NRRIT – Gains and Losses	(1,558)		1,558	(1,558)
15.	Proprietary Receipts: NRRIT – Interest and Dividends	(388)		388	(388)
16.	Rounding	2	(3)		(1)
17.	Budget of the United States Government FY 2016 Actuals	6,163	15,117	8,782	6,147

14. Social Insurance

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

- Estimated future revenue includes tier I taxes, tier II 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 1/1/2016, whereas present values are as of 10/1/2016.

- Beginning with the fiscal year 2016 reporting period, the valuation period of the SOSI was changed from calendar year to fiscal year. The valuation date for the SOSI was set back three months, from January 1, 2016, to October 1, 2015. Although the SOSI shows present values for the current year and four previous years, the present values for the three previous calendar years 2015, 2014 and 2013 are not being restated but will remain on a calendar year basis. This change was made because of a request from the NRRIT to adjust the valuation period for the SOSI from calendar year to fiscal year for financial and administrative purposes. Financially, the NRRIT saves $200,000 per year in contract services required to prepare a second financial statement audit covering a three-month period (October 1 to December 31) after the first audit is achieved on a fiscal year basis.

- Due to the use of the Account Benefits Ratios to determine tier II tax rates, higher Treasury security and asset balances result in lower tax rates and consequently lower future tax income whereas lower Treasury security and asset balances result in higher rates and income.

15. New Sustainability Financial Statements Disclosure

The sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the RRB's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material.

16. **Significant Assumptions**

The estimated future revenue and expenditures in the SOSI 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 estimated future revenue and expenditures are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.0 percent investment return, a 2.7 percent annual increase in the cost of living, and a 3.7 percent annual wage increase.

The employment assumption for the SOSI is employment assumption II, the intermediate employment assumption, as used in the 2017 Section 502 Report. Under employment assumption II, starting with an average 2016 employment of 225,000, (1) railroad passenger employment is assumed to remain level at 47,000, 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-Sixth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2013." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2010 Base Year RRB Annuitants Mortality Table
Table S-2.	2010 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2010 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2009 RRB Active Service Mortality Table
Table S-5.	2010 Base Year RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	2013 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.	2013 RRB Mortality Improvement Scale
Table S-11.	Calendar year rates of immediate age retirement
Table S-12.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-13.	Calendar year rates of final withdrawal
Table S-14.	Service months and salary scales
Table S-15.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Funds from Dedicated Collections

	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 Funds from Dedicated Collections*
Balance Sheet as of September 30, 2017									
Assets									
Fund Balance with Treasury	$26,069,824	$27,258,646	$7,376,661	$15,454,463	$36,681,394	$1,539,522	$2,947,467		$117,327,977
Investments	892,700,696	420,119,798							1,312,820,494
NRRIT Net Invested Assets		26,494,665,253							26,494,665,253
Taxes and Interest Receivable	4,788,100,000	41,137,085	71,464,484		16,881	9,943,665		(1)	4,910,662,116
Other Assets					5,348,011		30,289		5,378,300
Total Assets	5,706,870,520	26,983,180,782	78,841,145	15,454,463	42,046,286	11,483,187	2,977,756	(1)	32,840,854,140
Liabilities Due and Payable	4,936,384,185	461,625,256	8,681,055		825,948	(227,937)	212,578	(1)	5,407,501,086
Other Liabilities	180,600,000	10,697,305			10,279,267		877,377		202,453,949
Total Liabilities	5,116,984,185	472,322,561	8,681,055		11,105,215	(227,937)	1,089,955	(1)	5,609,955,035
Unexpended Appropriations				15,454,463	50,875				15,505,338
Cumulative Results of Operations	589,886,335	26,510,858,221	70,160,090		30,890,196	11,711,124	1,887,801		27,215,393,767
Total Liabilities and Net Position	$5,706,870,520	$26,983,180,782	$78,841,145	$15,454,463	$42,046,286	$11,483,187	$2,977,756	($1)	$32,840,854,140
Statement of Net Cost for the Period Ended September 30, 2017									
Gross Program Costs	$7,230,879,644	$5,307,113,007	$114,667,565	$9,950	$149,556,904	$0	$10,184,122	($407,076)	$12,812,004,116
Less Earned Revenues		(2,018)	10,044,992		27,698,426		1,330,000	(425,000)	38,646,400
Net Program Costs	7,230,879,644	5,307,115,025	104,622,573	9,950	121,858,478	0	8,854,122	17,924	12,773,357,716
Costs Not Attributable to Program Costs									0
Less Earned Revenues Not Attributable to Program Costs					34,984				34,984
Net Cost of Operations	$7,230,879,644	$5,307,115,025	$104,622,573	$9,950	$121,823,494	$0	$8,854,122	$17,924	$12,773,322,732
Statement of Changes in Net Position for the Period Ended September 30, 2017									
Net Position Beginning of Period	$129,447,393	$25,443,962,165	$59,595,092	$15,419,157	$32,882,558	$11,735,660	$418,039		$25,693,460,064
Appropriations Received				715,043,016					715,043,016
Expended Appropriations				714,902,967					714,902,967
Other Adjustments				(104,744)					(104,744)
Appropriations Used				(714,902,967)					(714,902,967)
Taxes and Non-Exchange Revenue	2,839,923,123	3,160,334,285	104,064,942		458	26,550,940	69	17,924	6,130,891,741
Other Financing Sources	4,851,395,463	47,233,202	11,122,629	(714,893,016)	119,881,549	(26,575,476)	10,323,814		4,298,488,165
Transfers In From NRRIT		1,821,000,000							1,821,000,000
Change in NRRIT Assets		1,345,443,594							1,345,443,594
Net Cost of Operations	(7,230,879,644)	(5,307,115,025)	(104,622,573)	(9,950)	(121,823,494)		(8,854,122)	(17,924)	(12,773,322,732)
Change in Net Position	460,438,942	1,066,896,056	10,564,998	35,306	(1,941,487)	(24,536)	1,469,761		1,537,439,040
Net Position End of Period	$589,886,335	$26,510,858,221	$70,160,090	$15,454,463	$30,941,071	$11,711,124	$1,887,801		$27,230,899,105

*rounding difference

Note 17 Funds from Dedicated Collections

	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 Funds from Dedicated Collections
Balance Sheet as of September 30, 2016									
Assets									
Fund Balance with Treasury	$31,203,917	$54,252,999	$12,639,125	$15,419,157	$37,357,526	$503,870	$1,424,988		$152,801,582
Investments	691,615,922	686,360,093							1,377,976,015
NRRIT Net Invested Assets		25,149,221,659							25,149,221,659
Taxes and Interest Receivable	4,549,900,000	33,532,316	60,022,663		9,385	11,627,898		(3)	4,655,092,265
Other Assets					6,065,296		27,004		6,092,300
Total Assets	5,272,719,839	25,923,367,067	72,661,788	15,419,157	43,432,207	12,131,768	1,451,992	(3)	31,341,183,821
Liabilities Due and Payable	4,799,672,446	470,975,631	13,066,696		600,226	396,108	217,693	(3)	5,284,928,803
Other Liabilities	343,600,000	8,429,271			9,949,423		816,260		362,794,954
Total Liabilities	5,143,272,446	479,404,902	13,066,696		10,549,649	396,108	1,033,953	(3)	5,647,723,757
Unexpended Appropriations				15,419,157	50,875				15,470,032
Cumulative Results of Operations	129,447,393	25,443,962,165	59,595,092		32,831,683	11,735,660	418,039		25,677,990,032
Total Liabilities and Net Position	$5,272,719,839	$25,923,367,067	$72,661,788	$15,419,157	$43,432,207	$12,131,768	$1,451,992	($3)	$31,341,183,821
Statement of Net Cost for the Period Ended September 30, 2016									
Gross Program Costs	$7,336,523,115	$5,097,673,448	$148,643,696	$7,967	$145,960,947		$10,112,694	($551,563)	$12,738,370,304
Less Earned Revenues		15,877	16,381,727		31,293,145		1,330,000	(425,000)	$48,595,749
Net Program Costs	7,336,523,115	5,097,657,570	132,261,969	7,967	114,667,802	0	8,782,694	(126,563)	12,689,774,555
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					24,512				24,512
Net Cost of Operations	$7,336,523,115	$5,097,657,570	$132,261,969	$7,967	$114,643,290	$0	$8,782,694	($126,563)	$12,689,750,043
Statement of Changes in Net Position for the Period Ended September 30, 2016									
Net Position Beginning of Period	$118,117,059	$24,967,653,628	$86,737,051	$15,376,925	$30,748,416	$13,878,958	$454,234		$25,232,966,271
Appropriations Received				762,832,696	50,875				762,883,571
Expended Appropriations				762,690,662					762,690,662
Other Adjustments				(99,801)					(99,801)
Appropriations Used				(762,690,662)					(762,690,662)
Taxes and Non-Exchange Revenue	2,822,785,139	3,138,330,438	92,831,576			27,146,208		(126,563)	6,080,966,798
Other Financing Sources	4,525,068,310	392,785,548	12,288,434	(762,682,696)	116,726,558	(29,289,506)	8,746,499		4,263,643,147
Transfers In From NRRIT		1,410,000,000							1,410,000,000
Change in NRRIT Assets		632,850,121							632,850,121
Net Cost of Operations	(7,336,523,115)	(5,097,657,570)	(132,261,969)	(7,967)	(114,643,291)		(8,782,694)	126,563	(12,689,750,043)
Change in Net Position	11,330,334	476,308,537	(27,141,959)	42,232	2,134,142	(2,143,298)	(36,195)		460,493,793
Net Position End of Period	$129,447,393	$25,443,962,165	$59,595,092	$15,419,157	$32,882,558	$11,735,660	$418,039		$25,693,460,064

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

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

The Category B direct obligations are $13,656,358,262 and the reimbursable obligations are $28,214,808. These are reported under *New obligations and upward adjustments* on the SBR in the amount of $13,684,573,070 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 2017 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

19. Terms of Borrowing Authority Used

The 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 and Hospital Insurance 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 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. Available Borrowing Authority, End of the Period

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $4,089,100,000.

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

There was an increase of $1.345 billion in NRRIT net assets from the SOSI, October 1, 2016, valuation date and the September 30, 2017, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2017, that we are aware of. We have evaluated subsequent events through November 15, 2017, the date the financial statements were released.

23. Permanent Indefinite Appropriations

In fiscal year 2017, the Railroad Retirement Board had the following permanent indefinite appropriations that were available until expended:

a. 60X0113 – 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 a fund from dedicated collections. This account has no basis in law.

b. 60X8010 – Social Security Equivalent Benefit 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

c. 60X8011 – Railroad Retirement 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231f(c)(1).

d. 60X8051.001 – 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §360.

e. 60X8051.002 – 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 a fund from dedicated collections. 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.

Note 24 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016
(in Dollars)

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$13,684,573,070	$13,642,828,009
Less: Spending Authority from Offsetting Collections and Recoveries	(170,255,666)	(173,208,700)
Obligations Net of Offsetting Collections and Recoveries	13,514,317,404	13,469,619,309
Less: Distributed Offsetting Receipts	(4,843,396,016)	(4,881,721,696)
Net Obligations	**8,670,921,388**	**8,587,897,613**
Other Resources		
Imputed Financing from Costs Absorbed by Others	6,985,164	6,594,143
Other Resources (+/-) Total	1,508,443,594	770,860,121
Net Other Resources Used to Finance Activities	**1,515,428,758**	**777,454,264**
Total Resources Used to Finance Activities	**10,186,350,146**	**9,365,351,877**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resource Obligated for Goods, Services and Benefits Ordered but not yet provided Total	1,586,768	(2,549,870)
Other	2,595,602	17,434,450
Resources that Finance the acquisitions of Assets or Liquidation of Liabilities Total	(1,514,153,621)	(769,687,581)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	4,128,503,000	4,119,696,078
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**2,618,531,749**	**3,364,893,077**
Total Resources Used to Finance Net Cost of Operations	**12,804,881,895**	**12,730,244,954**
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	130,688	(184,571)
Resources That Finance the Acquisition of Assets	(10,451,082)	(13,401,722)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(10,320,394)	(13,586,292)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,423,359	1,114,467
Other	1,779,513	0
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	3,202,872	1,114,467
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	**(7,117,522)**	**(12,471,825)**
Net Cost of Operations	**$12,797,764,373**	**$12,717,773,129**

Required Supplementary Information

Social Insurance

Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier I payroll taxes are coordinated with social security taxes so that employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier II 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 SSA's Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and 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.

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 additional amount of social security payroll and income taxes which social security would have received 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 $84.0 billion, or 35.0 percent of the estimated future revenue of $240.2 billion. Although the contributions and expenditures related to the FI have historically been included in the SOSI they are in effect primarily contributions and expenditures of SSA that are administered by the RRB.

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, 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 SOSI presents an actuarial analysis of the financial position of the railroad retirement system as of October 1, 2016. The figures in the table are based on the 2017 Section 502 Report extended through fiscal year 2091. The present values of estimated future revenue and expenditures in the table are based on estimates of revenue and expenditures through the fiscal year 2091. The estimates include revenue 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 2017 Section 502 Report. Under employment assumption II, starting with an average 2016 employment of 225,000, (1) railroad passenger employment is assumed to remain level at 47,000, 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:

- Revenue: sources of revenue are payroll taxes, income taxes, investment income, and financial interchange transfers.
- Revenue excluding interest[a]: revenue, as defined above, excluding the investment income from assets of the trust fund.
- Expenditures: benefit payments and administrative expenses.
- Cashflow: either (1) revenue excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.

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[a] Interest income in this section refers to total investment income including dividends and capital gains.

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

The SOSI and the required supplementary information are based on actuarial and economic assumptions used in the 2017 Section 502 Report extended through fiscal year 2091, the RRA, and the Railroad Retirement Tax Act and, for the Financial Interchange, the Social Security and Federal Insurance Contributions Acts. The charts in the required supplementary information are on a calendar year basis. This information includes:

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

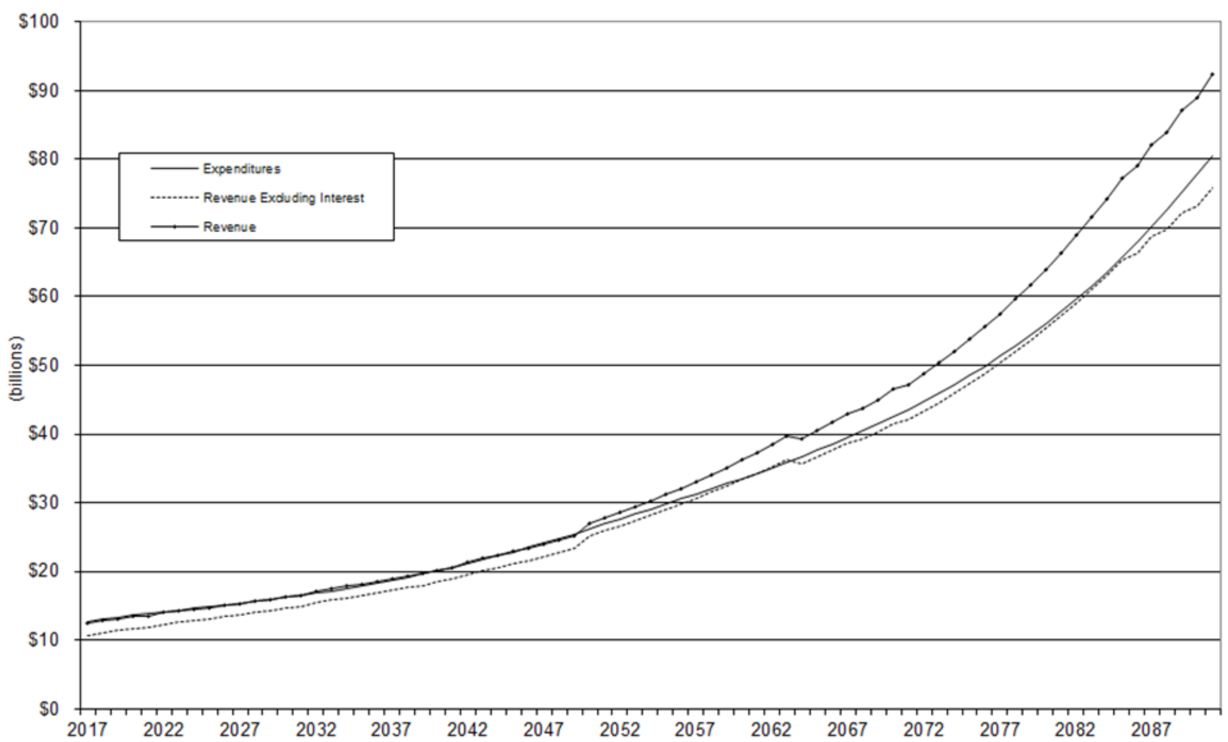
(2) estimated annual revenue excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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.

Estimated future revenue and expenditures are generally based on a 75-year projection period. Estimated future revenue and expenditures extending far into the future are inherently uncertain, with uncertainty increasing with time.

Chart 1: Estimated Revenue and Expenditures

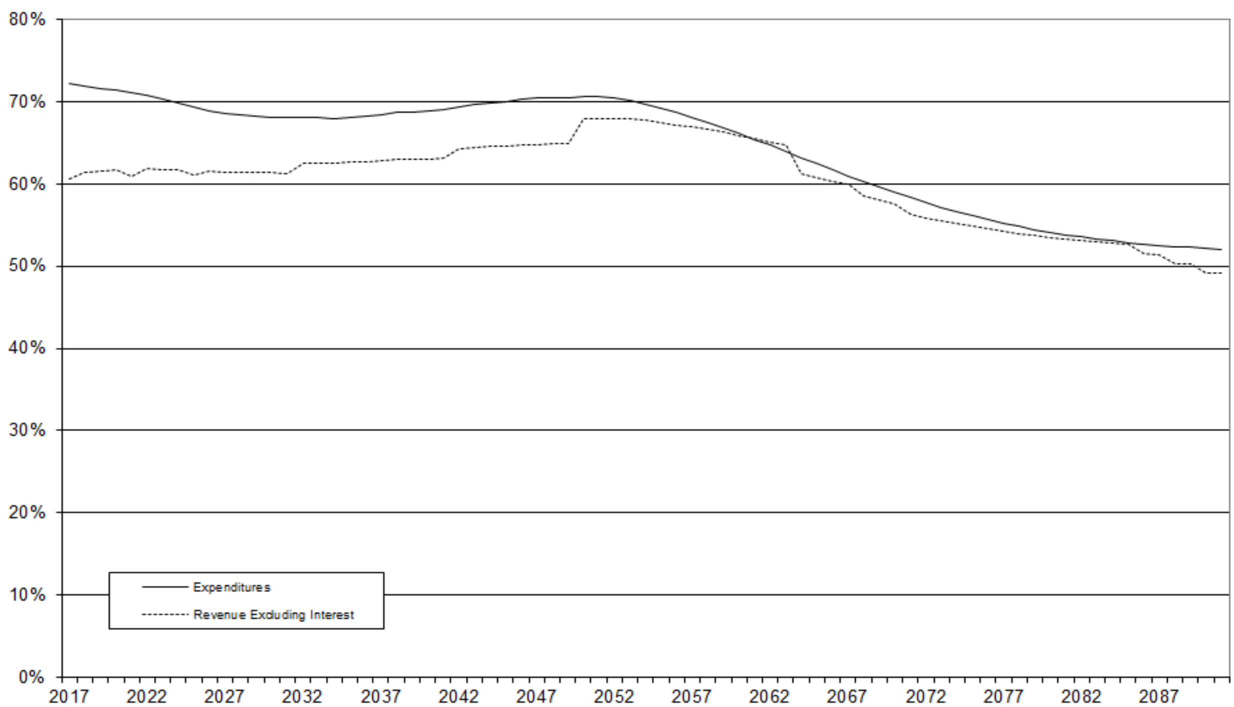


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual revenue, revenue excluding interest, and expenditures for 2017-2091 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement 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 who already have been 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 revenue exceeds annual expenditures except in 2017 through 2025, 2031, and 2046 through 2049. Without investment income, however, annual expenditures are greater than annual revenue except in 2061 through 2063. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier II 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 II tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual revenue excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll range between 68 percent and 72 percent through 2057, after which the percentage decreases until reaching 52 percent in 2088-2091. This is largely due to the projected decline in the number of annuitants per full-time employee. Except for the revenue from tier I payroll taxes, the sources of revenue vary as a percentage of payroll.

Chart 2: Estimated Railroad Retirement Revenue Excluding Interest and Expenditures as a Percent of Taxable Tier II 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, spouse, 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 October 1, 2016, and are based on estimates of revenue and expenditures during the fiscal years 2017-2091 projection period.

Employment: Average employment in the railroad industry has generally been in decline for some years. Although employment has increased in recent years, it began to decrease again in 2015 and is expected to continue declining in future years. Since employment is a key consideration, projections of revenue and expenditures using three different employment assumptions have been made. The SOSI 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 calendar year 2016 is equal to 225,000. 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 47,000 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.

