



U.S. RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Management Information Report

Management and Performance Challenges Facing the Railroad Retirement Board for Fiscal Year 2024

Report No. 25-02

February 20, 2025



What We Found

The Reports Consolidation Act of 2000 and Office of Management and Budget Circular A-136 require the Inspector General to make a statement on what they consider to be the most serious management and performance challenges facing the agency and assess the agency's progress in addressing those challenges. As required, the Inspector General's statement was included in the Railroad Retirement Board's (RRB) fiscal year 2024 Performance and Accountability Report (PAR).

We presented the following six major management and performance challenges facing the RRB:

1. Improve Agency Disability Program Integrity
2. Improve Information Technology Security
3. Complete Information Technology Systems Modernization
4. Improve Transparency and Management of Railroad Medicare
5. Ensure Reliable Financial Statements and Internal Controls over Financial Reporting
6. Improve Human Capital Management

Management's Comments and Our Response

RRB provided written comments, which are reprinted in Appendix I. RRB management agreed with most of our concerns and the actions needed to address the challenges.

What We Did

Our identification of management and performance challenges facing the RRB was based on recent audits, reviews, and issues of concern to the Office of Inspector General.

We previously provided these management challenges to the RRB for inclusion in its fiscal year 2024 PAR.

Our objective was to identify and assess the most serious challenges facing RRB management during fiscal year 2024.

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INTRODUCTION

The Reports Consolidation Act of 2000 and the Office of Management and Budget (OMB) Circular A-136 require the Inspectors General to identify what they consider the most serious management challenges facing their respective agency and briefly assess the agency's progress in addressing these challenges.¹ As required, the Inspector General's (IG) statement was included in the Railroad Retirement Board's (RRB) fiscal year 2024 Performance and Accountability Report (PAR).²

The RRB is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness benefit programs for the nation's railroad workers and their families, under the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA). As part of the retirement program, the RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage.³

The RRB administers the following benefits:

- Retirement – Under the RRA, railroad workers with at least 10 years of service can receive retirement and disability annuities. Such annuities are also payable to workers with 5 years of service if performed after 1995.
- Disability – Under the RRA, disability annuities can be paid on the basis of total or occupational disability.
- Sickness benefits – Under RUIA, sickness benefits are paid to railroad workers unable to work because of illness or injury.
- Unemployment benefits – Under RUIA, unemployment insurance benefits are paid to railroad workers who are unemployed but ready, willing, and able to work.
- Railroad Medicare – The Medicare program covers railroad workers just like workers covered under social security.

¹ Office of Management and Budget, *Financial Reporting Requirements*, Circular No. A-136 Revised (Washington, D.C.: May 30, 2024).

² Railroad Retirement Board (RRB) Office of Inspector General (OIG), *The Office of Inspector General's Report on the Railroad Retirement Board's Financial Statements in the Fiscal Year 2024 Performance and Accountability Report*, Report No. 25-01 (Chicago, IL: November 15, 2024).

³ Social Security Act (42 United States Code § 1842(g)).

In fiscal year 2023, the RRB paid retirement-survivor benefits of nearly \$13.9 billion to about 493,000 beneficiaries and paid unemployment-sickness insurance benefits of approximately \$54.7 million to about 15,000 claimants. In fiscal year 2023, the RRB also paid benefits on behalf of the Social Security Administration (for which the RRB was reimbursed) amounting to \$2.4 billion to about 127,000 beneficiaries. This year's management challenges are:

- Improve Agency Disability Program Integrity
- Improve Information Technology Security
- Complete Information Technology Systems Modernization
- Improve Transparency and Management of Railroad Medicare
- Ensure Reliable Financial Statements and Internal Controls over Financial Reporting
- Improve Human Capital Management

The challenges this year include items relating to prior Office of Inspector General (OIG) concerns or those identified in prior audits, the President's Management Agenda, and areas related to the RRB's core mission.⁴ Many of this year's challenges have been included in prior years' IG statements.

Objective, Scope, and Methodology

Our objective was to identify and assess the most serious challenges facing RRB management during fiscal year 2024. Our identification of management and performance challenges facing the RRB was based on recent audits, reviews, and issues of concern to the OIG.

Management's Comments and Our Response

As required, these management and performance challenges were provided to RRB for inclusion in its fiscal year 2024 PAR.⁵ Subsequently, RRB management provided written comments in its PAR, and we provided the full text of these comments in Appendix I.

In its comments, RRB management acknowledged the challenges identified by OIG and agreed with most of the concerns and actions needed to address the challenges. RRB management described actions implemented, approaches taken, and actions underway to improve the functions and operations of the agency to address the challenges identified by the Acting IG. Lastly, RRB management acknowledged that due to insufficient funding and staffing shortages, the RRB might not be able to address the weaknesses for most challenges.

While RRB management provided comments and did not always agree, our assessment of the major challenges facing the RRB remains unchanged.

⁴ The President's Management Agenda, *The Biden-Harris Management Agenda Vision*, <https://www.performance.gov/pma/>.

⁵ RRB OIG Report No. 25-01.

RESULTS OF REVIEW

This management information report presents the following six major management and performance challenges facing the RRB for fiscal year 2024.

Challenge 1 - Improve Agency Disability Program Integrity

RRB must ensure: (1) accurate and timely determinations of eligibility of an applicant for a disability annuity, early Medicare coverage, and a disability freeze, and (2) annuitants remain eligible to continue benefits by careful and cost-effective monitoring.⁶

Why is this a challenge?

The consequences of untimely processing of disability applications could immediately impact railroad workers and their families who are unable to work and might struggle to pay essential living expenses (e.g., food, clothing, housing, and medical care). As of October 2023, the cost of the RRB's disability program is approaching \$709 million per year in benefit payments. The potential for fraud and abuse in the RRB's disability program remains high due to challenges in: (1) disability workloads and staffing levels, (2) timeliness of initial disability decisions, and (3) effective continuing disability reviews (CDR).

Disability Workloads and Staffing Levels

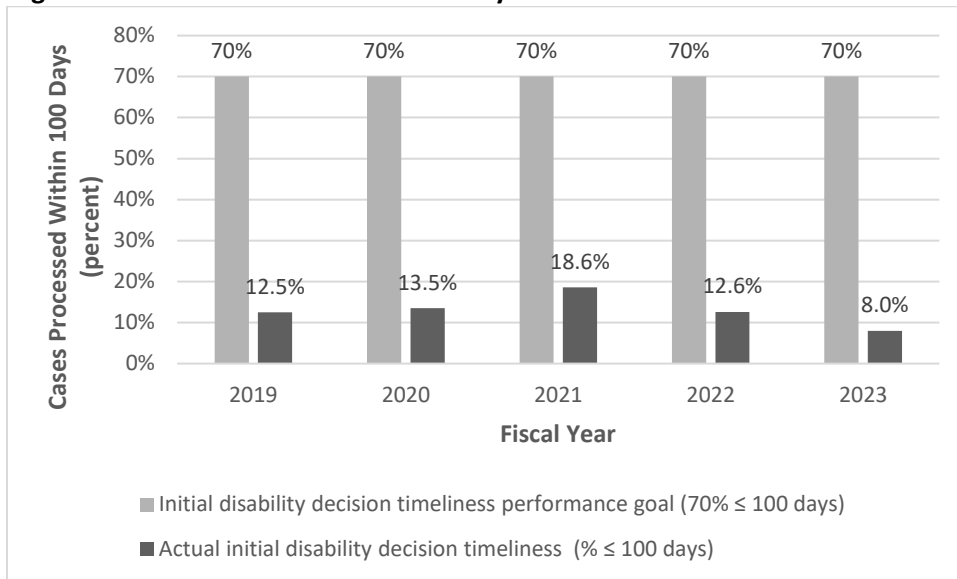
In the RRB's fiscal year 2025 Justification of Budget Estimates, RRB management indicated that sustained low staffing levels during fiscal years 2017-2022, and significant staff losses over the last several years, forced the Office of Programs to focus most of its resources on the timely adjudication of new ("initial") applications, claims, and related benefit payments. RRB management also indicated that they successfully prioritized initial age and service retirement benefit awards, but as of March 2024, the RRB had 2,524 cases pending an initial disability decision and 3,075 early Medicare (Disability Freeze) cases pending a decision. In addition, the prioritization of initial payment awards led to backlogs in cases requiring "post" (after the initial award) award adjustment (i.e., a revision or modification to a current benefit payment because of income changes that did not fully process through RRB's automated systems during the initial award). Specifically, the RRB indicated that as of February 16, 2024, the RRB had a total of 107,630 pending retirement post award actions.

