MANAGEMENT DISCUSSION & ANALYSIS

Introduction

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal Government. The RRB'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 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.*

During fiscal year 2002 (ended September 30, 2002), the RRB incurred $8.7 billion, net of recoveries, in retirement and survivor benefits. Unemployment and sickness insurance benefit payments totaled $105.8 million in fiscal year 2002, net of recoveries. During the fiscal year, some 684,000 beneficiaries received retirement and survivor benefits, some 17,000 railroad workers received unemployment insurance benefits, and almost 24,000 received sickness insurance benefits. During fiscal year 2002, the RRB also paid benefits on behalf of the Social Security Administration (SSA) (for which the RRB is reimbursed) amounting to almost $1.2 billion to about 124,000 beneficiaries. At the end of fiscal year 2002, the average annuity paid to retired rail employees was about $1,550 a month, spouse benefits averaged $579 a month, and benefits for aged widow(er)s averaged $948 a month. The maximum biweekly rate for unemployment and sickness insurance benefits was $520.

Development of the Railroad Retirement and Unemployment Insurance Systems

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries; but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through 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 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 pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act in June 1938. The Act 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

The Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001, Public Law 107-90, enacted on December 21, 2001, amended the Railroad Retirement Act. The RRSIA was passed to enhance benefits provided under the Railroad Retirement Act and to modernize the funding of the railroad retirement program.

The legislation liberalizes early retirement benefits for 30-year employees, eliminates a cap on monthly retirement and disability benefits, lowers the minimum service requirement from 10 years to 5 years of service if performed after 1995, and provides for increased benefits for some widow(er)s.

Employees with 30 or more years of service are eligible for regular annuities the first full month they are age 60. Early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 before 2002. Employees with less than 30 years of service are eligible for regular annuities the first full month they are 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age, which range from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. 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 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 5 years of railroad service; 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.

The primary source of income for the railroad retirement-survivor benefit program is payroll taxes paid by railroad employers and their employees. 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. Historically, railroad retirement taxes have been considerably higher than social security taxes. The cents per work-hour tax, paid by railroad employers to finance a supplemental annuity program for career employees, was repealed beginning with calendar year 2002.

The second major source of income to the railroad retirement-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 and Federal Insurance Contributions Acts. In fiscal year 2002, the RRB trust funds realized a net of $3.3 billion representing almost 35 percent of RRB financing sources (excluding transfers to the National Railroad Retirement Investment Trust) through the financial interchange.

Other sources of income currently include interest on investments, revenue resulting 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.

Railroad Unemployment Insurance Act

Under the Railroad Unemployment Insurance Act, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment-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. Effective January 1, 2002, extended benefits are also payable to persons with 5 or more years of service all of which accrue after December 31, 1995.

The railroad unemployment-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. The latest RRB financial report on the unemployment insurance system indicated that experience-based contribution rates will keep the system solvent even under the most pessimistic employment assumptions.

RRB Organizational Structure

The RRB is headed by three 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 Chair, 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 Chair of the Board is Cherryl T. Thomas, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman. The primary function of the RRB is the determination and payment of benefits under the retirement-survivor and unemployment-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 professionals to operate the extensive data processing equipment needed for maintaining earnings records, calculating benefits, and processing payments.

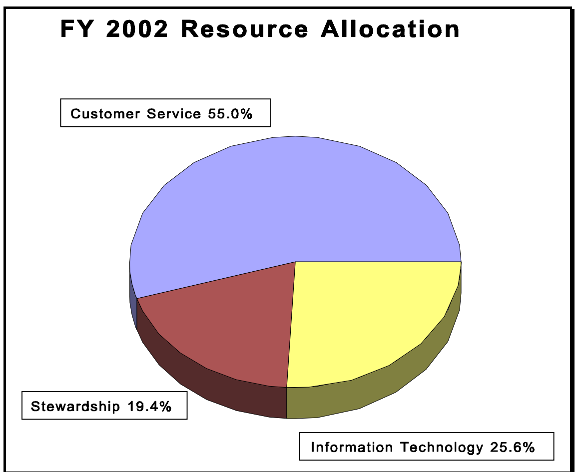
The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud, or abuse in the benefit programs.

The RRB's headquarters are located at 844 N. Rush Street in Chicago, Illinois. At September 30, 2002, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States.

Performance Goals and Results

The following performance report is based on the major goals and objectives from the RRB's Strategic Plan for 2000 - 2005 and its Annual Performance Plan for Fiscal Year 2002. The indicators we developed support our mission and communicate our awareness and intentions for meeting challenges and seeking 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 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 have been incorporated into performance standards for managers and supervisors, monitored on an agency-wide basis, and made subject to audit by the agency's Office of Inspector General, as part of these financial statements.

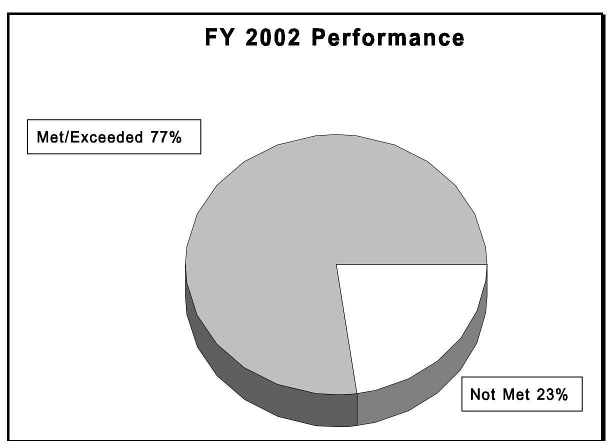


Over the last several years, the RRB has implemented significant automation initiatives and other improvements. Because of these accomplishments, the RRB is able to operate with reduced resources and is continuing to streamline its operations with the assistance of information technology. We believe that continued investments in information technology and further management improvements will allow us to meet or exceed our customer service goals efficiently. As the chart on the left shows, we devoted most of our budgetary resources to customer service and information technology.

In FY 2002, the RRB implemented provisions of the RRSIA. The Act made significant changes to the benefit payment structure and to the program's financing. Also in FY 2002, a survey ranked the RRB's web site 12th out of 148 Federal government web sites that were studied for excellence. In a recent American Customer Satisfaction Index (ACSI) survey of RRB unemployment and sickness insurance beneficiaries, the RRB earned a score of 75, which is 5 points higher than the current national ACSI of 70 for the Federal government.