Table 1 shows the excess of assets and the estimated present value of revenue over the estimated present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Employment Assumptions, 2017-2091
(in billions)

Employment Assumption	I	II	III
Present Value	$2.4	$1.7	$(1.1)
Average Tier II tax rate[a]	16.7%	19.0%	21.3%

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

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

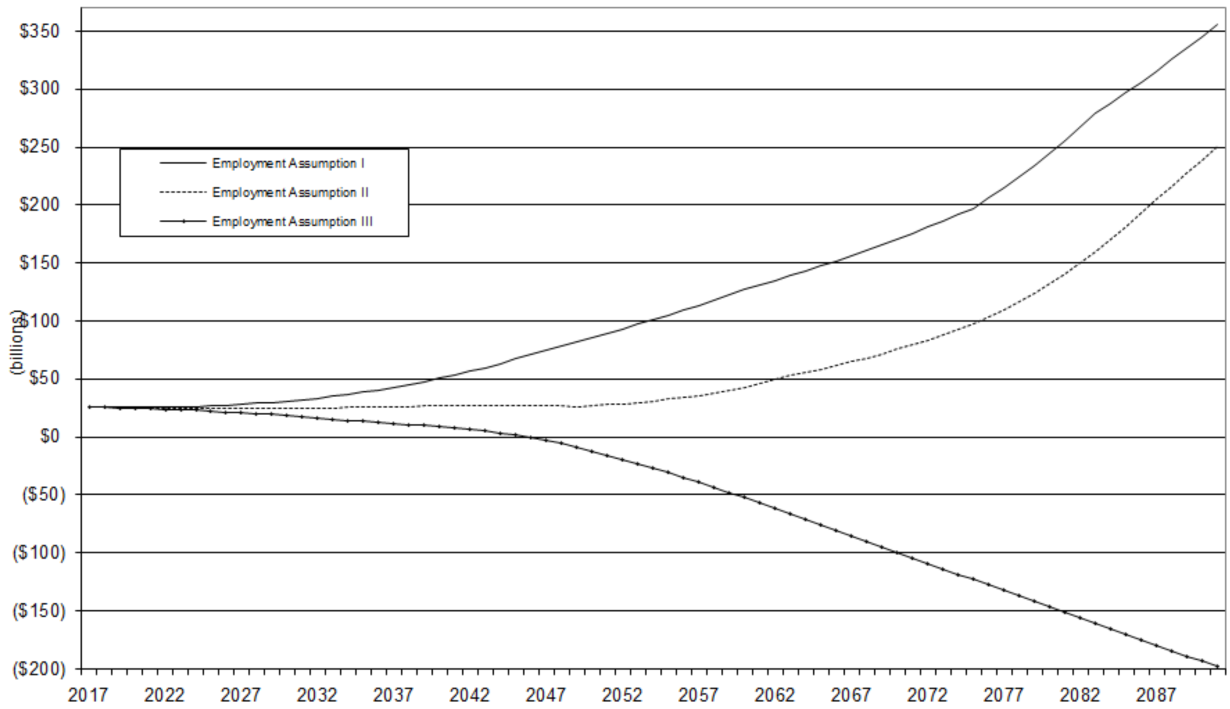
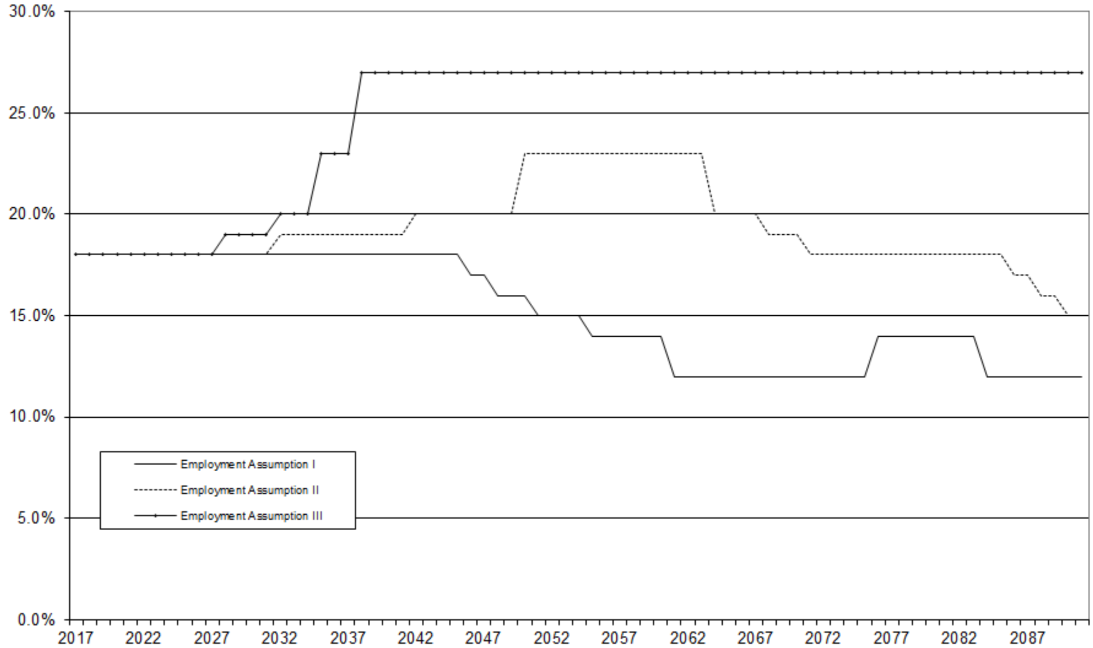


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but becomes negative in 2046 for assumption III and remains so throughout the remainder of the period. Negative after-transfer balances under employment assumption III indicate the amount that would be owed, including interest, if unreduced benefits were paid by borrowing.

Chart 3b shows the tier II tax rate under these employment assumptions. The tax rate reaches 12 percent in 2061 under employment assumption I and remains between 12 percent and 14 percent through the end of the projection period. Under employment assumption II, the tax rate first increases to 23 percent in 2050 through 2063 and then decreases to 15 percent in 2090 and 2091. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2038, remaining at that level through the rest of the 75-year period.

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



The tier II 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 to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier II tax rate will be affected by employment assumption. The tier II tax rate adjustment mechanism reduces but does not eliminate the risk of insolvency. The tier I 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 estimated present value of revenue over the estimated present value of expenditures for the three investment return assumptions. If the tier II tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier II 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.

Table 2
Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Investment Return Assumptions, 2017-2091
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$7.4	$1.7	$1.0
Average Tier II tax rate	21.3%	19.0%	16.1%

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

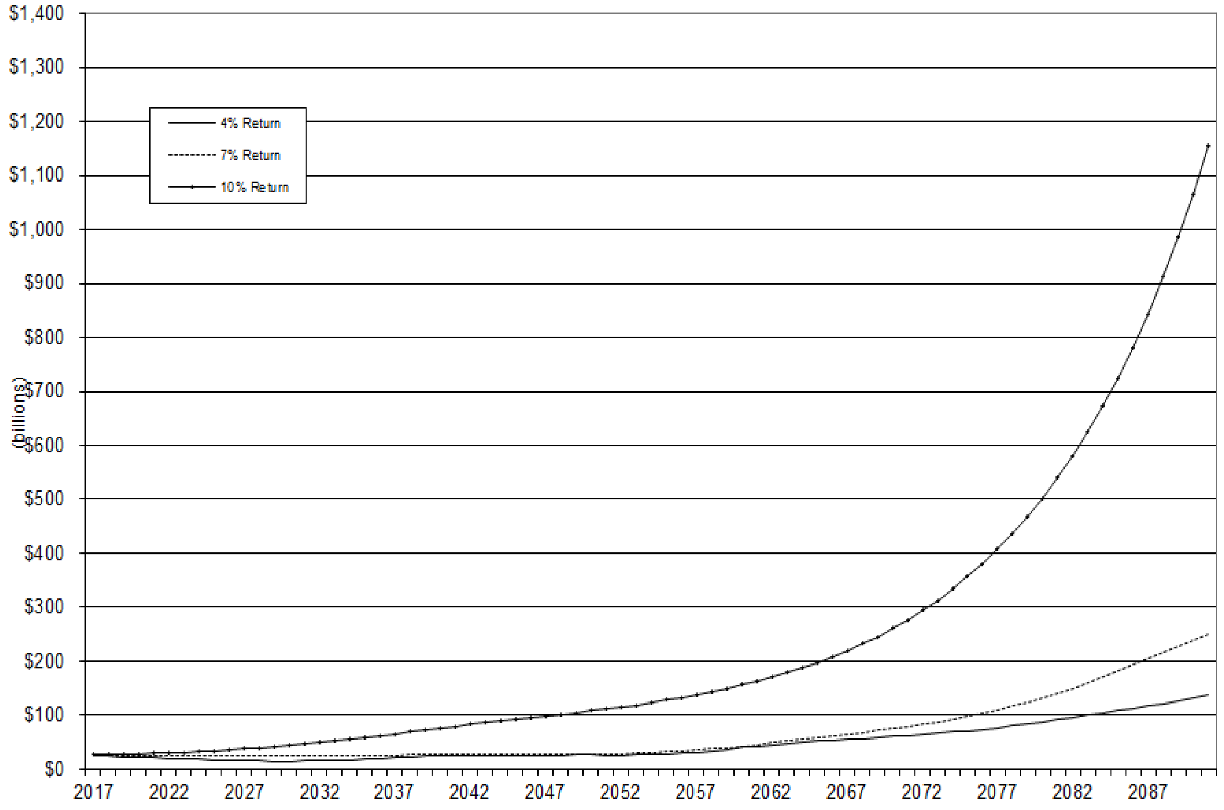
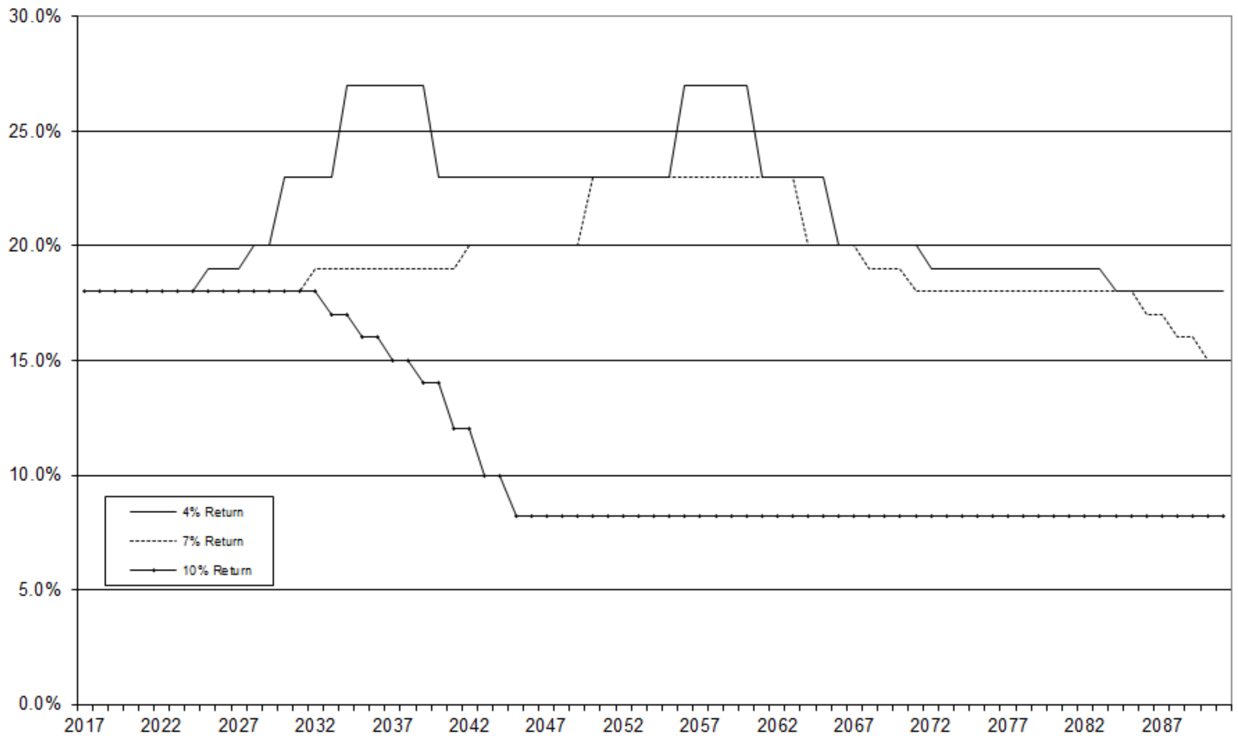


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance remains positive, reaching its lowest value in 2029, and then increases until 2050 and remains fairly level until

2053, when it begins to increase again. With a 7 percent investment return, the account balance decreases until 2025, then generally increases except for a slight decrease in 2031 and decreases in 2046 through 2049. 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, 2017.

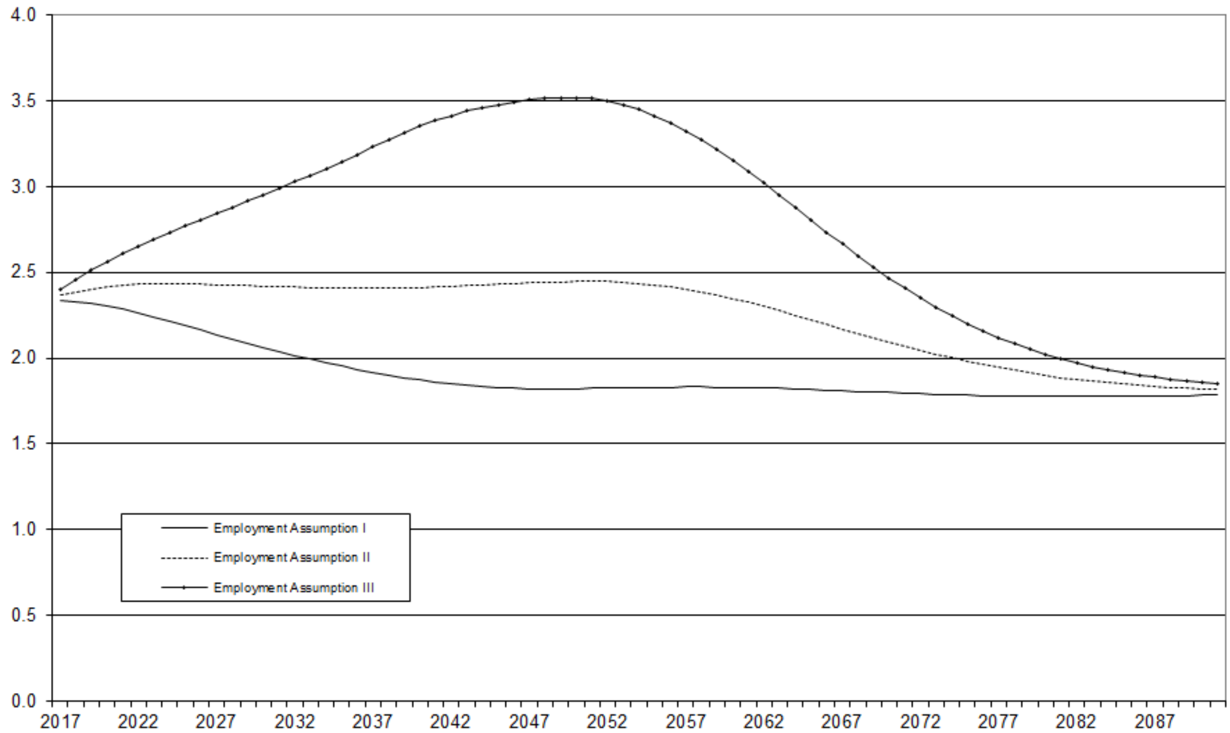
Chart 4b shows the tier II tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier II tax rate applies in 2034 through 2039 and 2056 through 2060. With the 7 percent investment return, the maximum tax rate never applies during the projection period. With a 10 percent investment return, the maximum tax rate is also never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2045. As mentioned above, the tier II 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 I tax rates will not.

Chart 4b: Tier II 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 2017. For assumptions II and III, the ratio is highest in 2051 and 2050, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.8 at 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
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(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, Oct 1	31,996,130	141,661,823	667,334	174,325,287
Adjustment to unobligated balance brought forward, Oct 1 (+ or -)	0	0	0	0
Unobligated balance brought forward, Oct 1, as adjusted	31,996,130	141,661,823	667,334	174,325,287
Recoveries of unpaid prior year obligations	1,549,554	0	24,231	1,573,785
Other changes in unobligated balance (+ or -)	1,092,525	1,765,747	188	2,858,460
Unobligated balance from prior year budget authority, net	34,638,209	143,427,570	691,753	178,757,532
Appropriations (discretionary and mandatory)	9,301,774,014	126,717,943	(119,799)	9,428,372,158
Borrowing authority (discretionary and mandatory)	4,089,100,000	0	0	4,089,100,000
Spending authority from offsetting collections (discretionary and mandatory)	141,682,309	10,432,544	11,330,000	163,444,853
Total budgetary resources	**$13,567,194,532**	**$280,578,057**	**$11,901,954**	**$13,859,674,543**
Status of budgetary resources				
New obligations and upward adjustments (total)	$13,535,320,167	$138,793,922	$10,458,981	$13,684,573,070
Unobligated balance, end of year:				
Apportioned, unexpired accounts	4,199,000	(41,849)	881,265	5,038,416
Unapportioned, unexpired accounts	16,863,448	141,825,984	0	158,689,432
Unexpired unobligated balance, end of year	21,062,448	141,784,135	881,265	163,727,848
Expired unobligated balance, end of year	10,811,917	0	561,708	11,373,625
Unobligated balance, end of year (total)	31,874,365	141,784,135	1,442,973	175,101,473
Total budgetary resources	**$13,567,194,532**	**$280,578,057**	**$11,901,954**	**$13,859,674,543**
Change in obligated balance				
Unpaid obligations:				
Unpaid obligations, brought forward, Oct 1	$1,005,801,345	$3,598,421	$757,651	$1,010,157,417
New obligations and upward adjustments	$13,535,320,167	$138,793,922	$10,458,981	13,684,573,070
Outlays (gross) (-)	($13,535,719,550)	($136,234,667)	($9,687,910)	(13,681,642,127)
Recoveries of prior year unpaid obligations (-)	($1,549,554)	$0	($24,231)	(1,573,785)
Unpaid obligations, end of year	$1,003,852,408	$6,157,676	$1,504,491	1,011,514,575
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,897)	(129,460)	3	(134,354)
Change in uncollected pymts, Fed Sources (+ or -)	(1,280)	76,349	0	75,069
Uncollected pymts, Fed sources, end of year (-)	(6,177)	(53,111)	3	(59,285)
Memorandum (non-add) entries:				
Obligated balance, start of year (+ or -)	$1,005,796,448	$3,468,961	$757,654	$1,010,023,063
Obligated balance, end of year (+ or -)	$1,003,846,231	$6,104,564	$1,504,494	$1,011,455,289
Budget authority and outlays, net				
Budget authority, gross (discretionary and mandatory)	$13,532,556,323	$137,150,487	$11,210,201	$13,680,917,011
Actual offsetting collections (discretionary and mandatory) (-)	($145,152,122)	($12,274,640)	($11,330,188)	(168,756,950)
Change in uncollected pymts, Fed sources (discretionary and mandatory) (+ or -)	($1,280)	$76,349	$0	75,069
Recoveries of prior year paid obligations (discretionary and mandatory)	$3,471,093	$1,765,747	$188	5,237,028
Budget authority, net (total) (discretionary and mandatory)	**$13,390,874,014**	**$126,717,943**	**($119,799)**	**$13,517,472,158**
Outlays, gross (discretionary and mandatory)	$13,535,719,549	$136,234,667	$9,687,910	$13,681,642,126
Actual offsetting collections (discretionary and mandatory) (-)	(145,152,122)	(12,274,640)	(11,330,188)	(168,756,950)
Outlays, net (total) (discretionary and mandatory)	13,390,567,427	123,960,027	(1,642,278)	13,512,885,176
Distributed offsetting receipts (-)	(4,843,396,016)	0	0	(4,843,396,016)
Agency outlays, net (discretionary and mandatory)	**$8,547,171,411**	**$123,960,027**	**($1,642,278)**	**$8,669,489,160**

UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report

To Board Members:

Report on the Financial Statements

We were engaged to audit the accompanying balance sheet of the Railroad Retirement Board (RRB) as of September 30, 2017 and 2016; the related statements of net cost, changes in net position, budgetary resources for the years then ended, the related notes to the financial statements, and the sustainability financial statements. The sustainability financial statements are comprised of the statement of social insurance as of October 1, 2016, October 1, 2015, January 1, 2015, January 1, 2014, and January 1, 2013, the statement of changes in social insurance amounts for the period ended September 30, 2016; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on an audit conducted in accordance with auditing standards generally accepted in the United States of America. As described in the Basis for Disclaimer of Opinion paragraphs we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The National Railroad Retirement Investment Trust (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

844 N RUSH STREET CHICAGO IL 60611-2092

NRRIT. The Office of Inspector General (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. The financial statements of the NRRIT were audited by other auditors, whose audit reports were received within the timeframes established for the audit of the RRB's financial statements. Pursuant to the group financial statement audit requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in AICPA Professional Standards in AU-C section 600, *Special Considerations - Audits of Group Financial Statements*, we made inquiries requesting communication with and cooperation from NRRIT auditors. NRRIT management did not respond to our inquiry addressed to them. In response to our separate inquiry to RRB management, the RRB's Deputy Chief Financial Officer informed us that contact between RRB OIG and NRRIT auditors is inconsistent with the independent status of the NRRIT under section 15(j) of the Railroad Retirement Act. As a result, NRRIT auditors were unable to comply with the group financial statement audit requirements. Consequently, we were unable to perform the specified AU-C section 600 group audit procedures and have determined that undetected misstatements, which could be material and pervasive, could exist.[1]

The net assets of the NRRIT represent approximately $26.5 billion and $25.1 billion or 80 percent of the total assets reported for the RRB for fiscal years 2017 and 2016, respectively. NRRIT assets also represent approximately 95 percent and 93 percent of the Treasury securities and assets held by the Railroad Retirement program as of October 1, 2016 and October 1, 2015, respectively. 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 approximately $1.3 billion during fiscal year 2017 and a net gain of $633 million during fiscal year 2016.