⁶ The freeze provision of the Social Security Act protects disabled workers and their families against the loss of, or the reduction in benefits because of the worker's disability. An application for a disability annuity is legally considered to be an application for a disability freeze, and the claimant has the right to be notified of the RRB's decision. Lastly, the RRB only completes disability freeze decisions for career railroad employees.

Timeliness of Initial Disability Decisions

The RRB did not accomplish one of the agency’s strategic performance goals for initial disability decision timeliness.⁷ As shown in Figure 1, in fiscal year 2023, the RRB made 8 percent of initial disability decisions within 100 days of the application filed date, which was substantially lower than the 70 percent performance goal. This was the lowest in the last five years.

Figure 1. Timeliness of Initial Disability Decisions



Source: RRB’s fiscal year 2022 and fiscal year 2023 PAR and Justification of Budget Estimates for fiscal year 2024 and fiscal year 2025.

Continuing Disability Reviews

The completion of CDRs has impacted the performance of the RRB’s disability program. Total and occupational disability awards, valued at approximately \$709 million in fiscal year 2023, (\$458 million for occupational disability and \$251 million for total disability) can be abused by railroad employees.⁸ For fiscal year 2023, 7,100 total disabled annuitants received an average monthly total disability annuity of \$2,668 and 8,700 occupationally disabled annuitants received an average monthly occupational disability annuity of \$3,906. The RRB is statutorily required to periodically review a disability annuitant’s impairment(s) and work activity to determine if the annuitant continues to be entitled to disability benefits.⁹ The RRB calls this evaluation a CDR. In general, the CDR process includes the RRB obtaining recent medical evidence and other documents from awardees and determining if recovery from a disability has

⁷ Per the RRB’s fiscal year 2023 Performance and Accountability Report (PAR), the timeliness performance goal II-A-7 is the following: 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 filed (Measure: % ≤ 100 days).

⁸ A railroad employee is considered occupationally disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

⁹ RRB regulations in 20 Code of Federal Regulations § 220.185 through 187 and 220.15 through 20 describe the broad categories of circumstances when the RRB will conduct a continuing disability review and the frequency of review of disability determinations under the Railroad Retirement Act.

occurred. In addition, conducting a CDR may include assessing vocational factors, which may or may not result in cessation of disability benefits. At the start of fiscal year 2023, there were 1,107 pending CDR actions. During fiscal year 2023, the Disability Benefits Division developed and completed 600 pending items. Of the 600 actions completed, 104 required detailed reviews because of a potential impact to entitlement or payment. Improvements in the RRB's oversight of CDRs will help minimize disability overpayments and improve disability program integrity.

Assessment of the Progress the Railroad Retirement Board Has Made

In the RRB's fiscal year 2023 PAR, RRB management discussed what they have done to improve disability program integrity. Specifically, RRB management stated that:

- RRB completes a second review of all initial decisions, requires additional forms and documentation for disability decisions, and proactively obtains earnings queries (e.g., information from Social Security Administration records and The Work Number, a third-party vendor) in all cases prior to adjudication.
- RRB management increased staffing in fiscal year 2023 to address the fiscal year 2022 pending disability cases. After the post examiners team was reduced due to promotions and attrition, RRB tripled the post examining staff responsible for CDRs.¹⁰ The additional examiners were expected to complete training and assist in the quality review of continued eligibility by the third quarter of fiscal year 2024.
- RRB increased the number of initial examiners who make initial annuity and early Medicare decisions. By increasing the number of examiners to complete early Medicare decisions, the RRB increased the time available for post examiners to focus on earnings related CDRs as recommended by a prior Government Accountability Office (GAO) audit.¹¹
- RRB focuses on earnings reviews and nearly 90 percent of the CDR reviews that resulted in changes in entitlement were earnings related.

What the Railroad Retirement Board Needs to Do

- The RRB needs to work on reducing and eliminating the pending disability cases.
- The RRB needs to continue increasing the staffing levels to improve the timeliness of initial disability decisions and the effectiveness of the CDR program.
- The RRB needs to continue implementing corrective action plans.

¹⁰ The claims examiners are assigned to one of two Disability Benefits Division sections: Initial Section or Post Section. The claims examiners in the Initial Section are responsible for making the first decision regarding whether to award a disability annuity to the claimant. The claims examiners in the Post Section are responsible for reviewing the initial examiner's decision and coordinating with Social Security for disability freeze determinations.

¹¹ Government Accountability Office (GAO), *Railroad Retirement Board: Actions Needed to Improve the Effectiveness and Oversight of Continuing Disability Reviews*, GAO-18-287, (Washington, D.C.: February 21, 2018).
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Challenge 2 – Improve Information Technology Security

RRB must ensure the information technology (IT) systems are secure and sensitive data are protected.

Why is this a challenge?

Secure IT systems are vital in supporting the ability to meet the RRB’s core mission and to transform its core business processes and services while safeguarding information. Managing cybersecurity risks is critical to the security posture of federal networks and infrastructure. The President’s Management Agenda requires a priority of delivering excellent, equitable, and secure federal services and customer experience. Disruptions to the integrity or availability of RRB’s information systems would dramatically affect its ability to serve the public and meet its mission. RRB systems contain personally identifiable information, such as social security numbers, which, if not protected, could be subject to inappropriate disclosures.

Assessment of the Progress the Railroad Retirement Board Has Made

In the RRB OIG’s audit of the RRB’s compliance with the Federal Information Security Modernization Act of 2014 (FISMA) for fiscal year 2023, the auditors determined that the RRB sustained, or continued to improve, the Core FISMA IG metrics reviewed in the audit.¹² Although the RRB continued to improve its information security program (ISP), the majority of cybersecurity framework functions were rated below the level of “Managed and Measurable” (Level 4), which is how OMB, the Department of Homeland Security (DHS), and Council of the Inspectors General on Integrity and Efficiency define an effective ISP. As a result, the auditors concluded that the RRB’s ISP was not effective.

The RRB continues to emphasize the need for improving cybersecurity and modernizing the RRB’s systems through key reporting. In its fiscal year 2025 Justification of Budget Estimates, RRB management maintained Strategic Goal I, Modernize Information Technology Operations to Sustain Mission Essential Services with the Strategic Objective, RRB’s Transformation. In support of their Strategic Goal I, RRB management continued with its Information Resources Management (IRM) Strategic Plan for Modernization. The plan outlines four strategic goals which are to: (1) Improve the User Experience, (2) Secure the Enterprise, (3) Upskill the IT Team, and (4) Optimize the Infrastructure. In efforts to achieve its four strategic goals, RRB management identified three priorities, which are:

- Priority 1 – Expansion of Online Self-Services to include additional Forms and Benefits Streams
- Priority 2 – Data Modernization
- Priority 3 – Software Development Platform Expansion

¹² RRB OIG, *Audit of the Railroad Retirement Board’s Compliance with the FISMA of 2014 for Fiscal Year 2023*, Report No. 24-05 (Chicago, IL: April 10, 2024).

In addition, regarding IT security, the RRB addressed its ISP as a component of its Strategic Goal III, to serve as responsible stewards for customers' trust funds and agency resources, through its strategic objective, ensure effectiveness, efficiency, and security of operations.