In FY 2002, we met or exceeded planned performance levels for 48 (77%) out of 62 reportable indicators. The following table is a consolidated presentation of our actual performance in FY's 2001 and 2002. Following the table is a discussion of the unmet FY 2002 performance goals and indicators.

This performance report was prepared by RRB employees.



Fiscal Year 2002 Annual Program Performance Report

RAILROAD RETIREMENT BOARD		*Actual 2001*	*Planned 2002*	*Actual 2002*
Strategic Goal I: Provide Excellent Customer Service				
Performance Goal I-A: Pay benefits accurately.				
1. Achieve a railroad retirement benefit payment accuracy rate of at least 99%. (Measure: % accuracy rate)	Initial payments:	99.89%	99.80%	99.97%
	Post payments:	99.98%	99.91%	99.99%
2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate of at least 99%. (Measure: % accuracy rate)	Unemployment:	99.34%	99.50%	99.12%
	Sickness:	99.76%	99.70%	99.94%
3. Conduct a study to determine the causes of erroneous RRA payments. Based on the results of this study, develop an action plan to eliminate or minimize these causes by improving work processes and procedures, revising systems and providing refresher training. (Measure: Complete study and action plan)		New indicator	Deferred until FY 2003	Deferred until FY 2003
Performance Goal I-B: Pay benefits timely.				
1. Railroad retirement employee or spouse receives initial annuity payment, or a decision, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 30 processing days*)		95.6%	94.3%	94.7%
2. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 60 processing days*)		95.2%	94.7%	96.0%
3. Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 processing days*)		80.9%	79%	81.4%
4. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 30 processing days*)		91.1%	91.5%	91.3%
5. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 60 processing days*)		93.7%	93.7%	96.0%
6. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days*)		99.7%	98.50%	98.7%
7. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days*)		99.5%	99.00%	99.3%
8. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 10 processing days*)		99.7%	99.50%	99.7%
9. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 100 processing days*)		56.5%	67%	53.7%

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
10. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days*)	94.1%	93.0%	94.2%
11. Maintain an end-of-year normal carry-forward balance of 11,055 cases or less in 8 targeted workload categories. (Measure: number on hand at end of year)	4,915	7,500	5,147
12. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. [We will reduce the average elapsed days to 150 by the end of fiscal year 2003.] (Measure: average elapsed days)	189	200	200
13. Implement the following provisions of the Railroad Retirement and Survivors' Improvement Act in fiscal year 2002, as scheduled: - Restore full early retirement eligibility at age 60 for railroad employees with 30 or more years of service - Eliminate the maximum provision that had previously capped some employee and spouse railroad retirement benefits - Reduce the basic eligibility requirement for an employee annuity from 10 to 5 years of service if performed after 1995 - Provide increased benefits for certain widow(er)s (Measure: complete as scheduled)	New indicator	Complete in FY 2002, as scheduled	Implementation completed as scheduled.
Performance Goal I-C: Provide relevant, timely, and accurate information which is easy to understand.			
1. Inquirer receives answer or acknowledgment of written correspondence within 15 days of receipt. (Measure: % ≤ 10 processing days*)	99.0%	90.00%	98.9%
2. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys & reviews)	Completed study of initial award letters	By 04/01/02, prepare a draft report providing the RRB's information quality guidelines and explaining how such guidelines will ensure and maximize the quality, utility and integrity of information disseminated by the RRB.	Draft report completed in FY 2002, as scheduled.
3. Maintain the combined balance of unprocessed record corrections and cases requiring review for corrected tax statements below the end-of-year normal working level (1,200 items). (Measure: number on hand at end of year)	517	500	432
Performance Goal I-D: Provide a range of choices in service delivery methods.			
1. Offer service for the retirement program by telephone, interactive voice response (IVR), mail, personal computer and in person via field offices and itinerant service. (Measure: # of choices)	5 choices	5 choices	5 choices

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
2. Offer service for the unemployment/sickness program by telephone, IVR, mail, personal computer and in person via field offices and itinerant service. (Measure: # of choices)	5 choices	5 choices	5 choices
3. Obtain customer feedback. (Measure: surveys & reviews)	Administered a customer satisfaction survey.	Administer a customer satisfaction survey to a second group of beneficiaries.	Survey conducted in October 2002.
Performance Goal I-E: Ensure an efficient and effective reporting system for railroad employers.			
1. Railroad employer reports filed on time, without problems. (Measure: % of reports filed on time, without problems)	38.27%	See new indicators below	
Railroad employer reports filed on time. (Measure: % of reports filed on time)	New indicator	75.0%	43.5%
2. Railroad employer reports filed accurately. (Measure: % of reports filed without problems)	New indicator	96.0%	91.1%
3. Railroad employer reports of employees filed electronically, or on magnetic media. (Measure: % filed electronically, or on magnetic media)	97.45% (Of employees)	97.0% (Of employees)	98.2% (Of employees)
Performance Goal I-F: Deliver service at the point-of-contact ("one and done").			
1. Complete actual measurement of services provided at the point of contact. Develop action plans as needed to reduce the number of handoffs. (Measure: Date report completed)	Developed action plan based on the FY 2000 (field service) study.	Review of another service area deferred until FY 2003	Deferred
Strategic Goal II: Safeguard Our Customers' Trust Funds Through Prudent Stewardship			
Performance Goal II-A: Ensure the integrity of benefit programs through comprehensive and integrated monitoring and prevention programs.			
1. Maintain active wage matches with all 50 States to ensure the accuracy of benefit payments. (Measure: # of States matching)	50 States, plus Puerto Rico & Washington, DC	50 States, plus Puerto Rico & Washington, DC	50 States, plus Puerto Rico & Washington, DC
2. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure: $ recoveries & savings per $ spent)	$5.47 : $1	$3.80 : $1	$5.48 : $1
3. Perform continuing disability reviews (medical only in 2001, medical and earnings in 2002). (Measure: # performed)	988	3,000	1,863
Performance Goal II-B: Ensure efficient operations through effective management control and quality assurance programs.			
1.Take prompt action to correct any material weaknesses. (Measure: % of action plan milestones accomplished)	100% (No material weaknesses)	100%	100%