Disclaimer of Opinion

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit 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 September 30, 2017 and 2016; and the

[1] Misstatements in the National Railroad Retirement Investment Trust net assets could be both material and pervasive. American Institute of Certified Public Accountants (AICPA) AU-C 705.06 defines pervasive as, "[a] term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence." In context to the RRB's financial statements, the "[p]ervasive effects on the financial statements are those that, in the auditor's professional judgment" are confined to specific elements, accounts, or items of the financial statements, and "represent or could represent a substantial proportion of the financial statements."

financial condition of the Railroad Retirement program as of October 1, 2016, October 1, 2015, January 1, 2015, January 1, 2014, and January 1, 2013; and changes in the financial condition of the program for the period ended September 30, 2016. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the RRB's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinions are not modified with respect to this matter.

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 from the Social Security Administration's Old Age and Survivors Insurance and Disability Insurance trust funds and transfers to the Federal Health Insurance trust fund represented approximately $4.1 billion (net), or about 32 percent of the financing sources reported on the RRB's statement of changes in net position for fiscal year 2017 before considering the change in the reported value of NRRIT net assets. For fiscal year 2016, financial interchange transfers of $4.1 billion (net) represented about 33 percent of the financing sources reported before considering the reduction in the reported value of NRRIT assets. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the following required supplementary information be presented to supplement the basic financial statements: Management Discussion and Analysis section beginning on page 7, Social Insurance beginning on page 87, and Combining Statement of Budgetary Resources on page 97. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 our 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 us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Consideration of Internal Control

In planning and performing our audit, we considered the RRB's internal control over financial reporting to design audit procedures that are appropriate to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Previously identified material weaknesses for financial reporting and the control environment continue to exist.[2] We originally identified the financial reporting and the control environment in fiscal years 2014 and 2016, respectively.[3]

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>Financial Reporting</u>

- Ineffective Controls

This material weakness was initially reported in fiscal year 2014 as part of the overall material weakness for financial reporting and we made recommendations for improvement. As reported for fiscal year 2016, we identified approximately $14.2 billion in transactions recorded and approved in the RRB's financial reporting system that did not have adequate supporting documentation in the agency's official records.[4] During fiscal year 2017, RRB staff added the missing documentation to the RRB's financial reporting system for the errors cited in our finding. In addition, RRB management stated that they developed new controls, conducted training, and updated procedures to address our previous recommendation for development and implementation of new controls for financial reporting. We found that although these actions were taken, additional internal control improvements are needed because during the fiscal year 2017 audit, we identified approximately $503.2 million of recorded and approved financial transactions that lacked adequate supporting documentation.

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[2] A *material weakness* 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 *significant deficiency* 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.

[3] Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Report on the Railroad Retirement Board's Fiscal Year 2014 Financial Statements*, OIG Audit Report No. 15-01 (Chicago, IL: November 17, 2014); and RRB OIG, *Report on the Railroad Retirement Board's Fiscal Year 2016 Financial Statements*, OIG Audit Report No. 17-01 (Chicago, IL: November 15, 2016).

[4] RRB OIG, Audit Report No. 17-01.

- Communication with the NRRIT's Auditor

RRB OIG auditors have rendered disclaimer opinions on the RRB's financial statements since fiscal year 2013 because of RRB management's unwillingness to provide OIG auditors with cooperation and communication from NRRIT auditors. This lack of cooperation and communication prevents OIG auditors from obtaining sufficient appropriate audit evidence regarding the RRB's financial statements. Although AICPA Group 600 guidance requires that the group auditor (OIG) communicate with and receive cooperation from the component auditor (NRRIT's auditor), RRB management continues to prevent this from occurring, citing section 15 (j) of the Railroad Retirement Act as the basis for denial. In addition, NRRIT management did not respond to our request to communicate with its auditors.

During fiscal year 2014, we recommended that an independent committee be established to identify a functional solution that would enable communication between OIG and NRRIT's auditors.[5] Although RRB management did not concur with this recommendation, we will continue to cite this issue and the need for corrective action.

<u>Control Environment</u>

This material weakness was initially reported in fiscal year 2016.[6] We determined that RRB management had not taken corrective actions to address high level, monetarily significant matters that were not in accordance with authoritative guidance, previous agreements, and laws and regulations regarding matters that could have a detrimental effect on the reliability of financial reporting at the RRB and at governmentwide levels. That finding provided examples of our audit concerns regarding the control environment.

A significant example that continues to be an audit concern is RRB management's determination that the NRRIT should be a disclosure entity that would result in removal of its net assets of approximately $26.5 billion as of fiscal year 2017 from RRB and governmentwide financial statements. RRB management also determined that the RRB has no ownership interest in the NRRIT. These determinations were made in regard to new Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*, which becomes effective in fiscal year 2018. RRB's General Counsel issued a legal opinion stating that the NRRIT meets the

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[5] RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management*, OIG Audit Report No. 15-05 (Chicago, IL: March 31, 2015).
[6] RRB OIG, Audit Report No. 17-01.

characteristics of a disclosure entity more than a consolidating entity.[7] Bureau of Fiscal Operations management concluded that NRRIT classification as a disclosure entity would resolve the basis for RRB financial statement disclaimers because such classification would remove NRRIT net assets from the RRB's financial statements. RRB OIG auditors determined that the NRRIT should be classified as a consolidating entity, which would result in continuance of its net assets being reported in the RRB's financial statements. RRB OIG auditors are concerned about the precedent set as a result of RRB management's determination that it does not have legal ownership of NRRIT net assets. Discussions regarding these matters remain in progress with the SFFAS 47 working group.

In addition, we reported that RRB management had not always communicated matters of audit significance with RRB OIG auditors. American Institute of Certified Public Accountants AU-C section 260, *The Auditor's Communication With Those Charged with Governance*, explains the importance of communication between auditors and agency management and indicates that inadequate two-way communication may indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.[8] In response to our recommended corrective actions, RRB management reminded agency bureau directors of their responsibility to meet with OIG audit staff in a timely manner to discuss matters of significant importance.

RRB management did not concur with two of our four recommendations for improvement regarding this material weakness for the control environment.[9] We recommended that when RRB management and RRB OIG auditor disagree on the agency's application of authoritative guidance and laws and regulations, that the matter be elevated for RRB Executive Committee determinations. We also recommended development and implementation of Executive Committee procedures for enforcement of RRB management responsibilities when RRB management does not take appropriate corrective actions in regard to the application of authoritative guidance and laws and regulations. RRB management stated that our recommendations imply that the RRB does not have the authority or prerogative to disagree with OIG audit findings or recommendations and that ceding that authority to the OIG will compromise audit independence. We disagreed and stated that the intent of the recommendations was to ensure that the RRB's Executive Committee fulfills its responsibilities as defined in agency procedure to (1) oversee day-to-day operations of the agency

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[7] RRB General Counsel, *National Railroad Retirement Investment Trust Assets Statement of Federal Financial Accounting Standards 47, Reporting Entity,* Legal Opinion 2016-53 (Chicago, IL: October 31, 2016).
[8] AICPA, AICPA Professional Standards, *The Auditor's Communication With Those Charged with Governance*, AU-C Section 260 (New York, NY: June 1, 2016).
[9] RRB OIG, *Fiscal Year 2016 Financial Statement Audit Letter to Management*, OIG Audit Report No. 17-03, Recommendations 2 and 3 (Chicago, IL: February 16, 2017).

in conformance with existing laws and regulations, (2) provide oversight and solutions for cross organizational internal control issues, and (3) function as the agency's senior management council with respect to internal control responsibilities.[10]

During fiscal year 2017, we identified additional concerns regarding the RRB's control environment.

- During fiscal year 2017, we reported that the RRB did not always comply with federal travel regulations and that the RRB's approval and authorization controls were not always adequate and enforced.[11] As a result, there was an increased risk for unauthorized travel and potential fraud, waste, and abuse of government funds. We determined that RRB travel policies and procedures allowed for noncompliance with federal travel regulations. RRB management did not concur with some of our recommended corrective actions, and in one instance stated that there was no requirement for RRB policies and procedures to mirror federal travel regulations. Policies and procedures are not required to mirror regulations but they cannot allow for the regulations to not be followed, which we identified to be happening in one instance. Other reasons RRB management provided for nonconcurrence included reliance on the travel system that the RRB uses and the warnings and other system functionalities built into the system. The OIG disagreed and reiterated the need for improved controls, adequate documentation, and updated policies and procedures to ensure compliance with federal travel regulations.

- We previously reported that the RRB had been noncompliant with improper payment reporting for three consecutive years due to the lack of risk assessments prepared in accordance with OMB guidance for all of the programs that the RRB administers.[12] RRB management did not concur with our recommendation to take corrective actions as required by OMB for third year noncompliance, thus the agency was in further violation of OMB guidance.

RRB management's rationale for nonconcurrence for our previous audit recommendations and lack of complete corrective action related to this material weakness, as well as the audit concerns itemized in this finding warrants our continuance of this material weakness.

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[10] RRB, *Committees at the Railroad Retirement Board*, Administrative Circular REF(RRB)-2, (August 28, 2015).
[11] RRB OIG, *Railroad Retirement Board Did Not Always Comply with the Federal Travel Regulation*, OIG Audit Report No. 17-04 (Chicago, IL: April 11, 2017).
[12] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2016 Performance and Accountability Report*, OIG Audit Report No. 17-05 (Chicago, IL: May 12, 2017).

Compliance with Laws and Regulations

Our tests of the RRB's compliance with selected provisions of laws and regulations for fiscal year 2017 disclosed no instances of noncompliance that are reportable under auditing standards generally accepted in the United States of America 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.

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 FMFIA are met, and (3) complying with applicable laws and regulations.

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. We considered the RRB's compliance with laws and regulations for fiscal year 2017. 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
- 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, including:
    - 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 fiscal year 2017 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 for the fiscal year ended September 30, 2017. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

RRB MANAGEMENT'S COMMENTS

Agency management commented that they will continue their efforts to pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard customer trust funds. They also stated that they reject the material weaknesses identified and disagree that a disclaimer of opinion on the agency's financial statements is necessary. They stated that they have devoted substantial resources to strengthen internal controls and will continue to implement solutions to safeguard customer trust funds.

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 15, 2017

November 8, 2017 except for matters relating to the net assets of the NRRIT as of September 30, 2017 as to which the date is November 15, 2017

Attachment

Page 12

UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

November 13, 2017

TO : Heather J. Dunahoo
Assistant Inspector General for Audit

FROM : Shawna Weekley
Deputy Chief Financial Officer

SHAWNA WEEKLEY

Digitally signed by SHAWNA WEEKLEY
DN: c=US, o=U.S. Government, ou=Railroad Retirement Board, cn=SHAWNA WEEKLEY, 0.9.2342.19200300.100.1.1=60001000028809
Date: 2017.11.13 10:57:32 -06'00'

SUBJECT: FY 2017 Financial Statement Audit – Draft Auditor's Report

My office, and those of the Board Members, have reviewed the Office of Inspector General's draft audit report. We will continue our efforts to 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. We reject the material weaknesses that your office identified and we disagree that a disclaimer of opinion on the agency's financial statements is necessary. We have devoted substantial resources to strengthen internal controls and will continue implementing solutions that enable us to safeguard our customers' trust funds. As always, we will work cooperatively with your office to help ensure that the RRB will be able to meet this year's reporting deadline of November 15, 2017.

cc: The Board
Executive Committee

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OTHER 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 (OMB) Circular A-136, which requires that the Inspectors General identify what they consider the most serious management challenges facing its respective agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system more than 80 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in their old age. Over the years, the program has been expanded to include disabled workers, spouses and divorced spouses of retired workers, widows, children, and parents of deceased railroad workers. In 1938, Congress added a nationwide system of unemployment insurance, and later a program of sickness insurance. During fiscal year 2016, the Railroad Retirement Board (RRB) paid about $12.3 billion, in retirement and survivor benefits to approximately 553,000 beneficiaries and approximately $133 million in unemployment and sickness benefits, to approximately 33,000 claimants.[1]

RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In fiscal year 2016, RRB automatically enrolled more than 27,100 beneficiaries for Medicare. At the end of 2016, approximately 465,300 persons were enrolled in the Part A plan, and 445,900 of those persons were also enrolled in Part B.[2]

Our identification of challenges facing RRB management is based on recent audits, evaluations, investigations, and current issues of concern to the Office of Inspector General (OIG). RRB OIG identified the following seven major management challenges facing RRB during fiscal year 2017.

[1] United States Railroad Retirement (RRB), *An Agency Overview,* (Chicago, IL: January 2017).
[2] RRB, *2017 Annual Report,* (Chicago, IL).

Most Serious Management and Performance Challenges Facing RRB as of October 1, 2017 (as identified by the Inspector General)	
Challenge 1	*Program Integrity to Strengthen Disability Programs*
Challenge 2	*Information Technology Security and System Modernization*
Challenge 3	*Management of Railroad Medicare*
Challenge 4	*RRB's Continued Noncompliance with Improper Payments Elimination and Recovery Act and Assessing Payment Accuracy*
Challenge 5	*Human Capital Management*
Challenge 6	*Material Weaknesses Related to Financial Statement Reporting and the Control Environment*
Challenge 7	*Lack of RRB Oversight of the National Railroad Retirement Investment Trust*

Challenge 1 – Program Integrity to Strengthen Disability Programs

There are two types of disability awards administered by RRB, the occupational disability annuity and the total disability annuity. A railroad employee is considered to be occupationally disabled if a physical or mental impairment permanently disqualified them from performing his or her regular railroad occupation (even though the employee may be able to perform other kinds of work). Occupational disability annuities are payable to qualified applicants at or after the age of 60 with 10 years of service, or at any age if the employee has at least 20 years of service. According to RRB's 2017 Annual Report, in fiscal year 2016, occupational disability annuities totaling approximately $852 million were paid to approximately 21,000 annuitants.[3] The approval rate for occupational disabilities was approximately 98 percent in fiscal year 2016 and has remained relatively consistent for months in fiscal year 2017 for which data has been reported. A total disability annuity is payable, regardless of age, to employees with at least 10 years of service but requires that the applicant not be able to perform any substantial gainful activity in the U.S. economy. In fiscal year 2016, total disability annuities totaling over $254 million were paid to approximately 10,300 railroad annuitants.

The occupational disability program remains the subject of sustained scrutiny by Congress, OIG, and the Government Accountability Office (GAO) as a result of continued program vulnerabilities and ineffective oversight from RRB. The inability of RRB to effectively manage the disability program leaves over $1 billion in annuity payments at increased risk.

In 2007, OIG initiated a joint investigation with the Federal Bureau of Investigation that identified a far reaching occupational disability fraud scheme perpetrated by a number of Long Island Rail Road (LIRR) retirees, doctors, and disability facilitators. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York. All 33 people charged in connection with the LIRR disability fraud scheme have either pled guilty (28 individuals) or been convicted at trial (5 individuals). OIG estimates that 700 individuals may have been involved in this fraud scheme and investigations are ongoing.

Through the LIRR investigation and subsequent work, significant deficiencies were identified within the occupational disability program and OIG has made numerous recommendations for improvement through audits, OIG Alerts, and investigative activity.

[3] RRB, *2017 Annual Report.*

Further, according to a 2009 GAO audit of RRB's occupational disability program, "a nearly 100-percent approval rate in a federal disability program is troubling, and could indicate lax internal controls in RRB's decision-making process, weaknesses in program design, or both."[4]

The OIG remained so concerned by RRB's failure to address deficiencies in its occupational disability program that in February 2014, the Inspector General (IG) issued a seven-day letter alerting RRB of its concerns and outlined particularly serious or flagrant problems, abuses, and deficiencies relating to the occupational disability program.[5] The IG urged the agency to institute substantial and meaningful corrective actions.

In May 2015, the U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations convened a hearing to examine if RRB was doing enough to prevent fraud in its occupational disability program and to assess RRB's process for determining which workers are eligible for benefits.[6] In testimony, the IG detailed the systemic deficiencies within RRB's occupational disability program, as well as several key OIG recommendations aimed at addressing these deficiencies.

In addition, in August 2015, a RRB contractor issued a report titled, *Benefit Payment Program Fraud Prevention/Detection Assessment/Advisory Services*, which provided an overview of RRB's control procedures for its four major benefit paying programs, including disability. This report outlined six vulnerabilities related to the disability program that could limit RRB's ability to identify and prevent fraud and payment errors in the program such as lack of monitoring of providers who submit medical evidence; lack of analytic monitoring and screening of applicants; limited electronic data collection; limited use of continuing disability reviews reviews for occupational disability only cases; gaps in employer provided vocational information; and inadequate accountability and information for medical providers. These recommendations are consistent with those made by OIG and GAO.

As a result of the IG's seven-day letter, Congressional Hearing, the contractor's report, oversight by OMB, and recommendations by GAO and OIG, RRB established a Disability Program Improvement Plan (DPIP) to track improvements to its disability program. RRB's DPIP consists of 18 initiatives with related tasks assigned, aimed at improving program integrity within RRB's disability program.
In addition to the DPIP, RRB hired a Chief Medical Officer, to assist in providing medical guidance to the disability program's adjudication staff. However, the position of Chief Medical Officer is currently vacant after being filled less than ten months.

[4] Government Accountability Office (GAO), *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities*, GAO-09-821R (Washington D.C.: September 9, 2009).
[5] RRB Office of Inspector General (OIG), *Seven-Day Letter to Congress* (Chicago, IL: February 10, 2014).
[6] U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations Hearing, *Is the Railroad Retirement Board Doing Enough to Protect Against Fraud?* (Washington D.C.: May 1, 2015).

These enhancements to the disability program, if thoroughly implemented, could have generated improvements in program integrity. However, foundational flaws and a culture seemingly entrenched in defending its disability program at the expense of strengthened program integrity have resulted in little meaningful improvement or change.

While the current DPIP indicates progress being made in its implementation, further review of the plan indicates that due dates are being changed without the original due date being noted and, more concerning, tasks are being labeled as closed when no more action is anticipated on the task and not necessarily when the task has been implemented. For example, under Initiative #6, *Enhancing the Application Process by Reviewing and Revising, Application Forms and Related Publications*, tasks under Recommendation 4, tasks 11 through 16, were to be completed on various days between September 30, 2015 and May 31, 2017. In the latest version of the DPIP, the new current due dates for the same tasks are listed as TBD (to be determined). Additionally, previous versions of the DPIP showed Recommendation 6 with various tasks due dates in fiscal year 2016; however, the latest version shows the due dates in fiscal years 2016 and 2017 and completion dates shortly thereafter. Further, under Initiative #1, *Additional Specialist Consultative Exams (SCE)/Functional Capacity Examination (FCE)*, the DPIP states that this initiative and subsequent tasks are closed. However tasks 26 - 28, were never implemented based on RRB's three member Board's (the Board) February 23, 2016, memorandum, in which the Board stated that the existing protocol for the use of FCEs would not be changed. The OIG's position is that the DPIP should indicate "closed-not implemented" versus "closed", which does not accurately reflect the actions taken or not taken.

The current DPIP, dated August 31, 2017, indicates that many of the initiatives were closed and specifies they were closed timely. From an oversight and program improvement perspective, the DPIP does not accurately reflect definite implementation of program improvements, which present a challenge for the Congress, as well as other oversight entities because they rely on the DPIP to reliably identify which tasks have been implemented.