Within its Justification of Budget Estimates Performance Plan, the RRB consolidated its performance indicators to assess its progress toward its strategic objective with reference to its IRM Strategic Plan for Modernization. The five performance indicators are:

- Indicator 1 – Complete the development of business rules strategy and data layer components of the modernization
- Indicator 2 – Deliver citizen-centric services and applications to railroad employees through mobile and web-ready interfaces
- Indicator 3 – Complete the streamlining of core business processes and modernize key applications, which support these processes
- Indicator 4 – Refine critical management processes in the following areas within the IT organization: change, project, program, and configuration
- Indicator 5 – Evaluate the re-engineering assessment deliverables to determine a cost-effective path forward to application rationalization and streamline business processes

In their fiscal year 2025 Justification of Budget Estimates, RRB management indicated that it continues to make progress towards a compliant ISP and make efforts towards improving its security posture to ensure compliance with emerging executive orders and emergency operational directives. RRB partnered with DHS and participates in the Continuous Diagnostic and Mitigation (CDM) program and the CDM Dynamic and Evolving Federal Enterprise Network Defense program. This partnership with DHS is expected to strengthen its information security, continuous monitoring compliance, vulnerability assessment, hardware and software management, configuration management, and privileged account management.

RRB management also stated that they understand and take very seriously the mandate of FISMA. RRB management also explained that it partnered with DHS and the Department of Justice to ensure compliance and depth of security across the RRB enterprise. The RRB hired application security expertise to ensure its modernization of legacy applications was secure and reliable. Lastly, the RRB continues to consume federal cybersecurity shared services to secure its enterprise and manage its Risk Management Framework.

In their fiscal year 2023 PAR response for this challenge, RRB management also stated that they continue to work to maximize its performance against the measured controls as it continues to modernize its enterprise, and continues to make incremental steps to reach the overall maturity goal of Managed and Measurable (Level 4).

What the Railroad Retirement Board Needs to Do

- The RRB needs to continue improving IT security by reaching the overall maturity goal of Managed and Measurable (Level 4).
- The RRB needs to continue implementing corrective action plans.

Refer to Appendix II for the relevant report for this challenge.

Challenge 3 – Complete Information Technology Systems Modernization

RRB must complete current initiatives to modernize IT systems to accomplish its mission, despite budget and resource constraints.

Why is this a challenge?

In the RRB’s Fiscal Year 2025 Justification of Budget Estimates, the RRB indicated that since 2018, it received incremental funding from Congress through annual and pandemic-related appropriations to modernize its enterprise to provide secure, more convenient benefits administrative services to its customers. Specifically, the RRB indicated that it received \$65 million in IT modernization and related supplemental funds. The RRB also indicated that much of their focus to-date was on the modernization of their enterprise infrastructure, and the RRB expected to complete this modernization by the third quarter of fiscal year 2024. However, two recent audits identified issues with the RRB’s IT modernization efforts.

- A recent audit report issued by GAO examined the extent to which the RRB had addressed one of its key operational challenges by modernizing its IT infrastructure.¹³ GAO reported that the RRB assessed its IT needs and laid out a broad strategy for improvements that align with its strategic goals. However, the RRB’s IT modernization plans did not incorporate some key information management practices. For example, the RRB had not developed plans that clearly state when its IT modernization efforts will be complete or the extent to which it will update its IT systems. In addition, the RRB had not developed performance metrics and goals for measuring progress of its modernization efforts. In the absence of plans with clear metrics and goals, the RRB may be unable to measure the success of its efforts and adjust approaches as needed. GAO made two recommendations, and one of the recommendations was to address the RRB’s IT modernization weaknesses discussed in this section.
- A recent RRB OIG follow-up audit reviewed the RRB’s utilization of \$28.6 million in IT funding that was identified as questioned costs in a prior RRB OIG audit.¹⁴ For the \$28.6 million, the auditors determined that the RRB could not provide detailed project plans to expend approximately \$26.5 million of IT modernization funding, and the RRB

¹³ GAO, *Railroad Retirement Board: Agency Could Strengthen Plans to Address Key Management Challenges*, GAO-24-105545, (Washington, D.C.: December 2023).

¹⁴ RRB OIG, *Audit of the Utilization of Information Technology Modernization Funds at the Railroad Retirement Board as of Fiscal Year 2023*, Report No. 24-04 (Chicago, IL: March 6, 2024); and RRB OIG, *The RRB Did Not Have Detailed Project Plans to Expend Information Technology Modernization Funds*, Report No. 22-10 (Chicago, IL: June 29, 2022).

provided conflicting and incomplete information regarding the status of available funds for IT projects. From the \$26.5 million in funds, \$6.6 million in obligated funds were potentially spent on non-IT modernization projects, leaving the RRB at risk for failing to secure and modernize IT.

What the Railroad Retirement Board Needs to Do

- The RRB needs to continue working on their IT modernization efforts.
- The RRB needs to continue implementing corrective action plans.

Refer to Appendix II for a list of relevant reports for this challenge.

Challenge 4 – Improve Transparency and Management of Railroad Medicare

According to the Social Security Act (42 United States Code § 1842(g)), the RRB has the authority to administer certain aspects of the Medicare program for qualified railroad beneficiaries. Some of these provisions include eligibility determination, enrollment or disenrollment, premium collection, processing state buy-ins, and selection of a contractor to process Medicare Part B claims.

Why is this a challenge?

Transparency and the management of Railroad Medicare continues to be a challenge for the RRB. The Railroad Medicare topic fits the President’s Management Agenda priority of delivering excellent and equitable federal services. Additionally, Congress and the American public require access to what the federal government spends every year and how it spends the money, including appropriations to federal agencies and down to local communities and businesses.

The RRB administers the Railroad Medicare program for railroad workers and, since 2000, the same contractor has acted as the RRB’s Specialty Medicare Administrative Contractor (SMAC), processing Medicare Part B claims on behalf of railroad beneficiaries.¹⁵ Within the RRB, the Office of Programs is responsible for the day-to-day Railroad Medicare contract oversight, while RRB’s Acquisition Management Division is responsible for successfully awarding the contract. The RRB is fully responsible for the Railroad Medicare contract.

At the end of fiscal year 2023, more than 437,496 qualified railroad beneficiaries were enrolled in the RRB’s administered portion of Medicare Part B. During fiscal year 2023 and on behalf of the RRB, the SMAC processed more than 7.9 million Railroad Medicare claims and paid approximately \$938 million in benefit payments to providers for Part B services. The Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS) transferred/reimbursed RRB for total expenses of \$33.3 million in Railroad Medicare program costs during fiscal year 2023, a total decrease of 13 percent from the prior fiscal year. Of that amount, approximately \$18.8 million, a 19 percent decrease from the prior fiscal year,

¹⁵ The contractor has been the Railroad Specialty Medicare Administrative Contractor (SMAC) that processes Medicare Part B claims for Railroad Retirement beneficiaries nationwide. As the SMAC, the contractor had administrative responsibility for processing Railroad Retirement beneficiary claims only.

was transferred to fund the RRB's SMAC, and \$14.6 million, a 3 percent decrease, was sent to the RRB for reimbursable expenses incurred for administering the program. CMS paid the RRB for these administrative services through an existing and ongoing cost reimbursement agreement, interagency agreement, and memorandums of understanding. This total expense covered both direct and indirect costs for the RRB, the RRB OIG, and the cost of the SMAC.

Lastly, there has been no public transparency regarding the improper payment rate of the Railroad Medicare program for five consecutive years.¹⁶ The public and Congress have not been allowed access to RRB's SMAC's performance over the years, including the SMAC's performance in processing over 7.9 million claims to pay various providers over \$938 million.