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
2. Submit to the President and Congress the Federal Managers' Financial Integrity Act Report by December 31st each year. (Measure: date report submitted)	12/18/00	12/28/01	12/21/01
3. Resolve audit findings promptly. (Measure: # of audit recommendations to put funds to better use that are not resolved within 6 months of report)	0 recommendations	0 recommendations	0 recommendations
4. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	91.7%	80%	94.4%
5. Develop and establish a Customer Quality Assurance Plan that promises excellent service to our customers and gives agency employees the opportunity to show their commitment to our customers. Part of the focus of this plan will be to reduce the number of overpayments caused by agency error. (Measure: Establish plan)	New indicator	Establish plan by 09/30/02	Plan established.
Performance Goal II-C: Ensure that trust fund assets are projected, collected, recorded, and invested appropriately through an effective and efficient trust fund management program.			
1. Railroad Retirement Account's market rate of return will exceed the Bloomberg index of Treasury notes and bonds with more than 1 year of maturity. (Measure: Yes/No)	Exceeded Bloomberg index	Discontinued, see new indicator below	Discontinued, see new indicator below
Implement the provisions of the Railroad Retirement and Survivors' Improvement Act of 2001 requiring the transfer of railroad retirement trust funds from the railroad retirement accounts to the new National Railroad Retirement Investment Trust. (Measure: funds transferred within 30 days of request)	New indicator	Transfer funds within 30 days of request by the National RR Investment Trust.	All funds ($1.5 billion) were transferred within 30 days of request.
2. Debts will be collected through billing, offset, reclamation, referral to outside collection programs and a variety of other collection efforts. (Measure: % of funds collected to total debts outstanding -- beginning balance plus new debts established. Excludes write-offs.)	53%	49%	64%
3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.) (Measure: % completed)	100% of the 1998 reconciliations completed by 02/26/2001	100% of the 1999 reconciliations by 02/28/2002	100% of the 1999 reconciliations by 02/15/02
4. Perform reconciliations between the amount of taxes shown as paid on each railroad CT-1 (Employer's Annual Railroad Retirement Tax Return) filed with the IRS, and the amounts received and deposited in the RRB trust fund accounts. (Measure: % of dollars reconciled)	99.9%	97.0%	99.88%
Performance Goal II-D: Align our resources using a performance approach based on contribution to mission.			
1. Implement a methodology to determine unit cost of key production workloads. [One workload a year for 5 years (such as initial employee retirement application processing and disability application processing).] (Measure: # of key workloads with unit cost information)	Deferred	1 workload	A methodology for disability processing has been developed.

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
2. Set specific goals for unit costs of key workloads for years subsequent to implementation of new methodology. [One workload a year for 5 years.] (Measure: # of unit cost goals)	Deferred	Deferred	Deferred
3. Achieve the target ratio of total administrative expenses to benefit outlays. (Measure: ratio of expenses to outlays)	$1 : $100	Approx. $1 : $100	$1.06 : $100
4. Conduct an analysis of the agency's organizational structure to identify opportunities to reduce managerial/supervisory positions/layers and strengthen front-line positions. (The agency's supervisor/employee ratio is currently 1:7.7, and its management layers are limited to 3 or 4, excluding the three-member Board.) (Measure: Complete analysis)	New indicator	Complete analysis by 03/31/02	Analysis completed on 03/29/02.
Performance Goal II-E: Use outside sources and partnerships, when appropriate, to accomplish our mission.			
1. Partner with other government agencies or outside organizations to achieve our mission. (Measure: # of partnerships)	71	66	72
2. Perform a detailed study of the agency's activities to ensure an accurate inventory of commercial activities. (Measure: Conduct study)	New indicator	Complete study by 03/31/02	A detailed study of the agency's activities was performed by the expected completion date of 3/31/02.
2. Assemble and publicize an annual inventory of RRB commercial activities on the RRB Website. (Measure: Yes/No)	New indicator	Yes	The annual inventory has been assembled and approved by the Board. OMB had not yet authorized publication (09/30/02).
3. Complete public-private or direct conversion competitions on not less than 5% of the FTE's listed on the Federal Activities Inventory Reform (FAIR) Act inventory. (Measure: % of the FTE's listed on the FAIR Act inventory for which competitions completed)	New indicator	5%	5%
Performance Goal II-F: Ensure that the RRB consistently pays the lowest price for products and services commensurate with quality, service, delivery and reliability.			
1. The percentage of fiscal year dollars competitively obligated via simplified acquisition and contract procedures shall exceed the Government percent of procurement dollars awarded competitively as reported in the Federal Procurement Data System Reporting Manual, Federal Procurement Data Center. (Measure: % of funds awarded)	RRB: 93% Gov.: 74%	Will exceed Government percentage	RRB: 90% Gov.: Not available until March 2003
2. Purchase orders are filled by or before delivery date. (Measure: % meeting objective)	85.5%	86%	85%

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
3. All solicitations include past performance as an evaluation factor. Each contract file will exhibit a formal determination and finding of contractor responsibility. (Measure: % meeting requirement)	100%	100%	100%
4. Award contracts over $25,000 using performance-based contracting (PBSC) techniques for not less than 20% of the total eligible service contracting dollars. (Measure: % of contracting dollars for contracts over $25,000 using PBSC)	New indicator	20%	35.5%
5. Post (a) all synopses for acquisitions valued at over $25,000 for which widespread notice is required and (b) all associated solicitations unless covered by an exemption in the Federal Acquisition Regulation on the government-wide point-of-entry website (www.FedBizOpps.gov). (Measure: Yes/No)	New indicator	Yes	Yes
Performance Goal II-G: Use, build and maintain a professional, productive, innovative and diverse workforce.			
1. Individual performance appraisal plans for managers and supervisors contain elements that link to the agency's mission. (Measure: Yes/No)	Yes	Yes	Yes
2. Solicit employee feedback on work environment to determine if it is discrimination-free and supports cooperation, empowerment, and mutual commitment. (Measure: employee survey)	None	Plan for employee survey to be conducted in FY 2003.	Planning initiated.
3. Create and implement a succession planning program. (Measure: Yes/No)	New indicator	Create a skills assessment file for selected employees in the GS-14 to GS-15 range. Establish and competitively fill two developmental positions.	Created retirement trend analysis and proposed refocusing succession plan to lower-graded employees.
Strategic Goal III: Use Technology and Automation to Foster Fundamental Changes That Improve the Way We Do Business			
Performance Goal III-A: Develop a sound and integrated information technology architecture that will foster our long-term efforts to improve mission performance while operating with fewer resources.			
1. Establish a formal information technology architecture planning function, by 09/30/01.	Yes	FY 2001 goal	FY 2001 goal
2. Develop an initial framework for information technology architecture, by 09/30/01.	Yes	FY 2001 goal	FY 2001 goal