The OIG also remains concerned that RRB has not taken adequate steps to assure the collection of information on a disability applicant's job duties from railroad employers. In May 2016, the IG issued an alert to the Board revisiting a critical program vulnerability previously identified by OIG. Specifically, the alert reiterated that RRB's continued failure to verify self-reported job information with a third party (i.e., railroad employers) during the occupational disability adjudication process jeopardizes program integrity and does not comply with RRB regulations.[7] In 2016, RRB published their intent to replace the current job verification forms (G-251a and

[7] OIG Alert Number 16-03, *Systemic Vulnerability within the Railroad Retirement Board's Occupational Disability Program*, (Chicago, IL: May 11, 2016).

G-251b) with a singular version.[8] While this form has undergone extensive revisions as part of the DPIP, language in the Federal Registrar stated twice that completion of this form is voluntary. This is incongruent with RRB regulations that state RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided by the employer on the appropriate form." This, among other third party verifications, is an important program integrity step that RRB has not fully implemented. In 2016, about 19 percent of disability determinations included an employer provided form. From January through August 2017, employers provided job description information in approximately 30 percent of cases, with about 35 percent doing so in August 2017 (the month with most recently reported data).[9] An increase in submission of this information is promising but until RRB makes this information mandatory and based on the individual's specific job duties, it cannot fully assess an applicant's eligibility.

In addition, in September 2017, the IG issued an alert to the Board regarding the Occupational Disability Certification Form RL-8A.[10] This alert restated the IG's concerns with the Board's inaction to enact an annual eligibility questionnaire that requires a certified response from all disability annuitants. In August 2017, RRB's Office of Programs issued Procedure Transmittal 17-65, *New Disability Forms RL-8/RL-8A and Revised Form G-254*, which detailed RRB's newly enacted annual occupational disability certification procedure. Subsequently, the Office of Programs issued Informational Bulletin 17-27, *Form RL-8A – Occupational Disability Certification Annual Release Notification*, stating that it has, based on very specific and limited RRB developed criteria, identified 229 occupational disability cases that will be subject to the RRB's new procedure. Out of these 229 cases, 77 will receive Continuing Disability Reviews and 152 will receive the new *Occupational Disability Certification* (Form RL-8A).

This newly developed certification procedure only covers approximately one percent of RRB's 21,000 occupational disability annuitants. Because the criteria for inclusion in the certification were so narrowly drafted most occupational disability annuitants are not subject to continued review. This new annual disability certification procedure as well as the eight year timeframe in which it took to implement, is a continuation of concern to the IG. The perfunctory nature of RRB's Form RL-8A, combined with its limited use, undermines RRB's ability to proactively mitigate fraud and abuse in its disability program.

[8] Form G-251 is the "Vocational Report" where the disability applicant self reports all information related to their disability. Forms G-251a and G-251b are the "Job Information" forms that are sent to the employer to verify the job information submitted by the applicant on form G-251. In 2016, the RRB proposed to combine the G-251a and G-251b into one form, a revised G-251a, to be sent to the railroad employer to verify the job information reported by the applicant on Form G-251.

[9] The 35 percent includes submission of the G-251a and "Other (Employer Job Description)", as reported by RRB.

[10] In November 2016, OIG recommended that proposed Form RL-8A be amended to gather additional information regarding medical improvement including whether the annuitant requires continued treatment/medications. This recommendation was not implemented despite the fact that 20 CFR § 220.179, Exceptions to Medical Improvement, lists an annuitant's failure to follow, without good cause, prescribed treatment which would be expected to restore their ability to engage in substantial gainful employment as a potential reason to terminate an annuitant's disability.

Another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard or one job aspect for railroad employees. In May 2015, OIG issued an alert to the Board recommending improvements to the disability program. One of the recommended improvements was that RRB should formalize and implement procedures clarifying that an occupational disability application should be assessed against an applicant's permanent inability to perform the essential functions of their regular railroad occupation and not just a single task or function.[11] RRB implemented a portion of the recommendation by agreeing to provide refresher training to disability examiners to clarify that occupational disabilities should be awarded only to applicants whose conditions are such that they are unable to perform their regular railroad occupation. However, the portion of the recommendation pertaining to formalizing procedures so that an occupational disability application is not assessed based on inability to perform just a single task or function, was not fully implemented. The action taken—to review the disability procedures and verify that they do not include allowing an individual to be found occupationally disabled for an inability to perform a nonessential job task or function—rather than formalizing and implementing procedures clearly stating this did not effectively address the IG's recommendations and does not leave claims examiners unequivocal guidance should they face such a situation.

OIG remains significantly concerned with RRB's inaction regarding the recovery of potentially fraudulent payments made to LIRR annuitants. Specifically, OIG has recommended RRB use its fraud or similar fault authority to collect payments made to annuitants based on fraudulent or misleading information. After the LIRR fraud was uncovered and prosecutions were ongoing, RRB terminated benefits of annuitants who applied using medical documentation supplied by specific healthcare providers convicted of fraud. The annuitants were subsequently allowed to reapply with new medical information and more than 80 percent did. This resulted in an approval rate of over 90 percent for the terminated LIRR beneficiaries who refiled.

In addition, as of August 2017, only $399,147 of the approximately $5.9 million in court ordered restitution related to the LIRR convictions had been returned to RRB. It remains imperative that RRB use every avenue to recover payments lost due to fraud or similar fault and to prevent the continued abuse of its occupational disability program. Allowing individuals to commit fraud against the program, with no repercussions, only encourages future fraud and abuse of the program.
As responsible public stewards, RRB management must effectuate comprehensive and meaningful procedural and cultural change to ensure that disability benefits are adjudicated accurately; awarding benefits only to those who are eligible after an independent and thorough review of the application and all required supporting documentation. RRB should not simply take applications at face value, but assess the veracity of the information by validating with appropriate third parties. Further,

[11] OIG Alert Number 15-05, *Recommended Improvements to the Disability Program*, (Chicago, IL: May 8, 2015).

RRB must work to ensure programmatic improvements, even those requiring legislative changes, are made expeditiously. If implemented properly, the OIG's prior recommendations provide valuable steps to improve program integrity. Without these changes, RRB's propensity to inaccurately adjudicate disability applications will continue to cost taxpayers millions in unwarranted expenses annually.

RRB's culture has been to focus on paying benefits quickly, which increases the likelihood of abuse in the disability program and creates an environment which leaves the program susceptible to fraud and abuse. This type of culture can result in weakened internal controls, which allows fraud and abuse to continue and; not protecting the program for those who may truly need it in the future. Concentrating on paying benefits quickly instead of accurately does not support RRB's fiduciary responsibility to the railroad community, in ensuring the correct benefit amounts are being paid to the right people.

Challenge 2 – Information Technology Security and System Modernization

With information technology (IT) security risks developing constantly, federal agencies, including RRB, are challenged as to how to modernize and maintain their systems in a secure environment. RRB is incorporating new technologies and enhancing existing ones, as well as implementing new systems to effectively strengthen and improve IT security projects and their overall modernization efforts. While OIG commends RRB for these efforts, there are still concerns that these efforts are not robust enough to adequately address innate risks involving IT security and developments.

RRB is continuing the effort and the process of undertaking major IT initiatives in the coming years, such as:

- modernization of RRB legacy systems;
- implementation of "Office in the Cloud" plan, technology offering a virtual office to a mobile workforce; and
- imaging system expansion for disability records.

The RRB considers these major IT developments initiatives as critical because the cost and resources needed to maintain the systems in the legacy environment are unsustainable. Additionally, RRB's desire is to mitigate cybersecurity risk; improve fraud prevention and detection abilities; and support a more effective, efficient, and leaner workforce. Because of the difficulty in IT projects, acquisitions and modernization, GAO has continually included IT in its High Risk Series Report.[12] GAO reports that federal IT investments too frequently fail or incur cost overruns and schedule slippages, while contributing little to mission related outcomes; often suffering from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance. In addition, GAO testified that the federal government has spent billions of dollars on these failed IT investments.

The RRB has embarked on a legacy systems modernization that is one of the largest IT projects ever undertaken by RRB and estimates the project to cost $15.7 million. This modernization of the legacy systems is essential to sustaining agency operations. This project is expected to take several years during which approximately 12 million lines of code are to be translated to more modern computer language, followed by a systems reengineering project. However, based on a review of the fiscal year 2018 Capital Plan, the existing mainframe at RRB will reach the end of its useful life before the legacy systems modernization project is complete. The Capital Plan states that RRB is to utilize the National Information Technology Center for its mainframe operations, temporarily, until the legacy systems modernization project is completed.

[12] GAO, *High Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others,* GAO-17-317 (Washington DC: February 2017).

In fiscal year 2017, RRB contractors and subcontractors completed the code and data conversion of the Mainframe Taxation system. Additionally, approvals of the requisitions for Legacy Systems Modernization Services were coordinated and resulted in funding of $718,418 for the project. RRB “Office in the Cloud Plan,” cloud technology for a mobile workforce has long term considerations of cost and data access, as well as the risks involved in operating in a cloud environment. These types of projects of such size, length, security and costs can come at significant risks of cost overruns and can result in project failure, which are concerns to OIG.

In a June 2017 audit report, OIG reported on information security at RRB.[13]
The audit included testing the effectiveness of the information security policies, procedures, and practices of a representative subset of the agency’s information systems; accessing the effectiveness of RRB’s information security policies, procedures, and practices; and preparing a report on selected elements of the agency’s information security program in compliance with OMB’s fiscal year 2016 Federal Information Security Management Act (FISMA) reporting instructions. The audit determined that while RRB is continually making progress with the implementation of an information security program that fulfils the requirements of FISMA, they have yet to accomplish the task. RRB has not produced a fully effective security program with related information security policies, procedures, and practices. OIG issued 36 detailed recommendations related to the FISMA requirements not being achieved.

With IT projects creating a challenge for RRB, as well as a vast majority of other federal agencies, it is critical that a secure environment be established to strengthen and improve IT security. Cybersecurity is crucial because of the continually development of security and privacy risks that threaten agencies. As such, IT security oversight must be effective and efficient, as the environment’s security is vital and essential to an agency’s operations. Additionally, RRB’s management of the secure environment and identification of vulnerabilities and threats to the environment are crucial in the agency accomplishing its objectives and mission.

[13] RRB OIG, *Fiscal Year 2016 Audit of Information Security at the Railroad Retirement Board,* OIG Audit Report No. 17-06 (Chicago, IL: June 16, 2017).

Challenge 3 – Management of Railroad Medicare

Social Security Administration legislation in 1972 gave the RRB direct legislative authority to administer certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries and active Railroad employees.[14] These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims nationwide. RRB is responsible for administering its contract with Palmetto GBA, its Part B carrier. In fiscal year 2016, RRB withheld approximately $600 million in premiums, and Palmetto processed about $847 million in payments for services covered by Medicare Part B. Since 1983, the Centers for Medicare and Medicaid Services (CMS) has reimbursed RRB for Medicare program related work performed. This reimbursement was approximately $30.9 million in fiscal year 2016.[15]

In 2016, OIG conducted an audit to assess if RRB's cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with federal requirements. The audit determined that the controls were not adequate and RRB's Medicare cost allocation policies and procedures were not effective in preventing errors. Labor costs were reimbursed based on management's professional judgment and indirect costs had not been formally approved by CMS. These weaknesses resulted in unsupported Medicare direct costs totaling approximately $30.4 million and unsupported indirect costs ranging from $9.5 million to $33.8 million for fiscal years 2010 through 2014.[16]

The audit resulted in 26 recommendations to address the weaknesses identified. RRB's management concurred with 10 of the 26 recommendations. OIG was concerned by the significant nonconcurrence from RRB management and conducted subsequent discussions, but RRB management made no revisions in its official responses to the audit report. Most of RRB's nonconcurrence was with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS and have the potential to cause a violation of the Antideficiency Act.[17] OIG and RRB also have a fundamental disagreement on the applicability of and RRB's compliance with OMB Circular A-87. This circular established principles and standards for allowable cost reimbursements between governmental units that RRB was required to follow, based on its agreement with CMS.

OIG believes that RRB should take all necessary steps to implement these recommendations in order to assure the accuracy of prior and future reimbursements.

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[14] The Centers for Medicare & Medicaid Services (CMS), a branch of the Department of Health and Human Services (HHS), is the federal agency that runs the Medicare Program.
[15] RRB, *2017 Annual Report*.
[16] RRB OIG, *Fiscal Year 2016* Railroad *Retirement Board Did Not Calculate Reimbursed Medicare Costs In Accordance With Federal Requirements,* OIG Audit Report No. 16-10 (Chicago, IL: August 22, 2016).
[17] The Antideficiency Act is codified in several sections of title 31 of the United States Code (USC) including 31 USC 1341(a), 1342, 1349-1351, 1511(a), and 1512-1519.

In December 2015, RRB reported that a miscalculation had occurred resulting in its Medicare beneficiaries paying an incorrect reduced variable rate. At that time, RRB indicated it was not planning to collect any underpayments. After communication with OIG, RRB ultimately identified that 2,250 beneficiaries had underpaid premiums totaling approximately $6 million. RRB reimbursed CMS for the underpaid premiums in June 2016. On November 21, 2016, RRB made a final decision to process a mass adjustment and write-off the beneficiaries' debts under Board Order 17-15. RRB told OIG it used the authority granted under Section 7(d)(1) of RRA to adjust Medicare premiums due to agency error and set the beneficiaries' premiums at the amount collected.

In addition, OIG is concerned that Railroad Medicare is not using the CMS Fraud Prevent System (FPS). Implemented in July 2011 by CMS, FPS is utilized by CMS to assist in reducing improper Medicare payments.[18] While FPS has been integrated with CMS contractor systems that process claims, it has not been integrated with the payment processing system used for Railroad Medicare claims. In 2016, Railroad Medicare was been approved for onboarding to FPS with implementation planned for December 2016 or January 2017. However, in October 2017, we were notified this onboarding has still not yet taken place.

The Railroad Medicare Program continues to be a challenge for RRB and a significant concern to OIG. Designated as a high risk area by GAO in 1990 due to its size, complexity, susceptibility to mismanagement and significant volume of improper payments; Medicare oversight is vital to its success.[19] OIG is concerned that RRB's Medicare program modernization plan has not been effective and recommends that RRB continue to improve controls and provide effective oversight over approximately $847 million in Railroad Medicare payments made on behalf of its beneficiaries.

[18] GAO, Medicare Fraud Prevention: *CMS Has Implemented a Predictive Analytics System, but Needs to Define Measures to Determine Its Effectiveness,* GAO-13-104 (Washington, D.C.: October 2012).
[19] GAO-17-317.

Challenge 4 – RRB's Continued Noncompliance with Improper Payments Elimination and Recovery Act (IPERA) and Assessing Payment Accuracy

Since 2015, OIG has reported that RRB was not in compliance with the IPERA of 2010, which amended the Improper Payments Information Act of 2002 (IPIA).[20] In May 2015, OIG issued an audit report to assess RRB's fiscal year 2014 compliance with IPERA. The audit determined that RRB was not in full compliance with IPERA reporting requirements.[21] Specifically, RRB did not comply with the risk assessment requirements because it did not assess risks for all of the programs that it administers. As a result, OIG was unable to assess compliance for the publication requirement for improper payment estimates for all of the programs and activities identified as susceptible to significant improper payments under the risk assessment. The audit also reported that improvements were needed for the RRA program and the Railroad Unemployment Insurance Act (RUIA) program, to ensure completeness of reported amounts for the RRA, as well as the accuracy of the reported improper payment amounts for the RRA and the RUIA programs. This includes the understatements and insufficient supporting documentation. RRB developed a risk assessment plan in response to the OIG's determination that RRB was not in compliance with IPERA.

In May 2016, OIG determined that RRB remained noncompliant with IPERA for the second consecutive year, for the risk assessment requirement.[22] Specifically, risk assessment documentation did not meet the minimum requirements specified in OMB guidance. OIG also determined that improvement was still needed to ensure the accuracy of reported improper payment amounts for RRA and RUIA programs because both programs reported understated amounts of approximately $12 million and $904,000. In addition, OIG identified other improper payment reporting deficiencies, which made RRB's improper payments report incomplete.

In May 2017, OIG issued a report on RRB's compliance with the IPERA that resulted in six recommendations.[23] For the third year of noncompliance with IPERA, OIG recommended corrective actions needed for improvement and implementation to ensure proper compliance with IPERA guidance.

The audit disclosed that two of the risk assessments prepared by RRB were not in accordance with the OMB guidance. In addition to not being in compliance with the risk assessments, improvement was needed to ensure that improper payment

[20] Public Laws 111-204 and 107-300.
[21] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report*, OIG Audit Report No. 15-06 (Chicago, IL: May 15, 2015).
[22] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report*, OIG Report No. 16-07 (Chicago, IL: May 13, 2016).
[23] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2016 Performance and Accountability Report*, OIG Report No. 17-05 (Chicago, IL: May 12, 2017).

amounts are accurately being reported for the RRA and the RUIA programs. OIG found that some of the improper payment methodologies applied to the RRA and RUIA programs were not in accordance with OMB guidance, which creates a risk for RRB in not identifying all improper payments. OIG determined that improper payments for the RRA program were understated by approximately $19 million. Furthermore, they found that the records used by the agency to support the RUIA program improper payment data was not always maintained and updated in accordance with agency guidelines. The audit resulted in six recommendations to management outlining the corrective actions needed because of noncompliance for the third year with IPERA as specified in OMB issued guidance. Two of the six recommendations were: the revision of the projection methods used for the underpayment component of the reported overall improper payment amount for the RRA program; and improvement of RRB documentation used to support the RUIA reported improper payment data to ensure that it is maintained and updated in accordance with agency guidance.

In response to the six recommendations, RRB Management concurred with three and did not concur with the remaining. The Bureau of Fiscal Operations (BFO) did not concur with the recommendation outlining the corrective actions required for the third year of noncompliance with IPERA. Management stated that the risk assessments were revised to comply with OMB guidance prior to the issuance of this audit report, however, the OIG determination as noncompliance remained unchanged. The Office of Programs did not concur with the recommendation for revision of projection methods used for the underpayment component of the overall reported improper payment amount for the RRA program. Management stated that it believes that its current methodology is more accurate in applying improper payment percentages than previous methodologies used. OIG considers the projection method as stated in the finding is the most accurate estimation process for initial and post underpayment accruals and believes that with Management's nonconcurrence, improper payments will continue to be understated and inaccurately reported. RRB asserts that it is compliant with OMB IPERA guidance due to their methodologies being approved by OMB and supported by two RRB Office of General Counsel legal opinions, with which OIG disagrees.

Lastly, the Office of Programs did not concur with the recommendation for improvement of RRB documentation used to support RUIA reported improper payment data to ensure that it is maintained and updated in accordance with agency guidance. Although RRB management did not concur, they have reported that they have taken corrective measures. OIG has yet to evaluate the corrective actions and are unable to evaluate their sufficiency.

2016 was the third consecutive year that RRB was deemed noncompliant for the same programs or activities, and IPERA guidance states that the agency must submit reauthorization proposals for each discretionary program or activity that has not been in compliance for three or more consecutive years, or proposed statutory changes to bring the program or activity into compliance. IPERA compliance continues to remain a challenge for RRB given that the policies and procedures developed for IPERA risk assessments were incomplete. This directly impacts the risk assessments prepared for the various programs that it administers. The OIG's concern is that RRB is not being proactive when it comes to improper payments and compliance with IPERA guidelines, which continues to result in the underreporting of improper payments.

In August 2017, OIG published an audit report "Improvements Needed for the Program Evaluation Process at the Railroad Retirement Board" that resulted in 21 recommendations for deficiencies in the process.[24] The audit was conducted to determine the adequacy of RRB program evaluation process as it relates to its reviews of accuracy and integrity of benefit payments. The audit identified numerous weaknesses and areas where improvements were needed. The audit report relates the continuation and the correlation of RRB being in noncompliance with IPERA and its vulnerabilities in assessing payment accuracy.

The audit found deficiencies in the adequacy of the program evaluation process used in assessing the accuracy and integrity of RRA benefit payments and determined that improvements were required in several areas. The areas where corrective action is needed are as follows:

- quality assurance sample universe selection process, reported sample results, supporting documentation, and related policies and procedures;
- documented internal controls, and tests of controls;
- completeness of samples to include cases without recent adjudicative actions;
- efficiency in the manner that data is compiled and reviewed that supports reported accuracy rates;
- agency actions to ensure that they comply with agency policies and procedures;
- validation of performance measures prepared by other RRB organizational units;
- documented checklists that support occupational disability compensating control results; and
- ongoing training for Program Evaluation Section claims specialists.

A reliable and accurate program evaluation process is imperative for identifying improper payments and their root causes so action may be taken to prevent improper payments in the future.

[24] RRB OIG, *Improvements Needed for the Program Evaluation Process at the Railroad Retirement Board*, OIG Audit Report No. 17-07 (Chicago, IL: August 1, 2017).

Challenge 5 – Human Capital Management

Human capital management is the process to acquire, train, and manage the skills of the workforce to advance an organization's mission and goals. As part of its human capital management process, an agency must continually review its plans to retain employees and elevate the skills of the existing employees allowing them to effectively contribute to the organization. Succession planning is key to the continuing and uninterrupted operations of an agency.