Assessment of the Progress the Railroad Retirement Board Has Made

In their fiscal year 2023 PAR, RRB management indicated that the RRB is not responsible for reporting improper payments related to the Railroad Medicare program. RRB management also stated that it continues to work with CMS to provide interested parties with programmatic costs of the Medicare program in its entirety, and takes necessary action in accordance with the August 31, 2022 Memorandum of Understanding (MOU), to protect and properly administer Railroad Medicare funding. Specifically, RRB management provided actions taken to address the management of Railroad Medicare, such as (1) continue to prepare an annual risk assessment to determine SMAC vulnerabilities, (2) continue to use the Comprehensive Error Rate Testing (CERT) improper payment information to prepare annual medical review strategies, (3) continue to require the SMAC to submit a CERT Improper Payment Activities Report after the final improper payment data is received from CMS, (4) continue to ensure that the SMAC submits regular updates to the RRB if the improper payment rate is above the accepted tolerance levels, and (5) continue providing performance data and other data to CMS, when requested, in order to assist CMS with reporting requirements.

On August 31, 2022, the RRB, HHS, and CMS entered into an MOU, and CMS formally accepted the responsibility for Railroad Medicare's Payment Integrity Information Act of 2019 reporting. According to the MOU, CMS is responsible for calculating and reporting the improper payment rate and improper payment reporting for the RRB's SMAC. However, in our last payment integrity report, the auditors found that the Railroad Medicare improper payment rate and estimated amount of improper payments were not transparent in HHS' Fiscal Year 2023 Agency Financial Report (AFR) or on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).¹⁷ In addition, Railroad Medicare improper payment information was not reported in HHS' 2023 Medicare Fee-for-Service Supplemental Improper Payment Data supplement to the HHS AFR.

On June 14, 2024, the RRB awarded a new 10-year SMAC services contract (base year and nine option years) to the same contractor that they have used since 2000. The performance start date for the contract was August 19, 2024, and the total award amount was \$127.7 million.

¹⁶ The RRB did not report Railroad Medicare payment integrity in its PAR for fiscal years 2019, 2020, 2021, 2022, and 2023.

¹⁷ RRB OIG, *The Railroad Retirement Board Complied with the Payment Integrity Information Act of 2019 for Fiscal Year 2023*, Report No. 24-07 (Chicago, IL: May 20, 2024).

What the Railroad Retirement Board Needs to Do

- RRB management needs to continue working with CMS and regularly review and update the August 31, 2022 MOU to ensure that they are protecting and properly administering Railroad Medicare funding, and that spending related to Railroad Medicare is reported appropriately and is transparent to the public.

See Appendix II for the relevant report for this challenge.

Challenge 5 – Ensure Reliable Financial Statements and Internal Controls over Financial Reporting

RRB must ensure a reliable financial reporting system and provide financial statements that presents fairly the financial condition of the RRB.

Why is this a challenge?

RRB has not received an unmodified (clean) opinion on its annual agency wide financial statements since 2012.¹⁸ For its fiscal year 2023 financial statements, the RRB received a disclaimer of opinion and separately received an additional disclaimer of opinion on its internal controls over financial reporting.¹⁹ Disclaimers are issued when the independent financial statement auditor cannot express an opinion. The primary reasons for the fiscal year 2023 disclaimers were due to the RRB's inability to provide sufficient appropriate evidential matter to the auditors. Overall, the RRB's fiscal year 2023 financial statements audit included 12 material weaknesses and 3 instances of noncompliance.

RRB's financial management issues are prominent and may adversely affect the economy, efficiency, and effectiveness of its operations. Sound financial management practices, and reliable, useful, timely financial and performance information, would help to improve RRB's accountability over its extensive resources, would support more efficient management of these resources, and would help to ensure the railroad community continues to have access to its earned benefits.²⁰ As of September 30, 2023, the RRB's assets were approximately \$33 billion. As of the same day, the RRB's obligations were reported at almost \$17 billion according to USAspending.gov, ranking it 28th highest, in spending, of 109 listed agencies.²¹

¹⁸ In an unmodified opinion on the financial statements, the auditor concludes that the financial statements are presented fairly, in all material respects, as of the specified date in accordance with the United States (U.S.) Generally Accepted Accounting Principles.

¹⁹ The independent financial statement auditor issued its report on November 15, 2023.

²⁰ During fiscal year 2023, the RRB paid benefits to about 493,000 beneficiaries.

²¹ USAspending.gov is the official source for spending data for the U.S. Government. Its mission is to show the American public what the federal government spends every year and how it spends the money. You can follow the money from the Congressional appropriations to the federal agencies and down to local communities and businesses.

Twelve Material Weaknesses

On November 15, 2023, a total of 14 new recommendations were made to address 12 material weaknesses regarding scope limitations, internal control environment, and financial reporting.

Scope Limitations

The financial statement auditor faced scope limitations due to a lack of access to National Railroad Retirement Investment Trust (NRRIT) audit results (repeat finding), insufficient and untimely evidential matter (repeat finding), and unsupported RRA annuity payments (new finding). The financial statement auditor made three recommendations for the new material weakness.

Internal Control Environment

The financial statement auditor identified three material weaknesses in the internal control environment, including ineffective internal control program (modified repeat finding), ineffective IT control over financial reporting (repeat finding), and outdated accounting procedures guides (new finding). The financial statement auditor made five recommendations for the new material weakness.

Financial Reporting

The financial statement auditor determined that six material weaknesses existed regarding the RRB's financial reporting, including issues with preparing and reviewing financial reports (modified repeat finding), untimely reviews of open obligations (repeat finding), unsupported undelivered orders (new finding), unsupported journal entries (repeat finding), lack of detailed financial statement analysis (repeat finding), and noncompliance with Treasury United States Standard General Ledger (new finding). The financial statement auditor made six recommendations.

Compliance with Laws and Regulations

In connection with the audit of the financial statements, tests were performed of RRB's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. The results of the financial statement auditor's tests disclosed three instances of noncompliance with laws and regulations, including inadequate controls over railroad service and compensation (modified repeat finding), inability to ascertain RRB's compliance with the Antideficiency Act (new finding), and an ineffective contract closeout process (new finding). The financial statement auditor made two recommendations.

Assessment of the Progress the Railroad Retirement Board Has Made

RRB management acknowledged that there is room for internal control improvements, and stated that they planned to review the final report in detail, and determine whether the

financial statement auditor's recommendations were appropriate, cost effective, and reasonable.

What the Railroad Retirement Board Needs to Do

- RRB management needs to work closely with the financial statement auditors to ensure that RRB management provides supporting documentation and audit deliverables to the auditors in a timely manner.
- RRB management needs to work with the financial statement auditors to identify the minimal NRRIT audit evidence needed to complete the audit, and determine whether GAO can provide this audit evidence.
- RRB management needs to continue implementing corrective action plans.

Refer to Appendix II for the relevant report for this challenge.

Challenge 6 - Improve Human Capital Management

In order to accomplish its mission, handle the persistent administrative workload, and provide outstanding customer service, the RRB has an ongoing need to effectively manage their human capital resources to hire, develop, and retain employees.

Why is this a challenge?

Over the last several years, the RRB's significant staff losses and inadequate staffing levels created backlogs of initial disability decisions and post adjudicative actions, which impacted the accuracy of retirement/survivor, disability, and unemployment/sickness benefit payments.²² In addition, the increased aged backlogs and extended processing delays resulted in reduced customer satisfaction and an increase in phone inquiries, which exceeded the capacity of the RRB's field office employees. Lastly, the insufficient staffing and lack of job duty redundancy across the enterprise led the RRB to allocate resources to satisfy federal mandates or short-term agency priorities, rather than activities with long-term benefit or satisfying a strategic goal.