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
3. Establish processes to support and enforce the information technology architecture to ensure that it is uniformly followed throughout the agency, by 09/30/02. (Measure: Yes/No)	New indicator	Yes	Yes
4. Establish processes by 03/31/02, to use the information technology architecture as a standard for evaluating and prioritizing all major automation initiatives and investments. (Measure: Yes/No)	New indicator	Yes	Yes
5. Ensure, by 09/30/02, that the information technology architecture is closely linked to our long-range Strategic Information Resources Management (IRM) Plan, Information Technology (IT) Capital Plan, and budget submissions. (Measure: Yes/No)	New indicator	Yes	Yes
Performance Goal III-B: Design and implement information technology initiatives that fundamentally improve our efficiency and effectiveness in achieving the agency's mission.			
1. Design and implement specific automation initiatives, as outlined in the Strategic IRM Plan and agreed to by the IT Steering Committee. (Measure: Yes/No)	See below	See below	See below
Complete Phase 4 of the APPLication Express (APPLE, a system which allows applications for retirement and survivor benefits to be taken online) project by 09/30/02. (New target completion date 07/31/03.)		Deferred until FY 2003	Deferred
Complete next phases in the Internet Transactions Software by 09/30/02 as follows: -- Nationwide implementation of three Internet transactions piloted in FY 2001 - Compensation and Service Record Request Online - Retirement Planner Online - Application for Employee/Spouse Annuity Online		 Yes Yes Yes	 Deferred Deferred Deferred
-- Pilot five additional Internet transactions: - Applications for Survivor Benefits Online - Beneficiary Profile Online - Status of Claim Online - Beneficiary File View - Appeal Attorney View		Deferred until FY 2003	 Deferred Deferred Deferred Deferred Deferred
Implement Phase 1 of SPEED (post-adjudication work deductions) as one of the Customer/Event Initiated Transaction Systems by 06/30/02.		Yes	Deferred until FY 2003
Complete post-adjudication processes in the Document Imaging and Workflow System by 09/30/02. (New target completion date 10/31/02.)		Deferred until FY 2003	Deferred until FY 2003

RAILROAD RETIREMENT BOARD	*Actual 2001*	*Planned 2002*	*Actual 2002*
Performance Goal III-C: Ensure effective and efficient management of information technology resources.			
1. Successfully implement major projects as specified in project plans, project definition and requirements documents. (Measure: % completed and signed off on by due date within 10% of the estimated time frame.)	100%	100%	100%
2. Provide accurate cost estimates for major projects. (Measure: total estimated costs ÷ total actual costs)	+1.6%	+/- 10% of cost estimate	-28%
3. Computer operations satisfy service levels as specified in user service agreements. (Measure: exception reports)	7	Revised	Revised
Information technology services will meet the service levels as specified in user service agreements and/or published customer service standards. [Exceptions would include, for example, incidents of system down times, unsuccessful batch operations, or other public situations. In fiscal year 2002, we are expanding this performance goal to cover all information technology services, not just computer operations.] (Measure: exception reports)	Not applicable	No more than 15	8

Endnotes

* Allows 5 days for mail delivery.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2002

Performance indicator I-A.2 Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate of at least 99%. (Measure: % accuracy rate)	We planned to achieve a 99.5% unemployment insurance benefit payment accuracy rate, and narrowly missed it, achieving a 99.12% rate. Our analysis found that most of the improperly paid benefits occurred during the 2nd quarter, when district office workload increased due to the RRSIA legislation. Therefore, we believe the initial impact of the RRSIA legislation negatively affected the unemployment insurance payment accuracy rate. We believe that as workloads return to pre-RRSIA levels, and barring any unforeseen problems, the unemployment insurance payment accuracy rate should rise.
Performance indicator I-B.4 Survivor annuitant, who had been receiving benefits as a spouse, receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 Days of the RRB's receipt of the notice of Employee's death. (Measure: % $\leq$ 30 processing days)	We narrowly missed making this goal in FY 2002. We planned to achieve 91.5% timeliness, but achieved 91.3%. The resources we committed to the implementation of the RRSIA negatively impacted our ability to meet this goal.
Performance indicator I-B.9 Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % $\leq$ 100 processing days)	We did not meet this goal because of a lack of initial disability claims examiners. During the first 4 months of FY 2002, there were only 8 journeyman claims examiners in the initial section. A claims examiner training class with 12 participants began in July 2001, but did not finish until the end of January 2002. The additional claims examiner staffing provided the resources necessary to improve our timeliness during the last 8 months of FY 2002; and, as they gain additional experience, we should be able to achieve our timeliness goals in FY 2003.
Performance indicator I-D.3 Obtain customer feedback. (Measure: surveys & reviews)	We planned to administer the American Customer Satisfaction Index survey in FY 2002. The survey was deferred until October 2002 due to implementation of the RRSIA.
Performance indicator I-E.1 Railroad employer reports filed on time. (Measure: % of reports filed on time)	We have no control over when an employer files its reports. We are planning to draft a regulation for a penalty schedule for delinquent filers and employers failing to respond to our requests for reports to motivate them to file their reports timely.
Performance indicator I-E.2 Railroad employer reports filed accurately. (Measure: % of reports Filed without problems)	The increase in the number of reports filed electronically indicates there were a number of first-time filers and our staff corrected problems for these employers. Also, one large employer over-reported 3,500 employee accounts, substantially increasing the error total. We will monitor future reports, as well as make personal reminders, when the report process commences.

Performance indicator II-A.3 Perform continuing disability reviews. (Measure: number performed)

We failed to meet this due to the diversion of experienced disability examiners to assist in the initial disability examiner class from October 2001 through January 2002. In addition, experienced examiners were diverted to process initial disability claims during the period February 2002 through April 2002 due to the shortage of fully trained examiners. A secondary contributing factor was a reduction in available overtime due to RRSIA implementation.

Performance indicator II-F.2 Purchase orders are filled by or before delivery date. (Measure: % meeting objective)

The performance goal was to fill 86% of the purchase orders by or before the delivery date. We narrowly missed this target, filling 85% by or before the delivery date. We intend to achieve the 86% level in FY 2003.