In July 2017, Office of Personnel Management (OPM) issued a human capital (HC) management evaluation of RRB.[25] The evaluation was conducted because of two critical human capital challenges that RRB is facing; an increasing retirement eligibility rate due to an aging workforce and high field office turnover rates. In addition to assessing RRB's response to these two challenges, OPM assessed compliance with legal and regulatory HC program requirements, evaluated whether HC programs are operating efficiently and effectively, and identified any strengths or vulnerabilities in RRB's HC programs. The areas covered included workforce planning, talent management, results oriented performance culture, and leadership and knowledge management.

OPM found that several RRB HC practices were noncompliant, lack measures of effectiveness, and exposed RRB to risks of prohibited personnel practices and other regulatory violations. The deficiencies were largely due to weakened accountability practices in RRB talent and performance management programs. This was a result of outdated policies and current management-labor practices, which created conflicts with legal and regulatory requirements, including merit system principles. OPM stated that RRB needs to take concrete steps towards modernizing processes, implementing efficient practices, and more effectively managing its greatest assets, a loyal and high-quality workforce.

RRB, like most federal agencies, is confronted with a significant portion of its workforce currently eligible to retire or eligible in the near future. RRB's Bureau of Human Resources estimated that, by fiscal year 2018, almost 30 percent of personnel will be eligible for retirement, with approximately 50 percent having 20 years or more of service.[26] In addition to retirement among personnel, RRB has experienced high turnover in its leadership. The agency is overseen by a three member Board, including a Chairman. The Office of Chairman has been vacant for two years since the retirement of the Chairman on September 1, 2015. In addition to the Chairman retiring, RRB has experienced multiple retirements and separations of its senior executive staff.
One major priority for the agency's leadership will be to ensure the transfer of knowledge to guarantee continuing and uninterrupted operations of the agency.

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[25] U.S. Office of Personnel Management, *Human Capital Management Evaluation Railroad Retirement Board* (Washington DC: July 19, 2017). RRB has until December 2017 to reply with its comments to this report.
[26] RRB, *2017 Annual Report*.

With succession planning, an agency can identify potential leaders with the skills and abilities to fill vacant positions or develop them for advancement to vital roles in the organization. In developing a successful succession plan, the strategy must ensure that employees are consistently being developed to move into key roles.

In September 2011, OIG reported that RRB had identified staff attrition as an ongoing concern.[27] The report also stated that these changes would impact every aspect of the agency's operations, to include senior level management. While RRB has a Human Capital Management Plan and Succession Plan, it has not been funded. Also, while the plan identified RRB's need to retain and restore employees, the impact of declining budgetary resources was not considered. OIG concluded that RRB management should enhance the plan by evaluating the possibility of staff and financial reductions and then by establishing a contingency plan to address staff and funding necessities for plan readiness.

While attrition presents a significant challenge, it also presents a unique opportunity for RRB to change its culture. RRB's culture focuses on paying benefits quickly, increasing the likelihood of erroneous payments in its benefit programs; a foundational flaw that leaves RRB's program susceptible to fraud and abuse. One way to make significant and timely change to an agency's culture is through the introduction of new personnel who provide new ideas and talents, different views, and a willingness to question the status quo.

RRB should take advantage of its attrition and turnover to recruit and train new employees to assist the agency in promoting new perspectives. With the incorporation of new employees, the addition of innovative and different viewpoints are presented along with new skills and approaches, which can alter the agency's culture.

Challenge 6 – Material Weakness Related to the Financial Statement Reporting and the Control Environment

OIG is mandated to audit RRB's consolidated balance sheet, as well as the related statements of net cost, changes in net position, budgetary resources, the statement of social insurance, the statement of changes in social insurance, and the related notes to the financial statements. RRB management's responsibility is the preparation and fair presentation of said financial statements in accordance with accounting principles generally accepted in the United States of America. Upon RRB's completion of these financial statements, OIG is responsible for expressing an opinion on the financial statements, which are based on the audit being conducted in accordance with the auditing standards generally accepted in the United States of America.

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[27] RRB OIG, *Office of Inspector General's Proposal to Improve Business Efficiency at the Railroad Retirement Board,* (Chicago, IL: September 21, 2011).

OIG reported a material weakness for financial reporting for fiscal years 2014, 2015, and again in 2016. During the 2016 audit, OIG continued to identify material transactions that were recorded without sufficient supporting documentation, which were a result of RRB's management not implementing corrective actions to address prior OIG recommendations. In addition, OIG found numerous transactions, representing approximately $14.2 billion that did not have adequate supporting documentation when they were recorded and approved in RRB's financial reporting system. Once notified, Bureau of Fiscal Operations staff provided the missing documentation for validation, but did not update the official records to include the missing documents. After subsequent communication between OIG and BFO management, a revision was made in BFO policy allowing additional documentation to be added without altering any aspect of the previously recorded transactions. BFO also revised other sections of its procedures in an effort to address the OIG's recommendations relating to this material weakness. However, the determination by OIG was that the actions taken were not sufficient and additional corrective actions are needed to address these internal control deficiencies.

The material weakness for financial reporting, which includes ineffective controls and lack of communication with the National Railroad Retirement Investment Trust's (NRRIT) auditor, continues to exist. The lack of communication with NRRIT's auditor has resulted in the OIG's continuous rendering of a disclaimer opinion for RRB's financial statements since 2013. This lack of cooperation and communication has prevented OIG auditors from obtaining sufficient appropriate audit evidence regarding RRB's financial statements.

OIG reported a new material weakness. Specifically, in fiscal year 2016, OIG determined that RRB's control environment may have a detrimental effect on RRB's financial statements. OMB issued guidance defining management's responsibility for ensuring that an organization is committed to sustaining an effective control environment.[28] The guidance explains five principles of the control environment and, if one principle is ineffective, management would be unable to conclude that the control environment is effective. The material weakness that OIG reported is based on an ineffective control principle, the enforce accountability principle, which states that management should hold individuals accountable for their internal control responsibilities. RRB management does not concur with this assessment and has not taken the necessary corrective actions to address several significant matters. As such, we are concerned that ongoing noncompliance with applicable laws, regulations, and authoritative guidance could impact the reliability of financial reporting at RRB and at governmentwide levels. In addition, RRB management does not always communicate matters of audit significance with RRB OIG auditors and RRB management had not responded to numerous requests to reconsider its determinations and to discuss most of the matters detailed in this finding. According to the American Institute of Certified Public Accountants (AICPA) guidance,

[28] Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

inadequate two-way communication could indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.[29]

NRRIT was established in 2001 by the Railroad Retirement and Survivors' Improvement Act 2001 (RRSIA). NRRIT's sole purpose is to manage and invest railroad retirement assets. The RRSIA authorizes NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

One of the most significant concerns involves ownership of NRRIT net assets. NRRIT's net assets represented $25.1 billion or approximately 80 percent of the total assets reported for fiscal year 2016. Approximately $1.4 billion was transferred in 2016 from NRRIT to the U.S. Treasury for the payment of railroad retirement benefits throughout the year. RRB indicated that it has no ownership interest in NRRIT in its assertion that NRRIT should be classified as a disclosure entity for financial statement reporting purposes under new Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*.

OIG disagrees with RRB's assertion and believes that NRRIT should be classified as a consolidating entity. The classification determination ultimately decides whether NRRIT's net assets will continue to be included in RRB and governmentwide financial statements beginning in fiscal year 2018 when SFFAS 47 becomes effective.

Based on RRB's classification of NRRIT as a disclosure entity, the net assets would not be included, there would only be a footnote reference to NRRIT. If classified as a consolidating entity, the net assets would still be included in the financial statements. OIG is concerned with RRB's assertion that it does not maintain legal ownership to NRRIT held net assets.

Other OIG concerns, many of which are discussed in this document, are (1) lack of action or formal written response for our audit recommendation associated with NRRIT communication portion of the material weakness for financial reporting, (2) a change in the social insurance valuation date that will result in NRRIT savings of approximately $200,000 in contract services expenses, which represents less than .3 percent of NRRIT's annual total expenses but will increase the workload for RRB's Bureau of Actuary, (3) lack of corrective action and acknowledgement for inaccurate Medicare cost reimbursements and nonadherence with applicable authoritative guidance, and (4) RRB management's inaccurate improper payment definitions, which continue to result in understated reported improper payments. In 2016, we noted one additional concern regarding the planned reclassification of a system from a major application to a minor one, however; management ultimately did not make this change.

[29] American Institute of Certified Public Accountants (AICPA), AICPA Professional Standards, *The Auditor's Communication with Those Charged with Governance,* AU-C Section 380 (New York, NY).

The material weakness in control environment does not only apply to financial statement reporting, but is found in other areas. In April 2017, OIG issued a report related to RRB's compliance with the Federal Travel Regulation (FTR).[30] This audit was conducted to determine if RRB was in compliance with the FTR and implemented and enforced adequate internal controls. The audit revealed that RRB did not always comply with the FTR because internal controls were not always enforced or adequate. OIG made 19 recommendations that related to improving, strengthening, enforcing, and conducting training on RRB's travel policies and the travel management system.

In this report, there were several significant findings related to the Board whose travel policies and procedures for their staff tend to be less stringent and much less likely to be enforced. These policies and procedures, called "Board Orders", allowed Board Members and subordinate staff to approve travel for themselves, their respective staff, and to authorize their own travel vouchers. Agencies are permitted to establish their own travel policies and procedures as long as they are compliant with the FTR. However, because so many of these findings related to the Board's travel, it further brings into question the agency's leadership and their contribution to the RRB's weakened control environment.

GAO's internal control standards state that the oversight body and management should demonstrate a commitment to integrity and ethical values. One attribute of this principle is "Tone at the Top," which contributes to the design, implementation, and operating effectiveness. This principle conveys that management should demonstrate the importance of integrity and ethical values through their directives, attitudes, and behavior. Agency management, who is ultimately responsible for setting the tone at the top, should demonstrate and communicate these values that will create a culture by which all employees will adhere.

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[30] RRB OIG, *Audit of the Railroad Retirement Board Did Not Always Comply with the Federal Travel Regulation*, OIG Audit Report No. 17-04 (Chicago, IL: April 11, 2017).

Challenge 7 – Lack of RRB Oversight of the National Railroad Retirement Investment Trust

NRRIT was established by the RRSIA to manage and invest railroad retirement assets. As a tax-exempt entity, NRRIT is independent of the Federal government and authorized to invest the federal assets entrusted to it in a diversified investment portfolio in the same manner as private sector retirement plans. NRRIT is also responsible for transferring funds to RRB to pay benefits that are not funded through current tax receipts from railroad employees or employers. Approximately $25.1 billion in assets were invested by NRRIT on behalf of railroad retirees and their families at the end of fiscal year 2016.[31]

OIG continues to express concerns that the oversight of NRRIT is inadequate. OIG contends that oversight and transparency of NRRIT could be improved if independent performance audits were conducted in full compliance with GAGAS, along with IT audits, independent investigations, financial evaluations, and risk assessments, as appropriate and equivalent with Employee Retirement Income Security Act (ERISA) covered plans.[32]

The following outlines the specific challenges related to NRRIT.

<u>Performance Audits</u>

NRRIT has commissioned four external reviews since its creation, with the first being in 2004 and the most recent in 2012, but has not established an objective and independent policy for conducting performance audits. There is no indication that the reviews commissioned by NRRIT were performed in accordance with GAGAS, which provides a framework for conducting high quality audits. NRRIT also self-selects the areas to be audited, which is a major concern. Other comparable federal programs, such as the Pension Benefit Guaranty Corporation's single-employer insurance program and the Thrift Savings Plan, are subjected to externally initiated and conducted performance audits by one or more independent oversight organizations. In contrast, to these entities, NRRIT selects the objective and scope of its reviews.

OIG believes NRRIT's self selection of review decreases the independence of the reviews and prevents thorough oversight to fully protect RRB assets held by NRRIT. OIG opposes any arrangement that allows NRRIT to control the performance audits. It is also the OIG's opinion that a statutory amendment requiring performance audits would have greater effectiveness, since NRRIT could not opt to alter the policy without legal justification.

In May 2014, GAO publicly released a report on RRB's oversight and communications with NRRIT and the periodic performance audits that NRRIT

[31] RRB, *Performance and Accountability Report, Fiscal Year 2016* (Chicago, IL: November 2016).
[32] GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G (Washington, D.C.: December 2011).

elected to authorize, but had no written requirement to conduct.[33] GAO reported that the four external reviews commissioned encompassed a wide range of issues including, the accuracy of monthly reports, compliance with NRRIT investment manager hiring policies, processes to ensure accuracy of financial recordkeeping and internal controls, the adequacy of due diligence procedures and the role of non-traditional investments but that these performance reviews differed from comparable entities in scope and frequency. GAO reported that the large majority of state pension plans and two federal programs they reviewed that manage investment assets are the subject of performance audits that are initiated and conducted by an external entity, and some of these audits have addressed issues including ethics and conflicts of interest, that the NRRIT commissioned audits have not included. Forty-two of the fifty state plans are subject to performance audits conducted by an external auditor, such as the Auditors General or equivalent, which reviews their plan annually; while other plans are audited less frequently. Both federal plans reviewed are also subject to externally initiated and conducted performance audits.

While the report did not contain any formal recommendations, it did list options for expanded NRRIT oversight including:

- granting the OIG authority to conduct performance audits, which would ensure that these reviews are initiated and performed independent of NRRIT;
- requiring periodic audits with external input on scope, which would ensure NRRIT performance audits continue; and/or
- establishing an office of internal audit, which could ensure performance audits are independently initiated and conducted.

After the release of the GAO report, NRRIT signed a Memorandum of Understanding (MOU) with RRB in October 2014 to delineate responsibilities and procedures for (i) Financial Audits and (ii) Performance Assessment Evaluations with respect to assets held by NRRIT.

This MOU states that “performance reviews should be regularly scheduled every 3 years beginning in calendar year 2015, with the understanding that additional reviews could be scheduled, if warranted.”[34] Although the MOU clearly states that NRRIT has agreed to these performance reviews, there has been no indication that any NRRIT performance reviews have been initiated since the signing of the MOU in 2014, and the MOU does not require them to be performed. GAO’s options could be adopted through either formal agreement between the key parties or through mandating ERISA compliance legislation.

[33] GAO, Retirement Security, *Oversight of the National Railroad Retirement Investment Trust*, GAO-14-312 (Washington DC: May 2014).
[34] Memorandum of Understanding between National Railroad Retirement Investment Trust and the United States Railroad Retirement Board signed in October 2014.

Disclaimer of Opinion on RRB Financial Statements

As a result of OIG's lack of access to NRRIT's auditor, it has issued a disclaimer of opinion for fiscal years 2013 through 2016. OIG is required by law to audit the financial statements of RRB, and NRRIT is a significant component of RRB. In order to comply with the AICPA group financial statement auditing standard, OIG contacted NRRIT requesting direct communication with, and cooperation from, their auditor.[35] To date, there has been no communication or cooperation from NRRIT's auditor, directly or indirectly.

Because OIG cannot obtain sufficient appropriate audit evidence with respect to NRRIT, we cannot issue an opinion on RRB's financial statements. To prevent future disclaimers of opinion, it is imperative that RRB management counsel NRRIT regarding its auditor's responsibilities to comply with the AICPA's group financial statement requirements.

OIG plans to continue oversight in all areas highlighted in this letter through audits, investigations, and other follow-up activities. We encourage RRB to take meaningful action on these challenges in order to prevent fraud, waste, and abuse in the programs and operations of RRB, and to reduce improper payments in all of its programs.

Original Signed By:

Martin J. Dickman
Inspector General

October 13, 2017

[35] AICPA, AICPA Professional Standards, *AU-C Section 600, Special Considerations - Audits of Group Financial Statements (including the Work of Component Auditors)* June 1, 2013.

Management's Comments

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

Challenge 1 - Program Integrity to Strengthen Disability Programs

In response to Office of the Inspector General (OIG) recommendations and ad hoc communications, as well as the Government Accountability Office (GAO) audit findings, and internal quality assurance reviews, the RRB has taken meaningful actions to improve the critical functions of the RRB's disability program. RRB's commitment to continuously improving the quality of systems, policies, procedures and processes that support disability decisions is clear. This has been demonstrated repeatedly over the past several years and documented in prior reports. While, in some instances the RRB did not agree with specific recommendations of the OIG, the RRB remains steadfast in its approach to administering the disability programs so as to maintain or improve program integrity and protect the Trust Fund.

While the IG indicates in his statement that the challenges his office has identified are based on recent audits, evaluations, and investigations, much of the information included in Challenge 1 relates to indictments issued in 2011 and court proceedings from 2013 regarding a physician assisted fraud scheme involving annuitants who worked for the Long Island Rail Road (LIRR). The comments below regarding Challenge 1 will first address current issues related to the disability program and will then address issues specific to the LIRR fraud conspiracy.

Current Disability Program Issues

To address concerns regarding program integrity, the RRB established a Fraud Task Force comprised of subject matter experts, senior agency officials, and representatives from the Board Offices, charged with identifying and evaluating changes to the disability program which would enhance program integrity. To assist in this mission, a Disability Program Improvement Plan (DPIP) was developed, tracking activities related to 18 separate initiatives, with multiple tasks, many of which have been implemented, such as form revisions, enhanced examiner training, use of a second level authorizer, and tracking of physicians. The IG raises concerns that the due dates on the plan sometimes change and that some initiatives are closed, without being implemented. The due dates for the various tasks are subject to change depending upon availability of agency resources and budget. Further, the DPIP is a living breathing document and continues to evolve as initiatives are discussed, considered and developed. Regular meetings are held to evaluate and review the 18 initiatives to determine if they will enhance program integrity and/or agency processes. Initiatives which have been marked as closed have either been implemented or agreed by the Board members to not be implemented after agency reviews, assessments, discussions and further analysis.

Among the forms which have been revised are those forms used to obtain job information from railroad employers. While the OIG acknowledges RRB management's extensive revisions to, and intent to replace the current job verification forms (G-251a and G-251b) with a singular version, the OIG contends that voluntary completion of the forms is "incongruent with RRB regulations…." In support of this contention, the OIG has noted that the regulations of the RRB state that the RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided on the appropriate form." Omitted from the regulatory citation is the fact that the regulations provide that examiners must also consider the employee's own description, as well as other sources, such as the Dictionary of Occupational Titles. The intent of this regulation is to identify what information disability examiners should consider if available, not to mandate that employers must provide vocational information. This is not only apparent from the logical reading of the regulation, but was also emphasized when the policy was established in 1997. As noted at the time the procedure was introduced, it was to allow for employers to "offer the applicant's railroad employer the opportunity **to voluntarily provide** [emphasis added] information on the applicant's job duties which may be utilized in determining the applicant's eligibility to an occupational disability." Determining Disability, 62 Fed. Reg. 50056 (proposed Sept. 24, 1997) (to be codified at 20 CFR 220).

Although it was never envisioned that it would be mandatory for employers to provide vocational information, the RRB appreciates a need for the adjudicating staff to have an understanding of the various railroad occupations. Consequently, staff has attended classroom and onsite-training facilitated and led by industry representatives to aide in assuring that staff has an acceptable understanding of the functions of the various railroad occupations.

In response to a suggestion from the IG, the RL-8A, *Occupational Disability Certification*, was developed and implemented. This form requires recipients to self-certify their continued entitlement to a disability annuity, by providing current information regarding their impairments and work activity. The IG is critical of the manner the RRB has implemented the form, asserting that its use is too narrow and that completion of the form should be required of all occupational disability annuitants. Including all 21,000 occupational annuitants in an RL-8A certification process as the IG suggests would be unduly burdensome and unnecessary, as well as impractical to monitor. The vast majority of disability annuitants are not working and are receiving a benefit to which they are legally entitled. Consequently, having all occupational disability annuitants complete the RL-8A would do little to enhance program integrity or deter fraud. Rather, the RRB has opted to use the form in a manner which allows for greater scrutiny of cases identified as potentially "high risk" based on the presence of certain factors.

The IG also asserts that "another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard for railroad employees." RRB management disagrees. In response to OIG Alert No. 15-05, disability staff received refresher training on following the appropriate standard for occupational disability adjudication. This training included a review of how impairments are assessed to determine if an individual is disabled or not, as well as how to develop sufficient objective medical evidence to determine restrictions caused by impairments. These restrictions are then compared to essential job functions and a determination of whether the applicant can perform the job duties is made. The sequential evaluation process used in the training is found in 20 CFR 220.13(b)(2)(iv). These regulations are included in RRB's Disability Claims Manual Part 13, along with the Independent Case Evaluation process where medical information is reviewed to establish the functional limitations of the condition. As functional limitations are established and job demands determined, the two are compared and reviewed to determine if the claimant is capable of performing the essential job duties of their regular railroad occupation. In summary, contrary to the IG's claim that the RRB has failed to take action to assure that occupational disability annuities are not awarded to individuals based on an inability to perform a simple task, disability procedure had been reviewed to verify that it is accurate and disability staff was required to attend refresher training on the topic.