Hiring, Retention, and Human Capital Planning Challenges

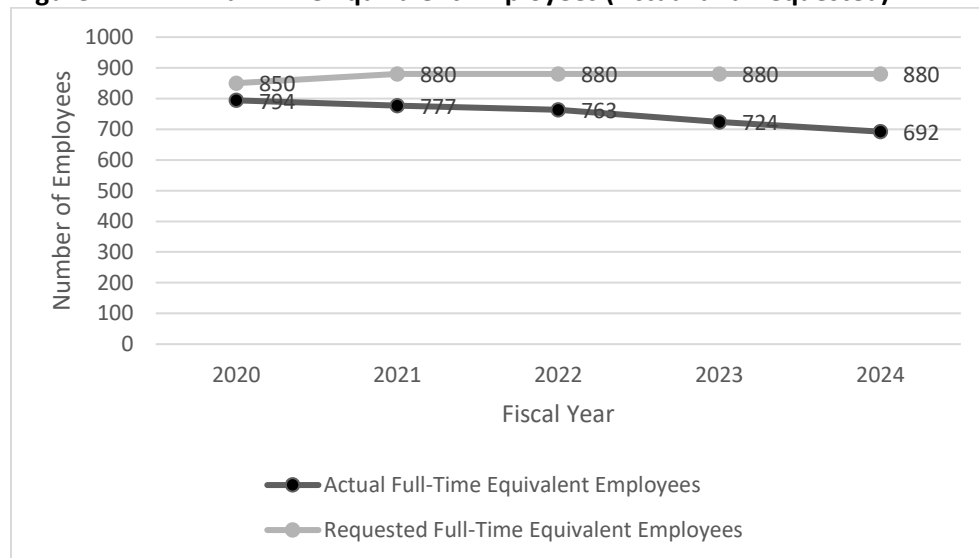
In the fiscal year 2025 Justification of Budget Estimates, RRB management indicated that the RRB has been unable to create job duty redundancies or replace positions timely, due to rising personnel and operational costs and a relatively flat annual budget in prior fiscal years. Additionally, in fiscal year 2025, the RRB projected that it would be operating at 21 percent

²² In the fiscal year 2025 Justification of Budget Estimates, the RRB indicated that (as of March 2024) there are 2,524 cases pending and initial disability decision and 3,075 early Medicare (Disability Freeze) cases pending decisions. The freeze provision of the Social Security Act protects disabled workers and their families against the loss of, or the reduction in benefits because of the worker's disability. Moreover, an application for a disability annuity is legally considered to be an application for a disability freeze, and the claimant has the right to be notified of the RRB's decision. Lastly, as of February 16, 2024, the RRB had 107,630 pending retirement post award actions. The pending workload items represent thousands of railroad retirement beneficiaries who have either been paid too much or too little, creating a backlog in post award adjustments.

below its 880 minimum staffing level, with a quarter of employees being retirement eligible within the next year. This percentage climbs to nearly one-third (32 percent) over the next three years.

In the fiscal year 2025 Justification of Budget Estimates, RRB management indicated that stagnant budgets and attrition limited the RRB’s ability to backfill positions in a timely manner, provide on-the-job training for new employees, and retain institutional knowledge. The budget levels and attrition also hindered succession planning. RRB management reported that in fiscal year 2023, the RRB received additional funding and increased their hiring efforts, but as shown in Figure 2, the full-time equivalent (FTE) employees continued to decline.²³ Moreover, in fiscal year 2024, Congress decreased the RRB’s funding by \$2 million to \$126 million, and the RRB implemented a hiring freeze. To sustain critical benefit administration operations, the RRB determined it needs a minimum of 880 FTEs, and the RRB’s historical trends indicated that 86 percent and 14 percent of workload pertains to RRA and RUIA, respectively.

Figure 2. RRB Full-Time Equivalent Employees (Actual and Requested)



Source: RRB’s Justification of Budget Estimates for fiscal years 2020 through 2025. The FTEs excludes staffing for the OIG, and the fiscal year 2024 actual FTEs reflects the RRB’s adjusted projection as of January 2024.

In the RRB’s Strategic Plan 2022-2026, RRB management indicated that the key challenges in managing human capital include an aging workforce, employee attrition, and the increasing complexity of IT needs. RRB management also indicated that they placed emphasis on filling entry level positions, focusing on front-line service employees in the field offices and claims examiners in headquarters to the extent possible, due to budgetary constraints. However, a recent OIG audit determined that the RRB’s Bureau of Field Service (BFS) could not calculate or determine the optimal number of field service employees needed to support customer service

²³ The RRB was appropriated \$123.5 million in fiscal years 2020 and 2021, \$124 million in fiscal year 2022, and \$128 million in fiscal year 2023 (exclusive of funding for information technology modernization and reflecting successive years of unfunded cost of living adjustment increases).

phone calls for the railroad community, including optimal efficiency.^{24,25} Specifically, the auditors found that BFS could not determine the optimal number of field service employees needed for its call demand because of inaccurate data. The auditors concluded that BFS's inability to determine the optimal number of field service employees needed for its call demand could directly impact the needs of the railroad community (i.e., phone calls could go unanswered, individuals could be put on hold for extended periods, or individuals could elect to walk-in to a field office unnecessarily).

A recent audit report issued by GAO outlined areas where RRB could strengthen its plans to address key management challenges.²⁶ In this report, GAO acknowledged that the RRB had taken some actions to improve its recruiting of staff, including using federal hiring flexibilities, such as the Pathways Programs, which offer internships to students and jobs to recent graduates. In addition, the report stated that the RRB human resources officials worked with managers to make sure they were aware of different hiring flexibilities when discussing hiring needs. GAO's report also stated that the RRB included several legislative proposals in its fiscal year 2024 budget submission to obtain additional hiring flexibilities that were not available to the RRB. Lastly, the RRB also included the legislative proposals in its fiscal year 2025 budget submission to obtain additional hiring flexibilities that were not available to the RRB.²⁷

Assessment of the Progress the Railroad Retirement Board Has Made

The RRB has made some progress in hiring, retention, and human capital planning as described in the following paragraphs.

Hiring, Retention, and Human Capital Planning Progress

In RRB's Strategic Plan 2022-2026, RRB management acknowledged the ongoing need and responsibility to effectively manage their human capital resources. The RRB also stated that it worked closely with the Office of Personnel Management (OPM) and OMB to develop long-range plans that will position the RRB for continued success in administering RRB programs.

GAO's recent audit report also found that in 2021, the RRB developed a human capital plan (HCP) and assessment in response to challenges from anticipated attrition.²⁸ Specifically, GAO found that the RRB's HCPs and efforts in 2022 incorporated all key practices for effective strategic workforce planning identified by GAO's, *Human Capital: Key Principles for Effective*

²⁴ RRB OIG, Report No. 24-03.

²⁵ The Bureau of Field Service (BFS) provides all aspects of customer relations on behalf of the RRB. BFS has 53 field offices across the U.S. to provide customer service in person and by telephone to railroad employees, railroad retirees, and their families.

²⁶ GAO-24-105545.

²⁷ In the RRB's fiscal year 2025 Justification of Budget Estimates, the first legislative proposal was a new request that would increase employment opportunities for people with disabilities by allowing the RRB to utilize Schedule A hiring authorities. The final two legislative proposals would allow the RRB to continue to use Office of Personnel Management hiring authorities for attorneys, students, and recent graduates.

²⁸ GAO-24-105545.

*Strategic Workforce Planning.*²⁹ The key practices included involving senior leadership and link to plans; involving staff in planning; analyzing succession and training needs; and using federal hiring flexibilities.

In the fiscal year 2025 Justification of Budget Estimates, RRB management indicated that in early fiscal year 2024, the RRB completed their HCP, which included hiring, succession, and training plans. Specifically, to complete their HCP, RRB conducted a workforce analysis; assessed succession risk and candidate readiness; and analyzed training by requiring an organization profile outlining training and developmental needs (e.g., soft skills, technical skills, and program specific knowledge).

What the Railroad Retirement Board Needs to Do

- The RRB needs to be aware that a wave of retirements for critical positions can increase the RRB's succession risk, which can increase the risk of noncompliance with laws, regulations, or federal mandates.³⁰
- The RRB needs to continue updating the HCP annually, including their hiring, succession, and training plans. Specifically, the RRB should continue to build and maintain their succession plan to capture valuable knowledge and insights of current employees, convey captured knowledge to new and retained employees, and create and utilize a multigenerational knowledge and leadership pipeline. One way to capture institutional knowledge is to ensure that RRB management maintains and regularly updates policies and procedures.
- The RRB needs to continue pursuing Congress for additional hiring flexibilities that are not available to the RRB, and continue working closely with OMB and OPM to develop long-range plans for hiring.