Performance indicator II-G.3 Create and implement a succession planning program. For fiscal year 2002, create a skills assessment file for selected employees in the GS-14 to GS-15 range and establish and competitively fill two developmental positions. (Measure: Yes/No)

We will look for opportunities to create the developmental positions as budget priorities are fulfilled. We will continue to work with senior officials to ensure that they are making use of the skills assessment as a tool to discuss performance and goals with their employees.

Performance indicator III-B.1 Complete next phases in the Internet Transactions Software by 09/30/02 as follows: Nationwide implementation of three Internet transactions piloted in FY 2001

- Compensation and Service Record Request Online
- Retirement Planner Online
- Application for Employee/ Spouse Annuity Online

The completion date for the achievement of these goals was deferred due to the diversion of required resources with projects deemed a higher priority such as RRSIA implementation and expanding personalized Internet access capability. The revised implementation for the first two projects is scheduled for FY 2003, and for the third is FY 2004.

Performance indicator III-B.1 Implement Phase 1 of SPEED (post-adjudication work deductions) as one of the Customer/Event Initiated Transaction Systems by 06/30/02.

This project was deferred due to resources being diverted to implementing the RRSIA. We plan to complete this project in FY 2003.

Performance indicator III-C.2 Provide accurate cost estimates for major projects. (Measure: total estimated costs ÷ total actual costs)

For this indicator, actual costs were significantly less than estimated costs. The actual cost estimates for major projects appeared as if they were overestimated largely because the project requirements were scaled down. The original requirements would have required significantly more resources.

Financial Indicators

Ratio of Administrative Expenses to Benefit Payments *

Program	FY 2002	FY 2001
Railroad Retirement and Survivor Program	0.9%	0.9%
Unemployment and Sickness Insurance Program	11.4%	11.1%
Combined	1.1%	1.0%

Use of Administrative Resources by Program

Program	FY 2002	FY 2001
Railroad Retirement and Survivor Program	85.1%	85.5%
Unemployment and Sickness Insurance Program	14.9%	14.5%

* Excludes funds transferred to the OIG for administrative expenses and includes SSA benefit payments.

Efficiency of Operations
(Unit Costs in Constant Dollars)

This section shows direct costs for agency program activities and indicates how efficiently the Railroad Retirement Board performs its day-to-day business functions. When constant dollars are shown (using 1982-84 as the base years), the conversion from "actual" dollars to "constant" dollars is based on the consumer price index for urban wage earners and clerical workers (CPI-W) as published by the Bureau of Labor Statistics. The average CPI-W indexes (calculated on a fiscal year basis) are as follows: 2001 = 172.8; and 2002 = 174.9.

Function	FY 2002	FY 2001
Processing Retirement and Survivor Applications:		
- Volume	52,072	47,091
- Workyears	235.25	232.50
- Production per workyear	221	203
- Direct unit cost	$175.39	$183.19
Processing Unemployment and Sickness Insurance Claims:		
- Volume	349,534	359,461
- Workyears	85.34	83.52
- Production per workyear	4,096	4,304
- Direct unit cost	$8.75	$8.04
Maintenance of Beneficiary Rolls:		
- Volume	785,687	798,507
- Workyears	204.98	225.66
- Production per workyear	3,833	3,539
- Direct unit cost	$10.74	$11.17
Maintenance of Rail Earnings Accounts:		
- Volume	292,738	322,186
- Workyears *	36.56	23.18
- Production per workyear *	8,007	13,899
- Direct unit cost *	$5.71	$2.80
Medicare Processing:		
- Volume	22,221	22,606
- Workyears	7.51	7.06
- Production per workyear	2,959	3,202
- Direct unit cost	$14.53	$12.46
Medicare Maintenance:		
- Volume	153,592	165,844
- Workyears	38.44	44.41
- Production per workyear	3,995	3,734
- Direct unit cost	$ 9.49	$9.94

* Fiscal year 2002 compensation and workyears affected by implementation of the Railroad Retirement and Survivors' Improvement Act of 2001.

Financial Highlights

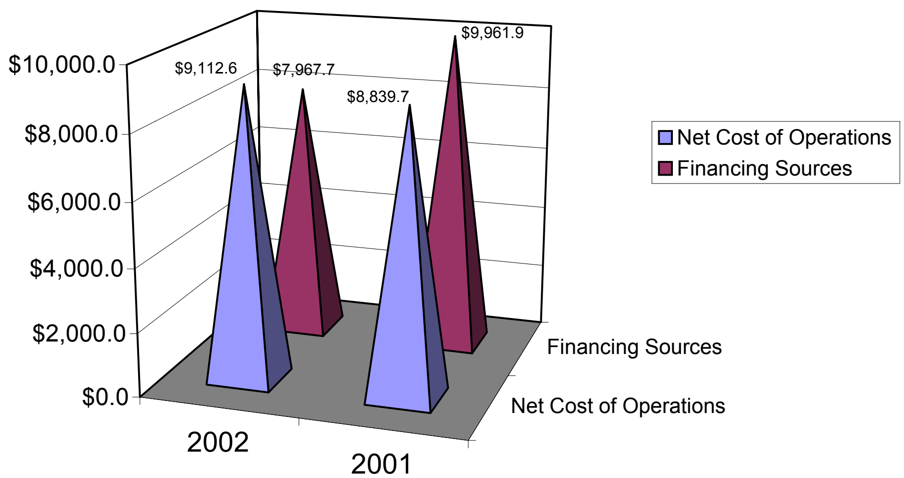
The RRB's principal FY 2002 financial statements (prepared on a consolidated basis, which eliminates all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing and Custodial Activity. While the RRB was not originally subject to the Chief Financial Officers Act of 1990, P. L. 107-289, which passed on November 7, 2002, included the RRB under its umbrella. The financial statements have been prepared to report the financial position and results of operations of the RRB, pursuant to the requirements of that Act. All statements have been prepared from the books and records of the RRB and are in accordance with the format prescribed by the Office of Management and Budget (OMB), under Bulletin 01-09. The statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. Supplementary schedules are included by fund for the Railroad Retirement (RR) Program, the Railroad Unemployment and Sickness Insurance (RUSI) Program, Deposit and Other Funds, Schedule of Salaries and Expenses and Benefit Payments for FY 2002, Intragovernmental Amounts, and Required Supplemental Stewardship Information for the Railroad Retirement Program.