Finally, the IG continues to take exception to the grant rate within the disability program and is critical of what he describes as a culture concerned with "paying benefits quickly" with little regard to paying them accurately. However, he has provided no evidence to support his claims that the grant rate demonstrates that occupational annuities are being awarded in error and while it is not uncommon for benefit paying agencies to focus on timeliness, statistical data reflects that benefits are certainly not being awarded quickly.

The RRB acknowledges that a high grant rate in a disability program could be indicative of problems in the decision-making process. However, as is the case with the RRB's occupational disability program, it could also be the result of a range of factors specific to the disability program. In calendar year 2015, there were approximately 97.6 percent occupational disability allowances along with approximately 79.5 percent total disability allowances under the Railroad Retirement Act. Of those granted applicants, 78.1 percent of the occupational cases and 83.6 percent of the total cases were awarded a period of disability (disability freeze) under the Social Security Act. Approximately 67 percent of the disability freezes completed by the disability post section are joint freeze cases that require coordination with SSA, thus resulting in a third party concurrence. Additional factors, which after consideration indicate that the grant rate does not reflect a problem in the decision-making process, include the average age and years of service of an RRB disability applicant, which is 58.3 years and approximately 27 years of service. This is relevant because railroad workers with 30 years of service are eligible for full age annuities as young as age 60 – as are their spouses, whereas the spouse of a disabled annuitant with less than 360 months of service is not eligible for an annuity until both parties are age 62, and that spouse annuity will be reduced for age unless the spouse defers retirement until attaining full retirement age (age 66 or 67, depending upon date of birth). In addition, the exertional level of typical railroad work for most applicants is in the moderate to high level, exacerbating the normal wear and tear on the body that occurs with aging. Also, employees who retire based on age typically retain their health insurance, whereas those who retire on disability prior to age 60 frequently do not.

Timeliness metrics are commonplace for benefit paying organizations, as are accuracy metrics. It is disingenuous for the IG to claim that the RRB's interest in the former demonstrates no concern for the latter. RRB's focus and culture clearly indicate a commitment to the quality of adjudicative decisions. RRB has set quality measures and, for three consecutive years, studied the quality of its disability determinations and acted upon findings. In fact, it is clear that the many process changes have negatively impacted the RRB's ability to timely deliver disability benefits to our deserving disabled constituents. The current timeliness goal for the Disability Benefits Division (DBD) was established in FY 2009. The performance standard requires an initial decision to approve or deny 70 percent of disability applications for benefits within 100 days of receiving the application. As indicated in the chart below, while DBD was close to achieving the performance goals in five of the eleven years, DBD has only achieved this goal three times: in FY 2008, FY 2012 and FY 2013. There was a significant drop in performance, beginning in FY 2014, after program improvements were initiated.

Customer Service Performance Indicator		FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
I-A-7 Disability Decision	Target	55.00%	63.00%	68.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
	Actual	65.90%	69.60%	70.40%	62.50%	68.90%	67.50%	74.90%	72.50%	42.80%	31.00%	17.40%
Average Processing Time (APT)		92.1	85.3	85.5	97	90.2	92.3	84.5	87.6	132.5	179.2	248.1

The RRB strives to focus on paying the right people, in the right amounts, in a timely manner while preserving the integrity of the trust funds. Changes which have been implemented for program integrity purposes will need to be analyzed to assure that any resulting delay in the processing of applications is justified, and where no such justification is found, consideration must be given to appropriate modification.

LIRR Physician Assisted Fraud Scheme

The LIRR physician assisted fraud scheme was first identified in 2007, followed by indictments in 2011 and court proceedings which took place in 2013. In total, 33 individuals either pled guilty or were convicted, including two physicians, two facilitators and 29 individuals who had been awarded an occupational disability annuity. The LIRR fraud scheme revealed systemic deficiencies in the RRB's disability program, but those deficiencies have since been addressed. The first deficiency identified was the failure of the RRB to notice that an unusually high number of disability applicants from the LIRR listed as a treating physician one of two names. This was because the RRB was not monitoring the identities of medical providers. This was initially remedied by training on how to independently identify similar situations, and then by the creation of the Disability Tracking of Physicians and Patterns (DTOPP) database. All treating source physicians are entered into DTOPP for cases adjudicated by DBD, allowing for statistically significant patterns to be identified through this database. The other systemic vulnerability identified was the failure of the RRB to notice that an unusually high percentage of applications filed with the RRB by individuals who worked for LIRR were filed on the basis of disability, rather than age and service. The RRB has addressed this issue by compiling data from a variety of existing sources so that statistically significant patterns in the filing of applications can be identified.

The IG asserts that the RRB has allowed individuals to commit fraud against the disability program with no repercussions, and in doing so, encourages future fraud and abuse of the program. Such statements are without foundation and inaccurate, as demonstrated by the following information.

The 33 individuals charged in the scheme either pled guilty or were convicted at trial. They have been ordered to make restitution and are being monitored by the Clerk of the Court. In addition, individuals who were convicted were given prison sentences and those who pled guilty were sentenced to various terms of probation. The RRB receives regular reports detailing the amount collected from each individual. The RRB's Bureau of Fiscal Operations is in contact with the Financial Litigation Unit of the U.S. Attorney's office and is receiving payments from the Court.

The IG points out that "as of August 2017, only $399,147 of the approximately $5.9 million in court ordered restitution related to the LIRR convictions had been returned to the RRB." As was stated in a memorandum to the IG regarding this topic, dated August 17, 2017, "With regards to recovery of funds from the named defendants, the RRB is bound by the Sentencing Orders, Forfeiture Orders, and directions from the U.S. Attorney's Office, U.S. Marshal's Office, and/or the U.S. Probation Office. The RRB's Bureau of Fiscal Operations works with the Financial Litigation Unit as well as the Clerk of the Court with respect to receiving restitution payments made by the defendants." As the IG is aware, unless otherwise directed, RRB is precluded from offsetting any restitution. Additionally, the order of precedence in the sentencing documents states, "…pursuant to 18 U.S.C. § 3664(i), all nonfederal victims must be paid before the United States is paid." In the majority of cases, there are nonfederal victims, making the likelihood of the RRB receiving a distribution from the courts low.

An additional 45 individuals admitted to participating in the fraud scheme, but were not indicted. Rather, these individuals were allowed to participate in a voluntary program in 2012, the terms of which, at the suggestion of the Department of Justice, did not require repayment of prior annuities paid. The disability annuities for these individuals have been terminated. In addition, the RRB terminated prospective annuity payments for over 700 disability annuitants in 2013. These annuities were terminated because the application was awarded, in part, based upon medical evidence provided by one of the physicians convicted of fraud. None of these individuals whose annuities were terminated in 2013 was indicted or participated in the voluntary program referenced above.

The IG has alleged that "potential" overpayments exist for each of the 700 individuals whose disability annuities were terminated in 2013, apparently on the premise that the original decisions to award these individuals annuities were obtained by fraud or similar fault. However, there is no evidence which would support the RRB taking such action. While the fraud conviction of the physicians was deemed sufficient to call the applications into question, the convictions on their own are not sufficient evidence to establish that the original applications were awarded based upon false or misleading information

Challenge 2 - Information Technology Security and System Modernization

With ever increasing Information Technology (IT) security and privacy risks, we understand your concerns to make our IT systems and processes more robust. The RRB systems modernization is an iterative and incremental approach to show success with small projects, communicate these successes across the agency to gain support, and build confidence to accomplish the remaining larger critical tasks.

Our Mission Essential Functions are performed in a legacy Mainframe environment that is costly and extremely resource heavy to protect from increasing cyber threats. Our participation in the Department of Homeland Security Continuous Diagnostics and Mitigation (CDM) program will ensure that we will address these Cybersecurity risks. The CDM deployment roll-out is currently scheduled to start in December 2017 and to complete in May 2018. We have started the incremental and iterative process to transform our legacy Mainframe software systems, and with the anticipated funding in the coming Fiscal Years we will accelerate this transformation.

Without strong project management, it is true that complex projects with large federal IT investments frequently fail or incur cost overruns. To mitigate such risks, our Legacy Systems Modernization Services contract is a Firm Fixed Price (FFP) contract. The RRB will continuously monitor, measure and perform value driven services to ensure the predictable outcome of a successful migration. To achieve this successful migration we are implementing agile principles such as breaking up multi-yearlong projects into a series of short releases focused on the most critical or Key Performance Indicators to increase the opportunity for success, as well as ensuring frequent standup meetings, or daily scrums, as an effective means to convey information, and to facilitate quick resolution of identified risks and issues.

The iterative software development model delivers value and provides confidence from early repeated success, early risk mitigation and discovery, complexity management through simplification, relevant progress tracking leading to better predictability, higher quality and less defects, early and regular process improvement, prototyping, and feedback communication loops.

We are deploying all citizen-centric digital solutions using strong authentication. These external self-service solutions are being transformed to use secure communications with Multi-Factor authentication and identity management. We also understand the necessity to block unauthorized hardware from accessing the RRB network for effective Network Protection. Our enrollment in the CDM program will assist in this purpose.

We recognize that our Cybersecurity program is still in need of improvement. Our goal is to remediate Cybersecurity risks at the earliest. We will release a comprehensive Cybersecurity strategy to address our deficiencies by December 2017. This will supplement the risk mitigation capabilities of EINSTEIN III (E3A) that the RRB currently has in place.

The agency's risk management and privacy strategy is to prevent and detect impending attacks through continuous monitoring. By modernizing the legacy applications, we ensure that the enterprise architecture is stable for years to come, is flexible to accommodate new innovations, and enables the encryption and security aspects to keep customer data safe. Adherence to National Institute of Standards and Technology (NIST) standards for encryption and Federal Information Processing Standards (FIPS) 140-2 for Data in Transit and Data at rest ensures enterprise network security outside of the RRB network. We anticipate that with the successful deployment of the CDM initiatives by May 2018, our Cybersecurity program will be more mature to stay one step ahead of the bad guys.

Challenge 3 - Management of Railroad Medicare

Bureau of Fiscal Operations Response: The RRB believes that the OIG's Cost Allocation Plan (CAP) audit was fundamentally flawed and, therefore, requested that the OIG rescind the report.

The RRB believes that the OIG's CAP audit was fundamentally flawed because the guidance used as the basis for review, OMB Circular A-87 (revised May 10, 2004), ***Cost Principles for State, Local, and Indian Tribal Governments,*** provides guidance for grant recipients at the state, local and Indian tribal government level. The RRB is not a grant recipient, nor is it a state, local, or Indian tribal government. The RRB has administrative responsibility under the Social Security Act for railroad workers' Medicare coverage and certain benefit payments. The RRB performs Medicare program-related work on behalf of the Centers for Medicare & Medicaid Services (CMS), U.S. Department of Health and Human Services (HHS) and, by virtue of an agreement between the RRB and the HHS, the RRB is reimbursed for that work.

While the RRB believes the audit was fundamentally flawed, the RRB is committed to enhancing the reimbursement process. During fiscal year 2018, the RRB will work with CMS to update our *Interagency Agreement* and to streamline RRB's *Cost Allocation Plan*.

Office of Programs Response: The Inspector General (IG) correctly reports on the error with respect to the miscalculation of Medicare Part B Variable Rate Premiums for the period 1989 through 2015. Once identified, RRB automated programs were corrected to prevent any future occurrences and the over $6 million in underpaid premiums was reimbursed to CMS. Rather than attempt recovery of the underpaid premiums from the innocent beneficiaries, the Board determined in Board Order 17-15 (issued November 21, 2016) to waive recovery and not jeopardize their Medicare enrollment due to agency's error.

In the OIG's 2017 document, "Management and Performance Challenges Facing the Railroad Retirement Board" (page 12), the OIG states, "OIG is concerned that Railroad Medicare is not using the CMS Fraud Prevent System (FPS)." The RRB and Palmetto have been pursuing CMS' FPS implementation for the RRB's Specialty Medicare Administrative Contract (SMAC) since 2015. When CMS initially developed the FPS, the CMS limited access to FPS. As CMS gained more experience, FPS was expanded to more Medicare Administrative Contracts. During the initial meeting between the RRB, Palmetto and CMS, CMS recommended that the RRB and Palmetto wait until after the FPS re-compete process was finalized and the re-bid awarded before beginning the FPS implementation process for the RRB's SMAC. On a recurrent basis, both Palmetto and the RRB have reached out to CMS for status updates. In 2016, both the RRB and Palmetto were advised that CMS had approved the RRB's and Palmetto's request to use FPS. The on-boarding to FPS was set for December 2016 or

January 2017. In 2017, both the RRB and Palmetto were advised by CMS that on-boarding to FPS for new users has been delayed until the FPS upgrade to version 2.0 was completed. Further, CMS has delayed any on-boarding to FPS for new users until the new option year begins for FPS which is April 1, 2018. Both the RRB and Palmetto will continue to work with CMS toward utilization of FPS in 2018.

Challenge 4 - RRB's Continued Noncompliance with Improper Payments Elimination and Recovery Act and Assessing Payment Accuracy

Office of Programs Response: Since 2015, in response to OIG recommendations, we have made improvements in our improper payments analysis and reporting. We have reevaluated and improved our methodologies to ensure all appropriate areas are included in our improper payment computations for the Railroad Retirement Act (RRA) benefit program and improved our estimation of Railroad Unemployment Insurance Act (RUIA) benefit program underpayments by changing from a judgmental sample review of 20 cases to a statistically valid sample review of 100 cases. The Medicare program is now reflected in all appropriate tables and charts in the Performance and Accountability Report. We strengthened controls to ensure the accuracy of supporting data by improving our documentation and validation processes for the RRA and RUIA analysis and updated our procedures to reflect these enhancements to ensure that improper payment reporting is prepared in accordance with all applicable improper payment authoritative guidance. The enhancements resulted in successful close out of all open audit recommendations in these areas.

As stated previously in the RRB's FY 2016 Performance and Accountability Report and the FY 2017 OIG IPERA audit response, we would like to reiterate that RRB's categorization of underpayment accruals for both the RRA and RUIA programs are in full compliance with OMB's guidance and the definition of improper payments. Based on the Office of General Counsel's (OGC) Legal Opinion L-2015-54 dated November 20, 2015 (RRA), we made some modification to the categorization of various underpayment accruals found in our Quality Assurance review cases and therefore, are now in compliance. Based on the OGC's Legal Opinion L-2016-23 dated June 17, 2016 (RUIA), we obtained verification that our methodologies for categorization of underpayment accruals were already in compliance with IPERA. We therefore disagree with the OIG's May 2016 assertion that the RRB has understated RRA improper payments by approximately $12 million and RUIA improper payments by $904,000; the OIG has provided no specifics or computations to substantiate this statement. We also disagree with the OIG's May 2017 assertion that we have understated RRA improper payments by $19 million. The OIG has completed no substantial data analysis of their own for estimation of initial underpayment accrual payments and merely offers an alternative approach using the data the RRB developed. Additionally, the RRB obtained OMB approval of our RUIA methodology in February 2014 and our RRA methodology in August 2016, further confirming that we are compliant with OMB IPERA guidance.

As part of our FY 2016 IPERA analysis and reporting, we updated our risk assessment documents for the RRA, RUIA, and Medicare programs to include the nine specific risk factors developed by OMB which are likely to contribute to improper payments. The OIG has determined that these risk assessments are compliant with IPERA. During FY 2017, we updated our risk assessments to include vendor payments and employee payments, which was done prior to the issuance of the OIG's most recent IPERA audit report.

In addition to the 2017 IPERA audit, the OIG also included in Challenge #4 a discussion of their FY 2017 audit report (17-07) on the Program Evaluation Process stating, "the audit report relates the continuation and the correlation of RRB being in noncompliance with IPERA and its vulnerability in assessing payment accuracy." The agency annually assesses payment accuracy for both the RRA and RUIA programs and both the RRA and RUIA risk assessments have in fact been found compliant with IPERA per the OIG, therefore, this correlation is unfounded. Based on the OIG's recommendations in audit report 17-07, the agency has agreed to make improvements in the Program Evaluation process by adding the RRA and RUIA quality assessments as assessable units in the Management Control Review process, enhancing our controls and procedures for data gathering and documentation, ensuring appropriate officials are notified of all noncompliance errors, and providing ongoing technical and fraud awareness training opportunities.

Bureau of Fiscal Operations Response: In the referenced report, the OIG contends that the RRB is non-compliant because our previously submitted risk assessments for vendor and employee payment programs were not revised to address all risk factors included in the OMB guidance.

Revisions to the referenced risk assessments were completed in accordance with OMB guidance prior to issuance of audit report 17-05. However, the OIG did not evaluate them because the risk assessments were not published in the RRB's FY 2016 Performance and Accountability Report. The risk assessments in question were published in the FY 2017 Performance and Accountability Report.

Challenge 5 - Human Capital Management

Federal agency Human Capital/Human Resources policies and practices are evaluated on a periodic basis by another regulatory Federal agency, the Office of Personnel Management (OPM). For some agencies, OPM conducts a limited audit focusing more on an agency's hiring decisions and adherence to merit system principles (to include job postings and veterans preference). OPM also has the authority to guide, enable and assess agency strategic human capital management processes and audit an Agency's human capital system to include reviewing RRB's Strategic Alignment, Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management and Accountability. This type of audit is called a Human Capital Management Evaluation (HCME).

In October 2016, OPM was on-site at RRB conducting this more detailed Human Capital Management Evaluation. OPM was last on-site at RRB in 2011. Contrary to OIG's statement, OPM was not conducting the audit because of RRB turnover rates or our aging workforce; rather, OPM was conducting a HCME in accordance with prescribed OPM timeframes. The HCME assesses the use of personnel management authorities at RRB, adherence to merit system principles, and compliance with human capital management laws and regulations. Overall, OPM provided 15 recommended actions and 7 required actions in the audit results provided to RRB in July 2017. Many of the required actions have been resolved and some of the recommended actions have been implemented and/or were currently in practice. In addition, given some of the required/recommended actions include changes to personnel policies, practices, and other matters affecting the working conditions of bargaining unit employees, the RRB recognizes its obligation to negotiate with our AFGE union accordingly.

There are some recommended/required actions in OPM's evaluation for which RRB takes exception. Those will be addressed in our response to OPM which will be provided to OPM in December 2017. It is important to note that RRB has never been found in violation of merit systems principles since OPM has been conducting audits of RRB.

RRB recognizes that some of its internal Human Resources (HR) policies and practices need revision to better position human capital actions and practices, maximize employee performance and ensure alignment with agency mission. We continue to revise our staffing practices and procedures to ensure compliance with OPM regulations. In addition, we continue to provide salient Federal HR training to our HR staff to ensure relevancy and currency in rules and regulations.

Since at least 2015, RRB has instituted several human resources flexibilities and authorities within the Federal environment to include reinstituting a training and development section within our HR office. RRB also implemented a Learning Management System (referred to as RRB University). Through our LMS, we have developed and published several on-line training sessions as well as purchased an on-line catalog of more than 1,500 soft skill on-line training courses to help maximize growth opportunities for our current employees in expanding their knowledge, skills and abilities. In FY 2017, RRB provided more than 22 course offerings via classroom style training sessions on such topics as FERS retirement training to written communication skills. As testament to our success in bolstering the training options offered RRB employees, the 2017 Federal Employee Viewpoint Survey indicated a 10 percent increase (63 percent positive response) to the question, "My training needs are assessed," as well as a 10 percent increase (62 percent positive response) to the question, "How satisfied are you with training you receive for your present job?" RRB is in the process of revising our Awards program as well as our Performance Management System in an effort to maximize employee performance.

Although our Human Capital and Succession plans were not fully funded, we have been able to implement key aspects of these plans ensuring continuing and uninterrupted RRB operations. In 2016, RRB implemented its first Executive Candidate Development Program (ECDP). The ECDP is a year-long competency based leadership program consisting of formal leadership training and developmental assignments. Key training is developed around the Executive Core Qualifications (ECQ). Our first graduating class took place in October 2017. In addition, we utilize the re-employment of retirees to assist in retaining the knowledge of our specialized workforce and to assist in succession planning. While it is true that in the past five years, RRB has lost key leadership personnel through attrition, currently all but one of our SES level positions have been successfully filled (either internally or externally).

Challenge 6 - Material Weaknesses Related to Financial Statement Reporting and the Control Environment

The OIG continues to report a financial reporting material weakness. The OIG asserts that the financial reporting material weakness is the result of ineffective controls and differing interpretations of NRRIT oversight legislation. The differing interpretation of NRRIT oversight legislation provides the basis for the OIG's disclaimer opinion rendered for the RRB's financial statements.

In fiscal year 2017, the OIG continues to report that a second material weakness exists and cites concerns about the RRB's accountability enforcement/control environment as support. The OIG asserts that the "…RRB's control environment may have [emphasis added] a detrimental effect on RRB's financial statements…" It's important to note that the OIG asserts a second material weakness exists, that may have a detrimental impact on RRB's financial statements, without having quantified any effect on financial reporting or provided audit results from audits of RRB's accountability enforcement mechanisms. Therefore, the RRB rejects the material weakness.