Refer to Appendix II for the relevant report for this challenge.

Through audits, investigations, and other follow-up activities, we will continue our oversight of the challenges discussed in this letter.

(Original signed by)

Ben R. Wagner
Acting Inspector General

²⁹ GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39, (Washington, DC.: December 2003).

³⁰ Per GAO-24-105545, the RRB's human capital plan defines a critical position as one that presents an unacceptable operational risk to the agency's mission if it remains unfilled.

APPENDIX I: MANAGEMENT COMMENTS

MANAGEMENT'S COMMENTS

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

Challenge 1 - Improve Agency Disability Program Integrity

What the Railroad Retirement Board Needs to Do

- The RRB needs to work on reducing and eliminating the pending disability cases.
- The RRB needs to continue increasing the staffing levels to improve the timeliness of initial disability decisions and the effectiveness of the continuing disability review (CDR) program.
- The RRB needs to continue implementing corrective action plans.

Management's Comments to Challenge 1:

We take program integrity very seriously and appreciate the OIG's acknowledgment of our dire budget situation and staffing shortages. As they rightfully report, dwindling resources constitute a major concern potentially impacting program integrity in the form of timeliness and effectiveness. We remain committed to program improvement and will continue advocating for the resources, especially in IT modernization (see Challenge 3 discussion), that our dedicated staff and constituents deserve.

As observed by OIG, we were able to add some staff to our disability examiner units in fiscal year 2023. In fiscal year 2024, these individuals completed their training phase, and we saw commensurate improvements in our workloads. Specifically, we now have 2,425 pending initial disability cases as compared to the 2,524 that OIG noted were pending in March of 2024. Similarly, OIG observed that we had 3,075 early Medicare (disability freeze) cases pending in March of 2024 and that level has dropped to 2,954. In fiscal year 2024, we completed 10.3% of initial disability decisions in our goal timeframe of 100 days, representing a 2% improvement over fiscal year 2023. Although a 100-day processing goal is not possible with our current staffing level, it represents our desired customer service performance, and we look forward to an increase in future resourcing levels that will allow us to achieve this goal.

We agree that the agency needs to continue work on reducing pending disability cases. As acknowledged within OIG's second recommended action, our ability to issue timely decisions and work down our pending cases will not occur without increased staffing levels; we appreciate OIG's partnership in highlighting this need. Similarly, our ability to implement corrective action plans is constrained by staffing shortages.

However, we note that the OIG report discusses pending retirement post award actions in the section titled "Disability Workloads and Staffing Levels," but those post award actions are not directly pertinent to that topic. Specifically, Programs' Disability Benefits Division is not responsible for the described workload; the assessment of payment changes is instead handled by Programs' Retirement Survivor Benefits Division. The cited retirement post award actions are not exclusive to disability benefit annuitants nor are they exclusively the result of CDRs.

Challenge 2 – Improve Information Technology Security

What the Railroad Retirement Board Needs to Do

- The RRB needs to continue improving IT security by reaching the overall maturity goal of Managed and Measurable (Level 4).
- The RRB needs to continue implementing corrective action plans.

Management’s Comments to Challenge 2:

We appreciate the OIG’s thorough evaluation of our IT Security environment and acknowledgment of the improvement in our fiscal year 2023 Core FISMA Inspector General metrics and efforts we’ve taken to sustain yearly improvements of our information security program. The RRB is fully aware and committed to working toward an overall maturity level of Managed and Measurable (level 4) and the following are a few examples of our efforts toward this goal.

First, understanding that a fully integrated enterprise-wide Risk Management Program is required for the agency to manage risk effectively, the RRB implemented an automated solution in fiscal year 2024 using the Department of Justice’s Joint Cybersecurity Authorization Management Governance, Risk, and Compliance tool. This tool provides a centralized, enterprise-wide (portfolio) view of risks across the organization, including risk control and remediation activities, dependencies, risk scores/levels, risk management roles and responsibilities, an information security architecture strategy, an enterprise-wide configuration plan, and management dashboards.

Additionally, the RRB continued addressing open findings as well as implementing an information security continuous monitoring strategy through the Department of Homeland Security Cybersecurity & Infrastructure Security Agency Continuous Diagnostic and Mitigation Group F Program. These actions directly and positively impact our ability to improve the overall risk management posture for the agency. Further, through these efforts, we addressed and closed 48 Plan of Action and Milestones, which included 27 OIG findings during fiscal year 2024.

Lastly, in fiscal year 2024 the RRB developed a Zero Trust Architecture Strategy (ZTA) pursuant to Executive Order 14028, *Improving the Nation’s Cybersecurity*, issued on May 12, 2021. The RRB’s strategy includes a ZTA journey map that will improve the RRB’s cybersecurity posture for cloud-computing environments and covers controls for multi-factor authentication, data encryption at rest and in transit, and conditional access management.

We have made strides toward improving IT security, however, the RRB’s continued forward progress is hindered by funding cuts and staffing shortages. Without increased funding, the RRB will be unable to continue our efforts sustaining and improving our cybersecurity systems and overall security posture. Additionally, it will be extremely difficult, to maintain the protection, privacy, and integrity of our customer’s Personally Identifiable Information and Federal Tax Information data. Without sufficient staffing levels to maintain or improve our environment, we will be unable to respond appropriately to security incidents, risking the data and confidence of the railroad community we serve. Preliminary fiscal year 2024 FISMA results highlighted our sustained efforts to maintain our cybersecurity posture but recognized we have decreased from “Level 3, Consistently Implemented” to “Level 2 - Defined” in one

core metric because of our lack of critical resources needed to provide ongoing cybersecurity services for the RRB.

Challenge 3 – Complete Information Technology Systems Modernization

What the Railroad Retirement Board Needs to Do

- The RRB needs to continue working on their IT modernization efforts.
- The RRB needs to continue implementing corrective action plans.

Management's Comments to Challenge 3:

The RRB understands and takes very seriously the mandate to create and maintain OMB Circular A-130 compliant strategic and ongoing project plans to ensure initiatives are properly managed and expenditures are tracked and controlled. To address the findings of GAO's recent management audit of the RRB and the OIG's audit of our IT Modernization expenditures, the RRB formally adopted an IRM Strategic Plan for IT Modernization in fiscal year 2023, which presents the goals and objectives of the RRB IT Modernization Program. These goals and objectives align with the RRB's focus on enabling a mobile and distributed the RRB workforce to improve the customer experience and secure and optimize IT operations to deliver a seamless digital experience. In fiscal year 2024, the RRB updated the fiscal year 2023 adopted IRM Strategic Plan that clarifies the performance measures needed to address three specific areas for this modernization program: 1) Technical Management, 2) Program Management, and 3) Agile Performance. We will continue to review this plan annually to ensure the validity and sustainability of its key elements via feedback and performance management.

To bolster technical management and agency governance, the RRB established a subcommittee focused on the IT Modernization program reporting to the Executive Committee (EC). The IT Modernization Subcommittee was established in Q2, fiscal year 2024, and is presently defining its charter, roles, and responsibilities. This subcommittee will provide recommendations to the EC and Board Offices to identify business priorities the IT Modernization program should address. It will establish processes and procedures for intake and evaluation of potential business/mission opportunities to modernize agency operations and realize cost savings and avoidance of waste. It will codify management commitments to consistently measure performance and ensure evidence-based decision-making to arrive at its recommendations.

Having hired a Director of our Project Management Office at the end of fiscal year 2023, we have begun implementing OMB Circular A-130-compliant project plans, manage resource allocations among agency-approved priorities, and periodic cost/schedule performance reporting. At the project level, the RRB will set goals and metrics to track progress of our modernization effort. The RRB will tailor technical management, program management, and agile metrics based on program needs. Additionally, the RRB established an Azure DevOps (ADO) environment to track work. The RRB uses ADO's management tools to monitor metrics such as sprint burn down, burn up, velocity, and cycle time. The RRB will research establishing feedback loops with our customers to gather insights on user experience. The feedback will then be used to further fine tune systems and applications to improve the user experience. The RRB will measure adoption of online services by monitoring website traffic analytics and submission rates of self-service forms.