As required by law, the Dual Benefits Payments Account was prepared on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis of accounting in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 7. Otherwise, these financial statements were prepared on an accrual basis of accounting in accordance with generally accepted government accounting principles and standards prescribed by the General Accounting Office (GAO), Department of the Treasury (Treasury), Federal Accounting Standards Advisory Board (FASAB), and OMB. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities not covered by budgetary resources cannot be liquidated without legislation that provides resources to do so.

Comparison of Net Cost of Operations and Financing Sources

Financing sources were less than the net cost of operations during FY 2002 by $1,144.9 million (excluding a decrease in the unexpended appropriations of $2.9 million) as a result of transfers of $1,502 million to the National Railroad Retirement Investment Trust. When the transfers to the Trust and the decrease in unexpended appropriations are considered, the net position of the consolidated trust funds decreased from $19,846.0 million as of September 30, 2001, to $18,698.3 million as of September 30, 2002. The net cost of operations and financing sources for FY 2002 and FY 2001 are shown on the following pages.

NET COST OF OPERATIONS AND FINANCING SOURCES
FISCAL YEARS 2002 AND 2001
(In millions)



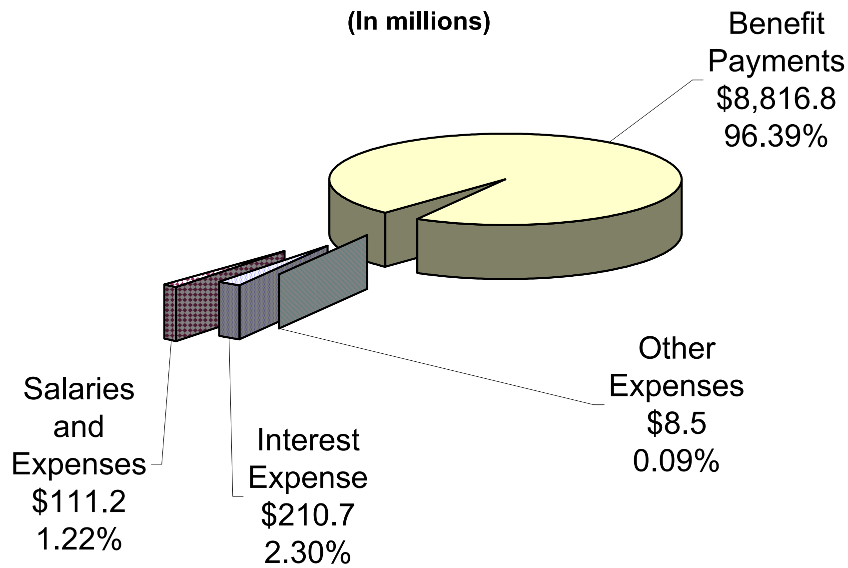
The details of the net cost of operations by type, amount, increase or decrease, and percentage change from FY 2001 to FY 2002 are shown below. The details on financing sources for the same years are shown on page 23.

NET COST OF OPERATIONS
(In millions)

	FY 2002	FY 2001	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense - Treasury borrowing	$ 210.7	$ 221.1	$(10.4)	(4.7)%
Salaries and expenses	111.2	102.3	8.9	8.7
Benefit payments - RRB	8,816.8	8,538.1	278.7	3.3
Other expenses	8.5	7.8	0.7	9.0
Subtotal	9,147.2	8,869.3	277.9	3.1
Less: Earned revenues	34.6	29.6	5.0	16.9
Net cost of operations	9,112.6	$8,839.7	272.9	3.1%

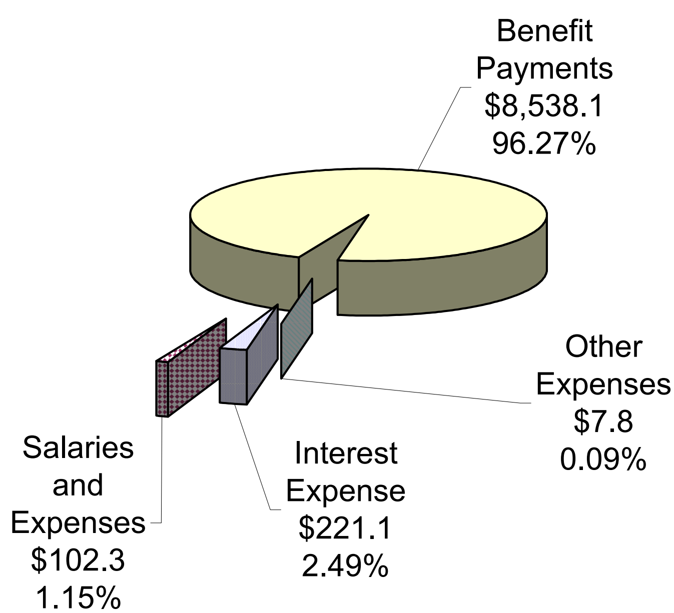
FY2002
NET COST OF OPERATIONS

(In millions)



Total $9,147.2 excluding reimbursements and earned revenues of $34.6.

FY2001



Total $8,869.3 excluding reimbursements and earned revenues of $29.6.

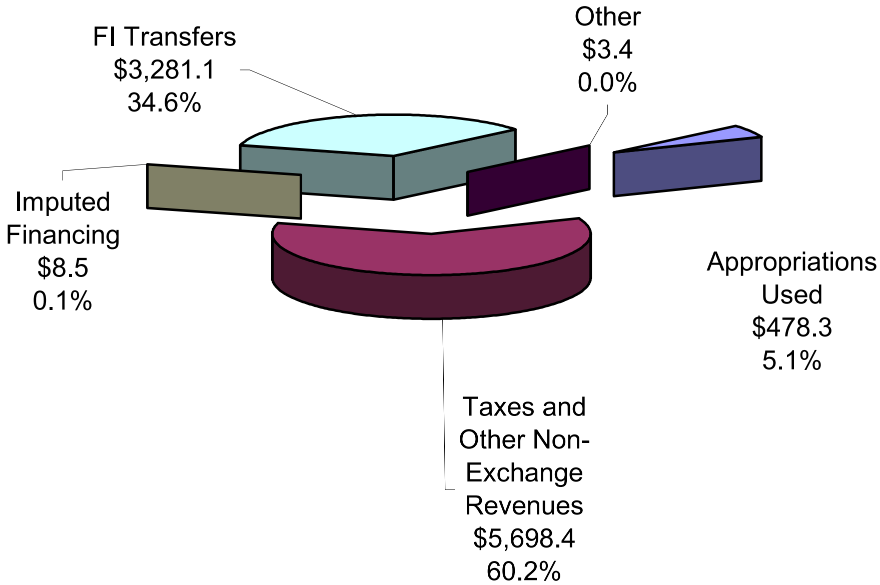
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from FY 2001 to FY 2002.