Evidence cited to support the financial reporting material weakness: We reject the characterization that "…transactions, representing approximately $14.2 billion, did not have adequate supporting documentation when they were recorded and approved..." That statement is patently false. Supporting documentation for the referenced transactions was NOT, as the OIG states, missing. The documentation was, in fact, available for review in hardcopy and promptly provided upon request as noted in OIG report of audit 17-03, *Fiscal Year 2016 Financial Statement Audit Letter to Management*. Further, the OIG did not take exception with the accuracy or completeness of the documentation the RRB provided to support the validity of the transactions.

Due to the volume of documentation, it was not stored in electronic format within the RRB's automated financial management system. The supporting documentation was stored in a manner that complied with the Government Accountability Office guidance, *Standards for Internal Control in the Federal Government* (GAO-14-704G). Page 48 of the Federal Internal Control Standards, under the heading "Appropriate Documentation of Transactions and Internal Control," states:

> "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

As GAO requires, the documentation was readily available for examination.

Regarding communication with NRRIT auditors as the basis for disclaimer opinion: We have reviewed the Inspector General's concern. As the Inspector General is aware, section 15(j) of the Railroad Retirement Act provides that the National Railroad Retirement Investment Trust (NRRIT) "…is not a department, agency or instrumentality of the Government of the United States and shall not be subject to title 31, United States Code." Consequently, the NRRIT is not itself subject to Federal audit requirements contained therein. Therefore, contact between the Inspector General's office and the NRRIT auditors is inconsistent with the independent status of the NRRIT under section 15(j).

Further, RRB management believes the Inspector General is not required to issue a disclaimer of opinion on the RRB financial statements. Although the Inspector General is required by law to audit the RRB financial statements, the standards of the American Institute of Certified Public Accountants (AICPA) allow auditors to express a qualified opinion, rather than a disclaimer of opinion, where possible effects of undetected misstatements do not have pervasive effect on the financial statements. The RRB does not believe the Inspector General has established that any undetected misstatements in the context of the NRRIT audit are pervasive within the meaning of the AICPA standards. Accordingly, RRB does not believe the situation warrants a disclaimer of opinion on the RRB financial statements.

Regarding the control environment material weakness: The RRB disagrees with a material weakness the OIG asserts based on RRB's control environment. Moreover, the RRB believes that because the OIG has not quantified any impact on financial reporting, the cited material weakness is baseless and therefore, erroneous.

The OIG asserts that the RRB's control environment may have a detrimental effect on the RRB's financial statements and cites OMB guidance as the basis for the assertion. The cited guidance explains five principles of a control environment and, if one principle is ineffective, management would be unable to conclude that the control environment is effective. The material weakness the IG reported is based on an ineffective control principle, the Enforce Accountability Principle, which states management should hold individuals accountable for their internal control responsibilities.

Per GAO's *Standards for Internal Control in the Federal Government*, management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions. Additionally, management takes corrective action as necessary to enforce accountability for internal control. These actions can range from informal feedback provided to the direct supervisor to disciplinary action, depending on the significance of the deficiency to the internal control system. The OIG has not evaluated RRB's accountability enforcement mechanisms, so how this provides a basis for a material weakness is disconcerting.

The following paragraphs contain examples the OIG provided as support for the asserted material weakness based on the Enforce Accountability Principle. Note, none of the examples demonstrate the OIG audited aspects of the Enforce Accountability Principle (i.e. mechanisms used to hold personnel accountable, such as performance appraisals and disciplinary actions).

1. Relative to NRRIT net assets ownership: As the IG knows, the RRB is awaiting decision from the Statement of Federal Financial Accounting Standards (SFFAS) No. 47 Steering Committee. Citing this as an example of a control environment deficiency is erroneous. Concern over NRRIT net assets is not related to the cited Enforce Accountability Principle.

2. Relative to response for audit recommendation associated with NRRIT communication: RRB's verbal response was consistent with GAO standards and therefore, does not support a material weakness. Citing this example as support for a material weakness based on Enforce Accountability Principle is erroneous and contrary to GAO auditing standards.

   Further, the OIG acknowledged in a memorandum dated July 27, 2016, that the RRB's Chief Financial Officer (CFO) provided a verbal non-concurrence to their audit recommendation. Per GAO Auditing Standards, both verbal and written responses are acceptable. The RRB's verbal response complied with GAO propagated Government Auditing Standards, which allow for oral submission of comments. Therefore, the RRB did, in fact, provide a formal response consistent with GAO standards. Since RRB's verbal response was consistent with GAO's standard, the OIG citing this in support of a control environment material weakness is erroneous.

3. Relative to a change in the social insurance valuation date: As executive agent for the agency concerning financial reporting, the RRB's CFO concurred with NRRIT's request to adjust the social insurance valuation date from calendar year to fiscal year for financial and administrative purposes. The CFO reviewed applicable accounting standards and found no cause to deny the request. In addition, the CFO coordinated the request with OMB's policy office and received concurrence. Furthermore, this change was coordinated with the RRB's Bureau of the Actuary when proposed. Therefore, the RRB requested the valuation date change from calendar year to fiscal year, effective for fiscal year 2016 financial reporting period. This example does not demonstrate evaluation of the RRB's accountability enforcement mechanisms necessary to assert a material weakness based on deficient accountability enforcement.

4. Relative to Medicare cost reimbursements: While the RRB believes the OIG's audit was fundamentally flawed, and therefore requested that the OIG rescind their report, the RRB is committed to enhancing the reimbursement process. During fiscal year 2018, the RRB will

work with CMS to update our *Interagency Agreement* and to streamline RRB's *Cost Allocation Plan*.

This example does not demonstrate evaluation of the RRB's accountability enforcement mechanisms necessary to assert a material weakness based on deficient accountability enforcement.

5. <u>Relative to improper payments definitions</u>: RRB management rejects OIG's allegation that inaccurate improper payment definitions continue to result in understated reported improper payments. The RRB secured a legal opinion from its Office of General Counsel in FY 2016 and they agree with our classification of RUIA and RRA payments as proper. The RRB also received approval from OMB for our established methodologies to identify improper payments in the RRA and RUIA benefit payment programs. In August 2016, OMB granted the RRB approval to continue conducting the RRA Improper Payment analysis according to our established methodology. Please reference RRB management's more detailed response under "Management Challenge #4 (above).

   This example does not demonstrate evaluation of the RRB's accountability enforcement mechanisms necessary to assert a material weakness based on deficient accountability enforcement.

6. <u>Relative to the OIG's Travel Audit</u>: The OIG, using a statistically valid sample, evaluated all RRB Temporary Duty (TDY) travel for a six year period (2010-2015). Total TDY travel costs during that six year period was approximately $3.2 million (average annual costs of approximately $540,000). Neither the average annual amount, nor the six-year total dollar value, assuming a 100 percent error rate, are material to financial reporting. Therefore, by definition, citing this example in support of a material weakness related to financial reporting is erroneous. Additionally, this example does not demonstrate evaluation of the RRB's accountability enforcement mechanisms necessary to assert a material weakness based on deficient accountability enforcement.

<u>Challenge 7 - Lack of RRB Oversight of the National Railroad Retirement Investment Trust</u>

The National Railroad Retirement Investment Trust (NRRIT) is established by section 15(j) of the Railroad Retirement Act to invest funds from the Railroad Retirement Account that are not needed to pay current benefits. The Inspector General (IG) believes that the Railroad Retirement Board's oversight of NRRIT is inadequate and consequently recommends formal agreement between key parties or amendments to the Act to require independent performance audits, as well as other ERISA-type audits, evaluations, and assessments. The IG further recommends RRB management counsel NRRIT to allow the IG access to the NRRIT auditor. RRB management continues to believe the oversight of NRRIT is sufficient under current law.

The language of section 15(j) and the legislative history leading to its enactment clearly establish the intent of Congress to protect the assets of the Trust and NRRIT itself from political influence. Moreover, in the May 2014 GAO report concerning oversight of NRRIT (GAO-14-312) referenced by the IG, GAO specifically noted that NRRIT was independent of the federal government and exempted from the title 31 of the U.S. Code to protect it from political influence. Further, the GAO report stated that NRRIT is not without oversight beyond mandatory financial audits. In particular, GAO noted the Trust is monitored by the RRB and other federal agencies through regular reports and other communications. GAO also noted that NRRIT on its own initiative commissioned four performance audits since 2002 which were comparable to and in some cases more comprehensive than those of comparable state pension plans.

Moreover, as also noted by the IG, in fiscal year 2015, the RRB and NRRIT entered into a Memorandum of Understanding (MOU) requiring performance reviews over three-year cycles beginning with calendar year 2015. Contrary to what is stated in the IG's report, per the terms of the MOU, NRRIT does not self-select the objectives and scope of the performance reviews without consultation with the RRB. The key subject areas and timeline, as well as scope of each audit, is only determined after **consultation between NRRIT and the RRB**. In addition, as we noted last year in our response to the IG's 2016 Management and Performance Challenges Report, and contrary to the IG's assertion in the instant report that "there has been no indication that any NRRIT performance reviews have been initiated since the signing of the MOU in 2014," in December 2015, NRRIT engaged the independent firm of KPMG to conduct the first audit under the agreement, on the topic of Corporate Governance Framework. In September 2016, NRRIT provided the RRB with a copy of the report and advised that the audit had identified no significant gaps in the corporate governance framework of NRRIT. NRRIT notes that it agreed with several auditor recommendations to strengthen existing governance policies and procedures. NRRIT appointed a Chief Compliance Officer to be responsible for a more formalized compliance program; expanded the Trust's Code of Conduct to Trustees; expanded the Conflict of Interest Policy; and formalized policies and procedures to define the risk assessment process and corresponding level of review which needs to be performed. In the near future, the RRB shall engage with NRRIT to consult on key subject areas, timeline and scope, among other issues, for the 2018 performance review. Accordingly, in RRB's view, the history of continuing cooperation between NRRIT and RRB on this and other matters renders any amendment recommended by the Inspector General unnecessary.

Payment Integrity

Introduction

The Improper Payments Information Act of 2002 (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Reports. A more recent law, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248), amended IPIA.

The enactment of the IPERIA of 2012 provided an opportunity for OMB to re-examine existing guidance to ensure agencies are able to more efficiently reduce their improper payment rates, while also complying with multiple legislative and administrative requirements. The goal of the October 20, 2014, overhauled version of Appendix C to Circular No. A-123, OMB M-15-02, is to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements.

The RRB has benefit paying and non-benefit paying programs. The benefit paying programs are: railroad retirement and survivor benefit payments, railroad unemployment and sickness insurance benefit payments, and the RRB's Specialty Medicare Administrator Contractor paid Part B Medicare benefits. Non-benefit paying programs include vendor payments and employee payments (payroll, travel, and other reimbursable expenses).

Risk Assessments are prepared in response to IPERA and OMB guidance to evaluate all of our payment outlays susceptible to improper payments. We conduct these evaluations in order to maintain Improper Payment Governance aligned to our strategic goal to serve as responsible stewards for our customers' trust funds and agency resources. The RRB's Risk Assessment Plans for the RRA, RUIA, and Medicare programs were included in the FY 2016 Performance and Accountability Report. These risk assessments will be conducted again in three years and presented in the FY 2019 RRB's Performance and Accountability Report.

Risk Assessments for non-benefit paying programs (vendor and employee payments) are included in the FY 2017 Performance and Accountability Report for audit resolution purposes, beginning on page 155. We have determined that the RRB's non-benefit paying programs are not susceptible to significant improper payments based on these risk assessments.

Additional information on RRB improper payments reporting can be found at www.paymentaccuracy.gov (**Resources** tab, listed under **Links to Agency Annual Financial Reports**).

I. Payment Reporting.

Program	**I. a** ($ in millions)				**I. b** ($ in millions)			
	Est. of Proper Payments	**% of Proper Payments**	**Est. of Improper Payments**	**% of Improper Payments**	**Over-payment $**	**Over-payment %**	**Underpayment $**	**Underpayment %**
RRA	**$12,287.26**	**99.40%**	**$74.74**	**0.60%**	**$55.89**	**74.77%**	**$18.86**	**25.23%**
RUIA	**$151.87**	**97.46%**	**$3.95**	**2.54%**	**$2.35**	**59.43%**	**$1.60**	**40.57%**
MEDICARE	*	*	*	*	*	*	*	*

Note: The fiscal year 2017 Improper Payments Report includes our analysis of fiscal year 2016 data because at the time the report was prepared, this was the only data available. For fiscal year 2016, RRA actual overpayments were $55,885,871 and actual underpayments were $18,856,003. RUIA actual overpayments were $2,352,537 and actual underpayments were $1,605,867.

Program	**I. c** ($ in millions)	
	Estimate of Improper Payments Paid by Government	**Amount of Improper Payments Made by Recipients of Federal Money**
RRA	**$74.74**	**Not Applicable**
RUIA	**$3.95**	**Not Applicable**
MEDICARE	*	*

I. d Improper Payment Root Cause Categories ($ in millions)

Reason for Improper Payment		RRA Program		RUIA Program		Medicare Program	
		Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue						*	*
Inability to Authenticate Eligibility		1.730		1.731006		*	*
Failure to Verify:	Death Data	33.147				*	*
	Financial Data					*	*
	Excluded Party Data					*	*
	Prisoner Data	0.006				*	*
	Other Eligibility Data (explain)	12.143	14.080			*	*
Administrative or Process Error Made by:	Federal Agency	8.539	4.776	A) 0.014722 B) 0.606810	C) 1.605867	*	*
	State or Local Agency					*	*
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)					*	*
Medical Necessity		0.321				*	*
Insufficient Documentation to Determine						*	
Other Reason (a) (explain)						*	*
Other Reason (b) (explain)						*	*
Total		55.886	18.856	2.352537	1.605867	*	*
TOTAL @ 2 Decimals		**55.89****	**18.86****	**2.35*****	**1.60*****	*	*

Sources of RUIA Administrative or Process Errors Made by Federal Agency include the following: A) Category 4 of the Annual RUIA Debt Report, B) Annual UI/SI Claim Quality Assurance Review, and C) OLQ of claims redetermined to pay additional money.

I. e Corrective Action Plans. Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123, Appendix C, Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.A.9.Step 1.

Program	**I. f Reduction Targets for the next fiscal year** ($ in millions)		
	FY 17 $ Outlays (estimated)	**FY 17 IP %**	**FY 17 IP $**
RRA	**$12,571.80**	**0.58%**	**$72.92**
RUIA	**$153.3**	**2.40%**	**$3.68**
MEDICARE	*	*	*

The estimate for fiscal year 2017 is based on the December 2016 OMB budget review estimate.

* RRB OIG Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS's assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

**The RRA Final Improper Payment amounts for overpayments and underpayments are rounded.

***The RUIA Final Improper Payment amounts for overpayments and underpayments are truncated.

II. Recapture of Improper Payments Reporting.

We 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. The RRB notified OMB of our approach in August 2011. 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 2016 was $67,269,742. This balance includes debts classified as currently not collectible. We estimate that approximately 73.7 percent of the RRA receivable balance will be collected and that the remaining 26.3 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2007 through 2016, the RRB recovered $435,563,538 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2016 was $15,120,791. This balance includes debts classified as currently not collectible. We estimate that approximately 89.2 percent of the RUIA receivable balance will be collected and 10.8 percent 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 2007 through 2016, the RRB recovered $274,831,473 in RUIA program receivables.

The RRB determined that it was not cost effective to include its Vendor and Employee Payment Programs for recapture audit since the RRB's non-benefit paying programs are not susceptible to significant improper payments based on the risk assessments.

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.

Agency Source	Program	**Overpayments Recaptured Outside of Payment Recapture Audits** ($ in millions)					
		Amount Identified FY 16*	**Amount Recaptured FY 16****	**Amount Identified FY 15***	**Amount Recaptured FY 15****	**Cumulative Amount Identified FY 07 - FY 16***	**Cumulative Amount Recaptured FY 07 – FY 16****
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**	**$48.68**	**$64.42**	**$50.14**	**$45.90**	**$482.35**	**$435.56**
	RUIA	**$22.82**	**$23.19**	**$20.56**	**$21.97**	**$289.06**	**$274.83**
	Medicare	*******	*******	*******	*******	*******	*******

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

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

*** RRB OIG Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS' assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative.

We have determined that our current business processes, data sources, and the Do Not Pay Initiative are effective in detecting and preventing both benefit and non-benefit overpayments. As a benefit paying agency, the RRB receives pre-payment information regarding benefit entitlement at other agencies and wage information. We have ongoing data sources established and in use for this information, which includes benefit entitlement and wages from SSA, employers, and our application process. We also receive post-payment wage information through established sources such as wage matching programs with the fifty states. In addition, we receive death data directly from SSA and CMS, which provides us with detailed death information.

We continue to look forward to utilizing SSA's Prisoner Update System when it becomes available in the DNP portal. We are also interested in receiving data from the National New Hire Directory should it become available through the DNP Initiative.

In addition to controls to establish vendor and employee payment eligibility, as described in the risk assessments, RRB vendor payment files are screened by the Treasury's Bureau of the Fiscal Service for matches. Results are returned to the agency daily using the Payment Application Modernization (PAM) system. No matches were returned in fiscal year 2016.

IV. Barriers.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123, Appendix C, Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.A.9.Step 1. In addition, the RRB's non-benefit paying programs are not susceptible to significant improper payments based on the risk assessments.

V. Accountability.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123, Appendix C, Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.A.9.Step 1. In addition, the RRB's non-benefit paying programs are not susceptible to significant improper payments based on the risk assessments.

VI. Agency Information Systems and Other Infrastructure.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123, Appendix C, Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.A.9.Step 1. In addition, the RRB's non-benefit paying programs are not susceptible to significant improper payments based on the risk assessments.

VII. Sampling and Estimation.

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. In August 2016, OMB granted the RRB approval for our RRA improper payment sampling methodology, as discussed in the RRA Risk Assessment.

In February 2014, OMB approved the sampling methodology we developed to analyze improper payments for the RUIA program. In FY 2016, we improved our estimation of underpayments by changing from a judgmental sample review of 20 cases to a statistically valid sample review of 100 cases.

Non-Benefit Payment Programs and Risk Assessments

Vendor Payments

The RRB is responsible for reviewing payable documents and, when properly authorized, processing payment documents through the Financial Management Integrated System (FMIS) and Secure Payment System (SPS) to liquidate the RRB's administrative obligations. These payables include vendor payments, travel pay, purchase card use, and other employee payments. The goal of the agency is to perform as responsible stewards for our customers' trust funds and agency resources by paying vendors accurately and timely. The IPERA guidance requires that agencies, in performing their risk assessments, take into account those risk factors that are likely to contribute to significant improper payments. In accordance with the OMB IPERA guidance, we address the nine IPERA risk factors (which are qualitative) separately below. For these factors we have incorporated risk values of High (5), Moderate (3) and Low (1) to correlate with the risk values used in the Management Control Review (MCR) assessment. The IPERA factors relating to volume of payments and results from prior improper payment work are addressed by the MCR risk assessment Accounts Payable and Procurement Assessable unit that follows.

Vendor Payments Risk Assessment

1. Is the program or activity new to the agency?
The vendor payment activity has existed at the RRB since its inception. The activity has been an automated function since 1985 as part of a larger integrated financial system supported by software which meets all FSIO – 2009 core financial requirements and is in wide use at many other Executive branch agencies.   Risk level – Low (1)

2. The complexity of the program or activity is reviewed, particularly with respect to determining correct payment amounts.
The activity is a standard and well-defined administrative business function not only across the Federal government but all business entities. The RRB's proprietary financial software supports the various regulations including the provisions of the Prompt Pay Act and incorporates all FSIO payment management requirements.   Risk level – Low (1)

3. The volume of payments made annually.
The Accounts Payable MCR Risk Assessment below assigns a risk level of 2 to number of transactions and 4 to dollar amount of transactions.   Risk level – Moderate (3)

4. Whether payments or payment eligibility decisions are made outside of the agency (for example by a State or Local government or regional Federal Office).
All vendor payments are processed by the agency. Vendor payment eligibility determinations are made by the staff of the RRB's contracting officer in accordance with the Federal Acquisition Regulation (FAR). All vendors must be registered in GSA's System for Award Management. Risk level – Low (1)

5. Recent major changes in program funding, authorities, practices, or procedures.
There have been no recent major changes in the agency's administrative funding or authority. Practices and procedures have remained relatively constant since the advent of an automated accounts payable system in 1985 and are subject to periodic management control review assessments. Risk level – Low (1)

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
The Finance Officer, located in the agency's Bureau of Fiscal Operations (BFO), oversees the accuracy of vendor payment processing and is assisted by two Financial Management Analysts. The officer and one of the analysts each have over ten years of experience with the other analyst having five years. All have had classroom training and refresher training in use of the RRB's automated accounts payable system. The finance officer also maintains written internal procedures for payable processing. Payment eligibility determinations are made by the RRB's contracting officer who supervises a staff of contract specialists. The officer and specialists are all certified by the Federal Acquisition Certification in Contracting Program and must earn 80 continuous learning points every two years. Risk level – Low (1)

7. Inherent risks of improper payments due to the nature of agency programs or operations.
The Agency's vendor payment transactions are not complex and do not require a high degree of judgment as they are based on valid invoices that contain the information required for proper payment. The invoices are approved by the receiving organizations and the payment vouchers also require approval. Cost allowability decisions are made by the RRB's contracting officer in accordance with the requirements of the FAR 52.216-7, Allowable Cost and Payment.
Risk level – Low (1)

8. Significant deficiencies in the audit reports of the agency including, (but not limited to) agency IG or GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.
There have been various audits related to vendor payments performed by the agency's IG but none of the findings have been identified as a significant deficiency that might hinder accurate payment certification. Risk level – Low (1)

9. Results from prior improper payment work.
See MCR risk assessment results below for Accounts Payable and Government Purchase Cards. Risk level – Low (2)

***Vendor Payment MCR Risk Assessment Method*:**
In accordance with IPERA, the RRB performs a triennial risk assessment of the agency's vendor payment program made through the FMIS and SPS. This risk assessment includes a compilation and observation of key data to determine the vulnerability of transactions to error which may cause a loss to the Federal government or its vendors.