While the OIG has highlighted areas the RRB must focus on, it is also necessary for the RRB to note that critical funding is needed to obtain the resources to fully execute the modernization effort and address key findings. As outlined in our Strategic Plan, the focus of

our current and near future projects reaffirms our commitment to improve overall mission support to the RRB and the rail community. Improving services for our constituents, enabling an agile workforce, and securing the enterprise are critical outcomes that will continue to move the agency forward in the years to come. To realize these outcomes, adequate funding will be paramount to our success. Proposed funding levels of \$100 million for fiscal year 2025, which is 21% less than our fiscal year 2024 operating budget of \$126 million, severely jeopardizes the agency's ability to continue modernization efforts. The absence of future funding to the agency's IT Modernization Program will effectively stop all modernization initiatives. Insufficient financial resources will render the RRB unable to increase staffing and bring on new skillsets, such as artificial intelligence, or procure new tools and services to rapidly implement new cloud-based opportunities. While a great opportunity for the RRB exists to leverage additional opportunities such as GSA's Technology Modernization Fund (TMF), the TMF requires repayment of at least a portion of the investment, which will prove challenging for the RRB given the current funding levels. A sufficient operating budget is needed to recruit for new skillsets as well as upskill our current staff and afford the RRB with opportunities to continue our modernization efforts as outlined within this document.

While the RRB has been successful stabilizing its infrastructure, it has become increasingly difficult to maintain the pace of modernization as the agency lost much of its institutional knowledge through the separation of an overwhelming percentage of its workforce. Within the agency's information technology bureau, from 2018 to present day, staffing levels have dropped by 34%. The loss of our workforce has hindered our ability to provide daily operational support and begin application modernization as the mission of the RRB is supported by over 200+ applications running on our 30-year-old mainframe. A risk to our goals is the agency's current lack of resources. We struggle yearly to fund our operational cloud costs, as we call "hybrid costs," as the early modernized components of our enterprise continue to require sustainment. We anticipate needing to purchase new cloud tools and services to create the necessary framework and governance around a modernized, unified data model and the appropriate resources to establish open-source platforms for application modernization. We are currently not be able to improve the quality of our customer data which impacts our ability to improve program integrity and provide monitoring and reporting to make real-time agency decisions and prioritize work efforts. Having not yet realized lessons learned as part of our modernization efforts, we would unnecessarily risk expending critical agency funds to attempt full-scale application modernization given the lack of staffing and technology in place today. The appropriations the RRB received in fiscal year 2024 and potential cuts in fiscal year 2025 has necessitated a hiring freeze agency wide and has limited our ability to contract for critical skillsets or purchase the needed technology to continue our modernization efforts. The RRB will finish the stabilize phase of our approach but without understanding our future funding and the need to be fiscally responsible we are limited in what we can plan, build, and execute.

Challenge 4 – Improve Transparency and Management of Railroad Medicare

What the Railroad Retirement Board Needs to Do

- RRB management needs to continue working with CMS and regularly review and update the August 31, 2022 Memorandum of Understanding (MOU) to ensure that they are protecting and properly administering Railroad Medicare funding, and that spending related to Railroad Medicare is reported appropriately and is transparent to the public.

Management's Comments to Challenge 4:

We appreciate OIG's recognition of our multiple actions to address the management of Railroad Medicare. As articulated in OIG's report, CMS is responsible for calculating and reporting improper payment data for our SMAC. Ownership of this responsibility was memorialized in 2022 via a cross-agency memorandum of understanding. HHS does report the estimated proper and improper payments and related information for the Medicare Fee for Service program including all MACs and the SMAC. Although we do not have any role in the preparation of that HHS report or their website, we do acknowledge OIG's concern regarding transparency. To that end, we are open to discussing this issue with CMS and will suggest increased transparency surrounding Railroad Medicare's improper payment rate.

Challenge 5 – Ensure Reliable Financial Statements and Internal Controls over Financial Reporting

What the Railroad Retirement Board Needs to Do

- RRB management needs to work closely with the financial statement auditors to ensure that RRB management provides supporting documentation and audit deliverables to the auditors in a timely manner.
- RRB management needs to work with the financial statement auditors to identify the minimal NRRIT audit evidence needed to complete the audit and determine whether GAO can provide this audit evidence.
- RRB management needs to continue implementing corrective action plans.

Management's Comments to Challenge 5:

Since fiscal year 2022 the OIG has contracted with an independent public accounting (IPA) firm to conduct the RRB's annual audit of its consolidated financial statements and internal control over financial reporting. Management acknowledges that for fiscal year 2023 the OIG's contract financial statement auditors rendered a disclaimer audit opinion on the RRB's consolidated financial statements and a separate disclaimer audit opinion on the RRB's internal control over financial reporting. While we acknowledge that for fiscal year 2023 the contract financial statement auditors reported that 12 material weaknesses and 3 instances of noncompliance existed, we disagree that the matters identified met the severity of the level of material weakness.

With respect to the fiscal year 2023 audit cycle, RRB management expressed concerns to the OIG over how the contract financial statement auditors conducted the RRB's financial statement audit. Specifically, RRB Management observed that in their second year, the contract financial statement auditors lacked a fundamental understanding of the Railroad Retirement System, and its financing sources and administrative costs reflected through the RRB's consolidated financial statements. Additionally, the contract financial statement auditors lacked an understanding of the RRB's business functions and processes which resulted in a poorly organized audit process. Finally, the contract financial statement auditors could not identify or clarify audit requests and severely restricted the RRB's response time to the draft audit report. We believe these events greatly contributed to the significant number of material weaknesses and instances of noncompliance reported by the contract financial statement auditors for the fiscal year 2023 audit cycle. We appreciate that both the OIG and the IPA seriously considered our concerns and took corrective action for the fiscal year 2024 audit cycle.

RRB management earnestly accepts its responsibility to ensure a reliable financial reporting system and provide financial statements that present fairly the financial condition of the RRB. The RRB acknowledges that the RRB's inability to receive an unmodified opinion on its consolidated financial statements or its internal control over financial reporting is largely due to the statutory parameters set by Congress via the Railroad Retirement and Survivors' Improvement Act of 2001 (the Act). The Act does not provide the RRB authority to grant the RRB OIG or its contract financial statement auditors access to the financial statement auditor or their work for the National Railroad Retirement Investment Trust (NRRIT). Due to the statutory parameters, the RRB acknowledges that the OIG's contract financial statement auditors cannot perform their audit procedures in accordance with applicable auditing standards.

The Act established NRRIT and, as stated in the Act, NRRIT is not a department, agency, or instrumentality of the Federal Government, and is not subject to Title 31 of the U.S. Code. The Act states that NRRIT shall annually engage an independent qualified public accountant to audit the financial statements of NRRIT, and shall transmit the audited financial statements, together with an Annual Management Report that includes a statement on internal accounting and administrative control systems, to Congress and the Executive branch. There is no other legal basis or requirement for NRRIT to provide financial information to another party outside of that which is specified in the Act. Cognizant of the cited statutory parameters, the Board had discussions with the previous Acting Inspector General to search for a mutually acceptable resolution. The RRB will continue these efforts with the Principal Deputy Performing the Duties of the Inspector General until a new Inspector General is appointed by the President and confirmed by the Senate.

Given that the financial statement auditors are contractors of the OIG, we encourage the OIG to work with their contracted IPA to identify the minimal NRRIT audit evidence needed to complete the audit and determine whether the U.S. Government Accountability Office (GAO) can provide the required audit evidence. For context, the GAO, serving as the federal government's auditor, entered into an MOU with NRRIT that provided the GAO access to information necessary to support inclusion of NRRIT's financial information in the government-wide financial statements starting in fiscal year 2018. The RRB was not a party to this agreement and has no authority to determine if GAO can satisfy the contract financial statement auditors minimal NRRIT audit evidence requirements.