FINANCING SOURCES
(In millions)

	FY 2002	RESTATED FY 2001	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Appropriations used	**$ 478.3**	**$ 483.2**	**$ (4.9)**	**(1.0)%**
Taxes and other non-exchange revenues:				
Payroll taxes	**4,573.2**	**4,702.6**	**(129.4)**	**(2.8)**
RUI contributions	**95.4**	**50.7**	**44.7**	**88.2**
Interest revenue and other income	**1,037.9**	**1,126.0**	**(88.1)**	**(7.8)**
Carriers refunds - principal	**(8.1)**	**(8.7)**	**(0.6)**	**(6.9)**
Subtotal	**5,698.4**	**5,870.6**	**(172.2)**	**(2.9)**
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	**8.5**	**7.8**	**0.7**	**9.0**
Transfers out to NRRIT	**(1,502.0)**	**0.0**	**(1,502.0)**	**(100.0)**
Transfers – Financial Interchange, net	**3,281.1**	**3,401.5**	**120.4**	**3.5**
Other	**3.4**	**198.8**	**(195.4)**	**(98.3)**
Total	**$7,967.7**	**$9,961.9**	**$(1,994.2)**	**(20.0)%**

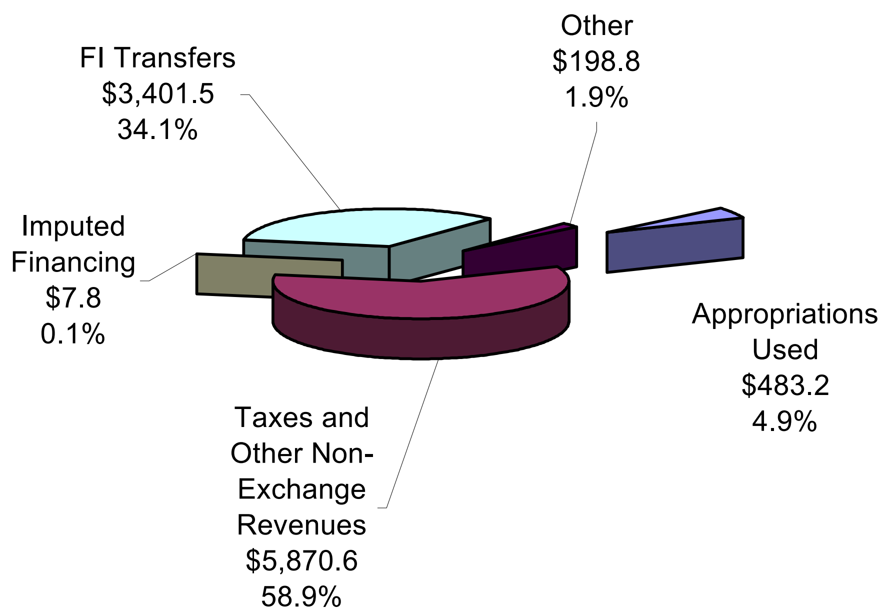
FINANCING SOURCES
(In millions)

FY2002



Total Financing Sources $9,469.7, excluding transfers to the National Railroad Retirement Investment Trust of $1,502.0 million.

FY 2001



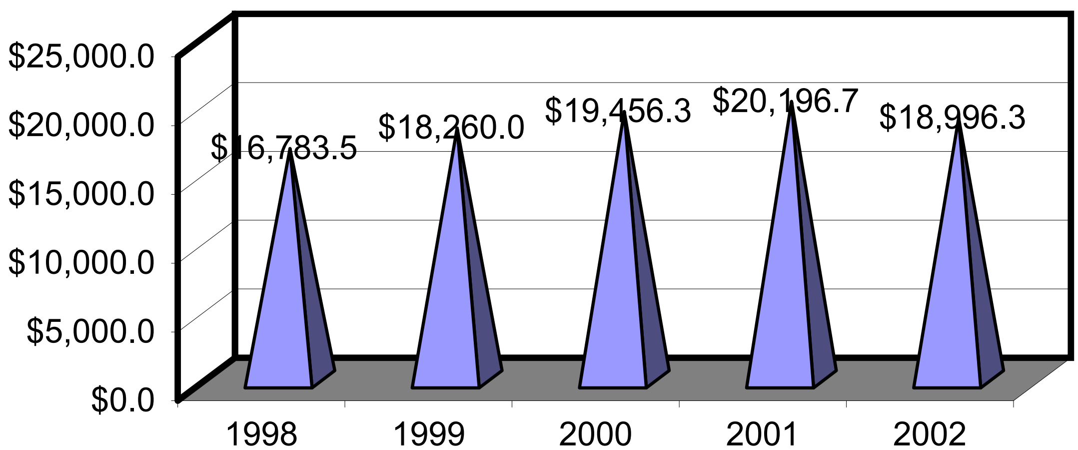
Total Financing Sources $9,961.9

Railroad Retirement Investments

The book value of all RR investments, including accrued interest, decreased to $18,996,298,693 as of September 30, 2002, from $20,196,713,982 on September 30, 2001. The decrease is a result of transfers of $1,502,000,000 to the NRRIT during FY 2002. During this same period, and because of the transfers to the NRRIT, the market value of these investments, including accrued interest, decreased to $20,948,326,658 as of September 30, 2002, from $21,069,039,019 as of September 30, 2001. The graph below reflects the RR book value of investments from September 30, 1998, through September 30, 2002.