The method used to assess vendor payment risk is primarily based on a statistical survey (see the risk assessment results below). The survey is used because vendor payments is considered a low risk program. In addition, vendor payment control activities are operating and effective. This survey is also coupled with Accounts Payable and Procurement Assessable unit annual test of control techniques and management control reviews, Financial Management Quality Assurance section quarterly reviews of Prompt Payment Act compliance and independent audits to serve as a basis for developing assessment of vendor payments.

Risk Assessment Procedures:

The risk assessment is conducted by the Accounts Payable Assessable Unit in the Bureau of Fiscal Operations (BFO) with the support of the Procurement Assessable unit from the Office of Administration for government purchase and travel card transactions. Both units use the Risk Assessment survey from the agency's Management Control Review Guide, Exhibit 3C to document the risk assessment. Both units complete the survey by responding to criteria, correlated to inherent risks of making improper payments, which are measured by rating scales associated with levels correlating to grade of risk. Once all factors are computed, an overall impact is assigned from lowest to greatest risk.

The measured criteria serve as an indicator to both units of program activities with potential cause for improper payments. If the overall risk measure was moderate or high, both units would analyze the root cause (i.e., systems, personnel, administrative procedures, external organizations) of the graded risk by reviewing control activity associated with criteria with high ratings. Also, the Financial Management Section within BFO conducts a statistical sample of payment vouchers to observe any errors. This level of review is invaluable as an indicator of internal controls management over the payment process. The analysis has provided data aligned to risks with payments being untimely and including procedural deficiencies that track back to setting up a payment vice accuracy of payments for which primary focus of assessments are conducted for improper payment determination. The Accounts Payable Assessable unit is required to research each review observation and explain root cause and corrective action needed, where applicable.

Government Purchase Card reviews are done by the Assistant to the Director of Administration each month prior to sign off on the invoice. In addition, reviews are also performed by the Cardholder's Approving Official. The Approving Official has to approve all transactions performed by Cardholders, per Federal law.

The review of the Travel Central Billing Account (CBA) is also done every month by the Assistance to the Director of Administration prior to approval of the invoice for payment, and again by BFO's Treasury Section, as they must reconcile the statement.

In the event that such analysis would result in a moderate to high risk for vendor payments, appropriate corrective action specific to root cause would be taken.

Risk Assessment Results:

Our survey findings indicate that the level of risk for vendor payments was low. Furthermore, BFO's Financial Management Section sampled 50 payment vouchers (5 percent of total payment vouchers) for the first and second quarters of 2017 and none were found to be substantially deficient. Procedural errors observed were corrected by the Accounts Payable Assessable unit and training provided as means to deter future errors.

RRB RISK ASSESSMENT		DATE **7/24/17**
ORGANIZATION: **BFO** ASSESSABLE UNIT: **Accounts Payable**		RO: **Dave Miller**
FACTOR	NUMBER	RATING
Activity level		
Number of Transactions per Year	3,584	1
Total Dollar Amount of Transactions	$27,983,280	4
Client Population	1,000 (approx.)	2
Administrative		
Budget Dollars	$109,046	3
Staff	1.3	1
Record Keeping Responsibility *(records maintained by CWGT on ETS system)* (*TBP forms imaged to FMIS, Invoices filed)*	3,584	1
Effect on Other Activities		3
Comment: Relevant to all employees and vendors of the agency.		
Special Concerns		2
Comment: CWGT's eTravel system is robust. FMIS is a FedRAMP certified cloud service with GSA oversight.		
Overall Impact		2
Comment: This risk assessment is based on activities for the first 9 months of FY 2017.		

RRB RISK ASSESSMENT		DATE: **7/25/17**
ORGANIZATION: **Office of Administration** ASSESSABLE UNIT: **Government Purchase Cards**		RO: **David Jackson**
FACTOR	NUMBER	RATING
Activity level		
Number of Transactions per Year	586	1
Total Dollar Amount of Transactions	$299,414.00	3
Client Population	140(approx.)	2
Administrative		
Budget Dollars	$1,024	1
Staff	0.0125	1
Record Keeping Responsibility	0	0
Effect on Other Activities		5
Comment: Impacts all RRB organizations.		
Special Concerns		0
Comment: None. OIG reviews all programs. They have not identified any instances of misuse, waste or fraud.		
Overall Impact		1
Comment: Program is essential for support; not mission critical. This risk assessment is based on activities for the first 9 months of FY 2017.		

Employee Payments

The RRB is responsible for compensating agency personnel. Salary and benefits compensation is made through payroll services provided by the agency's federal government shared service provider, GSA. Travel reimbursement is initiated through the agency's electronic travel services provider, CWTSatoTravel, and disbursed through the agency's financial system. Other entitlements (i.e., employee claims) are also paid to employees through the financial system. The goal of the agency is to perform as responsible stewards for our customers' trust funds and agency resources by paying employees accurately and timely. The OMB IPERA guidance requires that agencies, in performing their risk assessments, take into account those risk factors that are likely to contribute to significant improper payments. In accordance with the OMB IPERA guidance, we have addressed the nine IPERA risk factors (which are qualitative) separately below. For these factors we have incorporated risk values of High (5), Moderate (3) and Low (1) to correlate with the risk values used in the MCR assessment. The IPERA factors relating to volume of payments and results from prior improper payment work are addressed by the MCR risk assessment Payroll Assessable unit that follows.

Employee Payments Risk Assessment

1. Is the program or activity new to the agency?

The salary and benefits compensation activity has existed at the RRB since its inception. The activity has been an automated function since 1986 and is has been provided by GSA as a shared service since 2004. GSA provides a full range of payroll services for over 21,000 employees, which includes GSA, Office of Personnel Management (OPM) and more than 38 independent agencies or presidential commissions. Risk level – Low (1)

The travel reimbursement activity has also existed at the RRB since its inception. The activity has been an automated function since 2005 and is provided by CW Government travel under a master contract administered by GSA. Risk level – Low (1)

2. The complexity of the program or activity is reviewed, particularly with respect to determining correct payment amounts.

The salary and benefits compensation activity is a standard and well-defined administrative business function in the Federal government. GSA is one of four ePayroll providers for the Federal government, which is the compensation management component of the Human Resources Line of Business initiative. GSA participates in OPM governance, which focuses on ensuring human resource and payroll policy and procedures are standardized and easy to understand and administer. Risk level – Low (1)

Travel reimbursement is also a standard and well-defined administrative business function in the Federal government. The complexity of the program is governed and maintained by GSA through their Federal Travel Regulations (FTR). Risk level – Low (1)

3. The volume of payments made annually.

The Payroll MCR Risk Assessment below assigns a risk level of 2 to number of transactions and 5 to dollar amount of transactions. Risk level – Moderate (3.5)

The Vendor Payment MCR Risk assessment includes travel payments. Risk level – Moderate (3)

4. Whether payments or payment eligibility decisions are made outside of the agency (for example by a State or Local government or regional Federal Office).
Federal agencies, including the RRB, are responsible for complying with the law and regulations developed and maintained by OPM and following OPM's policies and guidance to administer pay policies and programs for its own employees. Payment eligibility begins when an applicant is hired by the agency's human resources office using its prescribed appointment authority as defined by employment laws and regulations provided by OPM. Risk level – Low (1)

Requests for employee travel authorization must be entered into the E2 travel system which reflects the FTR and approved by the employee's supervisor using E2. Requests for travel reimbursement must also be entered into E2 and approved by the employee's supervisor in E2. Travel reimbursements must contain valid receipts in accordance with Internal Revenue Service regulations. Risk level – Low (1)

5. Recent major changes in program funding, authorities, practices, or procedures.
There have been no recent major changes in the agency's administrative funding for either salary and benefits compensation or travel. There have been no major changes in guidance provided by either OPM or GSA for authority to pay salary and benefits or travel reimbursement. Practices and procedures have remained relatively constant since the migration of payroll services to GSA in 2004 and the migration of electronic travel services to CW Government Travel in 2005. Risk level – Low (1)

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
The Workforce/Organizational Management Section of the RRB's Bureau of Human Resources is staffed by trained human resources specialists with hiring authority as prescribed by OPM. Information pertaining to the employee's job classification is entered into an automated human resources system which is interfaced with the shared payroll service. The GSA, as an approved HR line-of-business shared service provider is responsible for the level, experience, and quality of training for personnel responsible for certifying that payments are accurate. Authorized RRB staff are responsible for certifying time and attendance and GSA is responsible for certifying that the resulting payments to employees are accurate. Risk level – Low (1)

Travel authorization and reimbursement approvals are applied by managers in the various business organizations of the RRB using the E2 travel system whose controls reflect the FTR. E2 has an RRB system administrator located in the Office of Administration who can be contacted regarding any travel issues. Travel payments are generated and disbursed through the RRB's automated financial management system and further reviewed by for proper documentation by trained staff in the RRB's Treasury Section. Risk level – Low (1)

7. Inherent risks of improper payments due to the nature of agency programs or operations.
The payment of salary and benefits compensation to employees is defined by the rules and regulations provided by the OPM and are reflected by automated controls built into GSA's shared human resources and payroll systems which undergo an annual Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization audit, which minimizes the level of inherent risk of improper payment. Risk level – Low (1)

Travel reimbursement is defined by the GSA's FTR and are reflected in the controls built into CW Government travels shared E2 electronic travel system which authorized for use under GSA's master contract with CW Government Travel. Risk level – Low (1)

8. Significant deficiencies in the audit reports of the agency including, (but not limited to) agency IG or GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.
There has been one OIG audit since 2004 related to time and attendance. No significant deficiencies were identified. We are not aware of any significant deficiencies identified in GSA's annual SSAE 16 audit.

GSA, as the master contract manager with CW Government travel, has not notified us of any significant deficiencies in the travel system used by RRB. The OIG recently released its findings and recommendations for an audit performed on travel at the RRB. None of the findings was classified as a significant deficiency. Risk level – Low (1)

9. Results from prior improper payment work.
See Employee Payment MCR risk assessment results below. Risk level – Low (1)

***Employee Payment MCR Risk Assessment Procedures**:*

The risk assessment is conducted by the Payroll Assessable Unit in BFO using the Risk Assessment survey from the agency's Management Control Review Guide, Exhibit 3C. The Payroll Assessable Unit completes the survey by responding to criteria, correlated to inherent risks of making improper payments, which are measured by rating scales associated with levels correlating to grade of risk. Once all factors are computed, an overall impact is assigned from lowest to greatest risk.

The measured criteria serve as an indicator to the Payroll Assessable Unit of program activities with potential cause for improper payments. If the overall risk measure was moderate or high, the Payroll Assessable Unit would analyze the root cause (i.e., systems, personnel, administrative procedures, external organizations, etc.) of the graded risk by reviewing control activity associated with criteria with high ratings. In addition, the Payroll Assessable Unit would coordinate with shared service provider on any activities that would contribute to risks of improper payments at moderate to high levels, in order to develop appropriate corrective action specific to root cause.

Risk Assessment Results:

Our survey findings indicate that the level of risk for employee payments were low. Each year, GSA provides RRB with a copy of an Independent Service Provider's Report performed in accordance with SSAE-16 standards. The latest report provided (prepared by KPMG LLC) is for the period of July 1, 2015 to June 30, 2016, and certifies that the controls tested provided reasonable assurance that the controls were operating effectively. In addition, GSA's Financial Administrative Systems Division, in conjunction with the Information Security Manager, conducts a risk assessment of the Payroll Accounting and Reporting system every three years with the latest assessment being completed on August 9, 2015.

RRB RISK ASSESSMENT DATE: **6/12/17**

ORGANIZATION: **BFO** ASSESSABLE UNIT: **Payroll** RO: **Dave Miller**

FACTOR	NUMBER	RATING
Activity level		
Number of Transactions per Year (26 pay periods x 824 personnel =)	21,424	2
Total Dollar Amount of Transactions	$92,055,175	5
Client Population	824	2
Administrative		
Budget Dollars	$250,808	3
Staff	1.04	1
Record Keeping Responsibility (records maintained by GSA on PAR system) (Offices and Bureaus maintain Forms G-58 and G-58F)	172	1

Effect on Other Activities	3
Comment: Relevant to all employees of the agency.	
Special Concerns	2
Comment: GSA's PAR system is robust and its operations are reviewed by an outside auditor (SSAE No. 16 Audit Report)	
Overall Impact	2
Comment:	

Fraud Reduction Report

With the inception of the Fraud Reduction and Data Analytics Act of 2015, the RRB is now required to report on our fraud reduction efforts.

The Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 USC 3321) was enacted June 30, 2016. The law is intended to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

The RRB's enterprise risk management incorporates aspects of the Fraud Risk Management principles outlined by the Government Accountability Office (GAO) in its report, "Framework for Managing Fraud Risks." For example, the RRB monitors and evaluates the effectiveness of internal controls through its annual certification process. The annual certifications provide reasonable assurance that no material weakness exists; the unit's mission is being accomplished; waste, fraud, and abuse are at the lowest reasonably preventable level; and control objectives are being accomplished. The RRB also completes risk assessments for both benefit, and non-benefit, paying programs. The RRB uses risk assessment results to target high risk areas and focus resources where the greatest exposure exists and return on investment can be maximized. Risk assessments are reevaluated at least every three years thereafter. Further, the RRB has numerous ongoing program integrity activities to detect indicators of fraud and abuse, and to ensure that benefits continue to be paid in the correct amounts to eligible and entitled beneficiaries. Programs include representative payee monitoring, earnings policing, continuing disability reviews, state wage match, death match, and our centenarian monitoring program.

There have been new programs implemented and existing programs enhanced to further reduce or detect potential fraud including the following:

- **Nonagenarian Review** – We now check Medicare utilization records of beneficiaries age 90 and over, rather than at age 100, based on a recommendation from the OIG. By reducing the age threshold, we enhanced the likelihood of detecting fraudulent claims.

- **Disability Tracking of Physicians and Patterns (DTOPP)** - Tracking of physicians associated with initial disability occupational decisions began in 2013. The physicians tracked are those that the applicant indicated on their disability application (AA-1d). Beginning in 2014, tracking was expanded to include all initial disability determinations (Total & Permanent, Widows, and Children). Each physician identified has a unique physician master ID number (PMID) to enable association of physicians to cases and determine the frequency of physicians seen by our applicants. Significant frequency of a physician is defined as cumulative occurrence of 2% or more of the total cases reviewed. For every 1,000 cases reviewed, a significant frequency of a particular doctor is a count of 20 or more unique occurrences.

- **Continuing Disability Review (CDR) program enhancements include**:
  - Identifying disability high risk annuitants that meet certain criteria to ensure certification letters are released or examiners conduct a CDR,
  - Revising the G-254, *Continuing Disability Report* to clarify and include additional questions concerning earnings (such as self-employment), medical condition (such as

discussing work status with a doctor), and daily activities. Requesting more detailed information allows examiners to determine improvement or recovery, which can lead to earlier disability annuity suspension or termination.

- **Specialist Orthopedic and Psychiatric Examinations** – Now required for nearly all disability applications.

- **Improved Vocational Information Received from Railroads.**

- **The Work Number** – Disability examiners are now required to check for earnings during adjudication and prior to payment.

- **Targeted Annual Earnings Reminder -** Created an annual reminder notice for release to approximately 2,000 disability annuitants under full retirement age who have earnings under the annual earnings limit informing them to notify the RRB for any month their earnings exceed either the monthly earnings limit after deduction of disability work expenses during the year and/or if their annual earnings exceed the annual earnings limit.

- **Chief Medical Officer (CMO)** - Provides assistance to examiners for effective case development and adjudication, works with Program Evaluation staff on case evaluation techniques, evaluates and works with contractors, conducts training, and collaborates with the Board.

- **Fraud Prevention and Detection Task Force (FTF) -** Evaluated all OIG and GAO recommendations and Board directed initiatives concerning the disability program. Established a Fraud Prevention and Detection Task Force with a primary focus of improving program integrity within the Disability Benefits Division. Additionally, the RRB analyzes instances of fraud and fraud trends to improve fraud risk management activities, including prioritizing and taking corrective actions, as well as enhancing fraud-awareness trainings.

- **Fraud Awareness Training** – Mandatory, agency-wide training is conducted each year on the RRB's Learning Management System to educate on general fraud principles, types of external fraud, types of internal fraud, what can be done to prevent fraud, and what should be done if fraud is suspected. Disability examiners and specialists also receive annual program specific fraud awareness training.

- ***Disability Program Improvement Plan (D-PIP)* was developed by the FTF -** The DPIP provides a comprehensive course of action for the RRB to enhance medical documentation, increase oversight of the program, conduct quality evaluations, best enable fraud detection, and implement additional training.

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
Financial Reporting	1				1
Control Environment	1				1
Total Material Weaknesses	*2*				*2*

Summary of Management Assurances

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

Material/Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	1					1
Control Environment	1					1
Total Material Weaknesses	*2*					*2*

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

Civil Monetary Penalty Adjustment for Inflation

The RRB published its 2017 civil monetary penalty inflation adjustment on October 27, 2017 (82 Fed. Reg. 49877). The maximum civil penalty under the Program Fraud Civil Remedies Act was increased to $10,957, and the penalty range under the False Claims Act was increased to a minimum penalty of $10,957 and a maximum penalty of $21,916.

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APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

APG	Accounting Procedures Guide

B

BCA	Budget Control Act of 2011
BFO	Bureau of Fiscal Operations
BPD	Bureau of Public Debt

C

CERT	Comprehensive Error Rate Testing
CMS	Centers for Medicare & Medicaid Services
COLA	Cost-of-Living Adjustment
COR	Contracting Officer's Representative

D

DBD	Disability Benefits Division (RRB)
DHS	Department of Homeland Security
DNP	Do Not Pay

E

EDMA	Employment Data Maintenance
EDP	Electronic Data Processing
EFT	Electronic Fund Transfer
ERS	Employer Reporting System

F

FAR	Federal Acquisition Regulations
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Fee-for-Service (Medicare)
FMFIA	Federal Managers' Financial Integrity Act
FI	Financial Interchange
FMIS	Financial Management Integrated System
FSIO	Financial Systems Integration Office
FTR	Federal Travel Regulations
FY	Fiscal Year

G

GAO	Government Accountability Office
GSA	General Services Administration

I

IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service

L

LIRR	Long Island Rail Road

M

MCOS	Medicare Contract Operations Specialist
MCR	Management Control Review
MCRC	Management Control Review Committee
MIRTEL	Medicare Information Recorded, Transmitted, Edited and Logged

N

NRRIT	National Railroad Retirement Investment Trust

O

OGC	Office of General Counsel (RRB)
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

R

RBD	Retirement Benefits Division (RRB)
RESCUE	Recalculate for Service and Compensation Updated to EDM
ROC	Retirement On-Line Calculations
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
SMAC	Specialty Medicare Administrative Contract
SOSI	Statement of Social Insurance
SPEED	System Processing Excess Earnings Data
SPS	Secure Payment System

S (continued)

SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit
SSN	Social Security Number

T

Treasury	Department of the Treasury

U

UI	Unemployment Insurance
USC	United States Code

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

Board Members

Chairman	Vacant
Labor Member	Walter A. Barrows
Management Member	Steven J. Anthony

Office of Inspector General

Inspector General Martin J. Dickman

Executive Committee

Director of Field Service/Senior Executive Officer	Daniel J. Fadden
Chief Actuary	Frank J. Buzzi
Chief Financial Officer	Vacant
Chief Information Officer	Ram Murthy
Director of Administration	Keith B. Earley
Director of Programs	Michael A. Tyllas
General Counsel	Ana M. Kocur

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