During the fiscal year 2024 audit cycle, the RRB implemented multiple corrective action plans and worked closely with the contract financial statement auditors to close 10 of the 21 notices of finding and recommendations (NFRs) that were issued during the fiscal year 2023 audit cycle. This included closing the two NFRs related to providing supporting documentation and deliverables during the audit in a timely manner. The RRB demonstrated significant improvement during the fiscal year 2024 audit cycle, by reducing material weaknesses to 5 down from 12 (a 58% reduction) and reported instances of non-compliance to 1 down from 3 (a 66% reduction). With sufficient budgetary resources, the RRB will continue to improve internal controls and implement corrective action plans to ensure a reliable financial reporting system and provide financial statements that present fairly the financial condition of the RRB.

Challenge 6 - Improve Human Capital Management

What the Railroad Retirement Board Needs to Do

- The RRB needs to be aware that a wave of retirements for critical positions can increase the RRB's succession risk, which can increase the risk of noncompliance with laws, regulations, or federal mandates.
- The RRB needs to continue updating the Human Capital Plan (HCP) annually, including their hiring, succession, and training plans. Specifically, the RRB should continue to build and maintain their succession plan to capture valuable knowledge and insights of current employees, convey captured knowledge to new and retained employees, and create and utilize a multigenerational knowledge and leadership pipeline. One way to capture institutional knowledge is to ensure that RRB management maintains and regularly updates policies and procedures.
- The RRB needs to continue pursuing Congress for additional hiring flexibilities that are not available to the RRB and continue working closely with Office of Management and Budget (OMB) and Office of Personnel Management (OPM) to develop long-range plans for hiring.

Management's Comments to Challenge 6:

The OIG states that the RRB has an ongoing need to effectively manage their human capital resources to hire, develop, and retain employees. The RRB agrees that to accomplish our mission the RRB needs to hire and retain employees. The RRB is aware that a wave of retirements for critical positions can increase the RRB's succession risk, which can increase the risk of noncompliance with laws, regulations, or federal mandates. With the budget shortfall in fiscal year 2024 the RRB had to start a hiring freeze which has continued in fiscal year 2025. The Senate Committee on Appropriations has approved a fiscal year 2025 funding level of \$129 million for the RRB. This is notably higher than the House's proposed spending level. But it should be noted that Congress cut the RRB's budget for fiscal year 2024, which has severely impacted agency operations. While the Senate's proposal would reverse that cut and give the agency a small 0.78 percent increase from fiscal year 2023, the proposed appropriation of \$129 million is still \$5 million less than the President's request, \$43.3 million less than the RRB's request, and significantly short of what the agency needs to carry out its mission.

With a \$129 million budget, the RRB will be forced to continue its existing hiring freeze. The RRB did not receive a significant boost to its administrative budget until 2022, and even then, the increase was not sufficient to bring the agency back up to needed staffing levels. The insufficient funding levels over the last decade have led directly to unacceptable delays in service to the rail employees and annuitants who have paid into the railroad retirement system their entire careers. The RRB is hopeful, that the budget is increased to allow for the necessary hiring to provide the service our customers deserve.

As the RRB evaluates its current and future human capital needs, it is critical that strategies to recruit, develop, and retain a skilled and ready workforce meet the agency's need to effectively and efficiently carry out its mission and commitment to the railroad community. Strategically managing the RRB's workforce is of heightened importance as the number of employees eligible to retire remains high and the RRB has experienced higher than average governmentwide attrition rates in at least the past three years. Overall, 30 percent of our

employees have 20 or more years of service and 25 percent of the current workforce is eligible to retire in fiscal year 2025.

The RRB's internal policy requires that each Executive Committee (EC) member have a HCP in place for their organization annually; each contains a Hiring Plan, Succession Plan and Training Plan. The HCPs were developed by each EC member based on various workforce analysis tools and spreadsheets created by the Bureau of Human Resources. The combined HCP analyzes Office and Bureau input and develops a plan to prioritize current and future workforce needs for the RRB. The RRB recently completed the fiscal year 2025 HCP which summarizes the workforce and succession planning data and analysis captured by each Bureau and Office.

It should be noted that the RRB's HCP projects out three (3) years in terms of succession planning and the hiring plan. Like other federal agencies, the RRB must manage through the uncertainties of the budgetary cycle where it is unclear what funds are available for the RRB to use to hire. In addition, with the transition of IT modernization efforts being rolled over into the RRB's administrative budget due to the depletion of IT Modernization funds, hiring will become interestingly difficult. All these outside factors and pressures have a direct and lasting impact on the RRB's ability to both retain and recruit employees.

At this point the only hiring authority the RRB is not allowed to take advantage of, because of statutory restrictions in the Railroad Retirement Act, are the Schedule A hiring authorities. To alleviate this restriction, in its fiscal year 2025 Budget Request, the RRB requested that its annual Limitation on Administration appropriation language be amended to allow the RRB to utilize Schedule A hiring authorities.

The RRB takes advantage of all other excepted service appointments and opportunities available and outlined in 5 CFR § 6.1. For example, Pathways is an excepted service authority (where employees are afforded the opportunity to be converted to a competitive service position without additional competition), but Pathways is a Schedule D hiring authority. We also hire any/all attorneys under Schedule A of the excepted service authority, but only have done so at the direction of the OPM. In addition, in terms of hiring, OPM provided federal agencies with latitude to implement effective hiring methodologies within the very confined realm of federal recruitment statutes and regulations. The RRB will continue working closely with OMB and OPM in helping find the best flexibilities for hiring.

APPENDIX II: REPORTS

Please visit <https://www.rrb.gov/OurAgency/InspectorGeneral/Library> for our reports.

Improve Information Technology Security

Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Audit of the Railroad Retirement Board's Compliance with the FISMA of 2014 for Fiscal Year 2023*, Report No. 24-05 (Chicago, IL: April 10, 2024).

Complete Information Technology Systems Modernization

RRB OIG, *The RRB Did Not Have Detailed Project Plans to Expend Information Technology Modernization Funds*, Report No. 22-10 (Chicago, IL: June 29, 2022).

RRB OIG, *Audit of the Utilization of Information Technology Modernization Funds at the Railroad Retirement Board as of Fiscal Year 2023*, Report No. 24-04 (Chicago, IL: March 6, 2024).

Improve Transparency and Management of Railroad Medicare

RRB OIG, *The Railroad Retirement Board Complied with the Payment Integrity Information Act of 2019 for Fiscal Year 2023*, Report No. 24-07 (Chicago, IL: May 20, 2024).

Ensure Reliable Financial Statements and Internal Controls over Financial Reporting

RRB OIG, *Report on the Railroad Retirement Board's Financial Statements Fiscal Year 2023*, Report No. 24-01 (Chicago, IL: November 15, 2023).

Improve Human Capital Management

RRB OIG, *Audit of the Railroad Retirement Board's Organizational Structure and Field Service Operations*, Report No. 24-03 (Chicago, IL: February 8, 2024).

ABBREVIATIONS

AFR	Agency Financial Report
BFS	Bureau of Field Service
CDM	Continuous Diagnostic and Mitigation
CDR	Continuing Disability Review
CERT	Comprehensive Error Rate Testing
CMS	Centers for Medicare and Medicaid Services
DHS	Department of Homeland Security
FISMA	Federal Information Security Modernization Act of 2014
FTE	Full-Time Equivalent
GAO	Government Accountability Office
HCP	Human Capital Plan
HHS	Department of Health and Human Services
IG	Inspector General
IRM	Information Resources Management
ISP	Information Security Program
IT	Information Technology
MOU	Memorandum of Understanding
NRRIT	National Railroad Retirement Investment Trust
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAR	Performance and Accountability Report
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RUIA	Railroad Unemployment Insurance Act
SMAC	Specialty Medicare Administrative Contractor
U.S.	United States