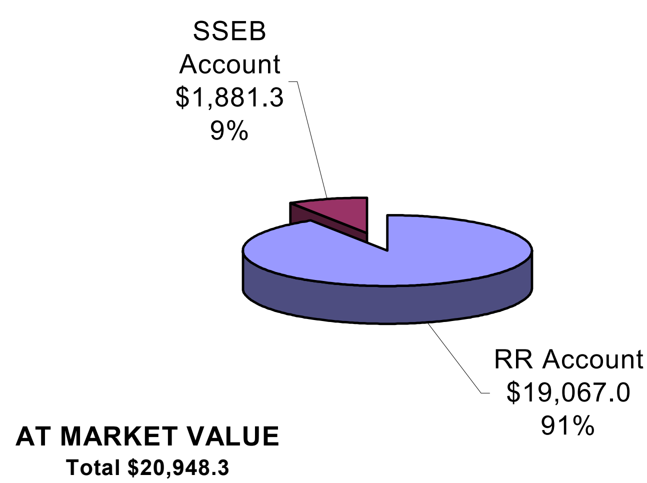
INVESTMENT BALANCES (AT BOOK VALUE)

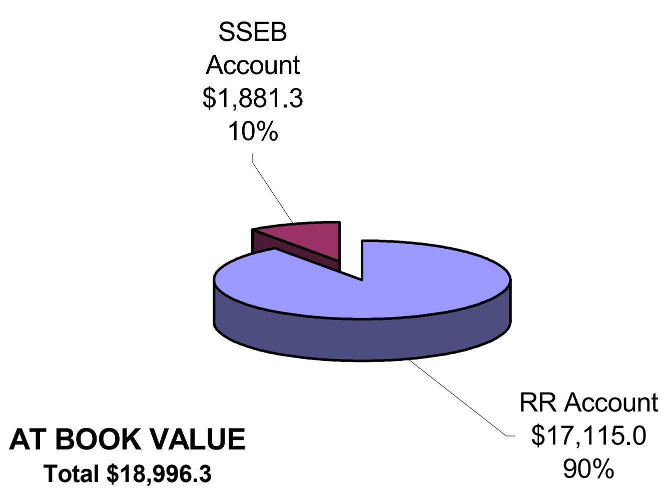
AT SEPTEMBER 30, 1998 - 2002
(In millions)



The following charts show the portfolio of the RR investments at book and market value including accrued interest as of September 30, 2002.

RAILROAD RETIREMENT INVESTMENTS
AS OF SEPTEMBER 30, 2002
(In millions)





Railroad Retirement Account

On September 30, 2002 and 2001, the book values of the RR Account investments, including accrued interest, totaled $17,114,986,794 and $18,308,799,588, respectively. The balance on September 30, 2002, consisted of $10,892,900,400 in market-based notes and bonds maturing from February 15, 2009 to February 15, 2017, with market yields ranging from 3.39 percent to 4.95 percent; $6,176,901,000 in 3.375 percent par value specials (with market value equal to face value) maturing on October 1, 2002; and $45,185,394 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. The balance on September 30, 2001, consisted of $10,408,352,622 in market-based notes and bonds maturing from February 15, 2009 to February 15, 2016, with market yields ranging from 4.64 percent to 5.61 percent; $7,845,741,000 in 4.5 percent par value specials (with market value equal to face value) maturing on October 1, 2001; and $54,705,966 in accrued interest. The average yields on all holdings of the RR Account for FY 2002 and FY 2001 were 5.27 percent and 5.79 percent, respectively. During FY 2002 and FY 2001, various market-based securities and bonds were sold yielding capital gains of $3.4 million and $198.4 million, respectively. It is anticipated that the reinvested sale proceeds will result in a larger yield than if the bonds had been held to maturity.

Social Security Equivalent Benefit Account

On September 30, 2002 and 2001, the book values of the Social Security Equivalent Benefit (SSEB) Account investments, including accrued interest, totaled $1,881,311,899 and $1,826,425,888, respectively. The balance on September 30, 2002, consisted of $1,877,071,000 invested in par value specials of 3.375 percent maturing on October 1, 2002, and accrued interest of $4,240,899. The balance on September 30, 2001, consisted of $1,821,130,000 invested in par value specials of 4.5 percent maturing on October 1, 2001, and accrued interest of $5,295,888. The average yields of all holdings of the SSEB Account for FY 2002 and FY 2001 were 4.24 percent and 5.31 percent, respectively.

Accounts Receivable - Non Federal

In FY 2002, the RRB's ending accounts receivable balance (prior to application of the allowance for doubtful accounts) was $38.4 million. During FY 2002, new receivables totaling $96.4 million were established. Returned payments and other adjustments of $24.4 million reduced the new receivables to $72 million. Recoveries for the fiscal year were $67.4 million. Debts waived in the amount of $1 million, plus debts written-off and closed out in the amount of $20.4 million, reduced the balance to $38.4 million. Debt written-off includes approximately $18 million of debt, delinquent for more than 2 years, which is classified as currently not collectible (CNC), as required by OMB Circular A-129. The ratio of collections to new receivables was 94 percent.

Our automated reclamation system identified and established $33.2 million in receivables resulting from erroneous benefit payments issued after the death of beneficiaries in FY 2002 and initiated $12.8 million in reclamations to Treasury. Payments returned prior to and after initiation of reclamation totaled $23.2 million. In addition, $9.4 million was reclaimed by Treasury in FY 2002.

In compliance with the Debt Collection Improvement Act of 1996 (DCIA), the RRB refers eligible debts delinquent more than 180 days to Treasury through the Cross-Servicing Program and instructs Treasury to refer all appropriate debt to the Treasury Offset Program (TOP). At the close of FY 2002, the RRB had referred debts totaling $15 million to Treasury for cross-servicing. Total program collections, net of Treasury collection fees, were $1.4 million. In addition, bankruptcy, probate and fraud cases referred to the Department of Justice generated $0.9 million in FY 2002. Pursuant to the DCIA, Treasury regulations, guidelines and contracts, no receivables were referred directly to private collection agencies. All recovery of RRB debt by private collection agencies, administrative wage garnishment and Federal salary offset are a result of referrals to the Cross-Servicing Program.

Major Issues Facing RRB

Actuarial Forecast

Presented in the Statement of Social Insurance for the Railroad Retirement Program on page 81 are our actuarial estimates of (1) the difference between future financing sources and expenditures for the Railroad Retirement Program between January 1, 2002 and December 31, 2076, and (2) the actuarial position of the account as of December 31, 2001. The actuarial position (surplus/deficiency) is not reflected in the financial statements in conformance with the guidelines in SFFAS No. 17.

The actuarial surplus or deficiency presented in the Statement of Social Insurance is based on estimated future financing sources and expenditures for future entrants as well as former and present railroad employees. Section 502 of the Railroad Retirement Solvency Act of 1983 requires the Railroad Retirement Board to prepare an annual report on the actuarial status of the railroad retirement system. The 2002 Section 502 Report projected the status of the retirement trust funds under three employment assumptions. The report indicates that cash flow problems are projected only under a pessimistic employment assumption and then not until calendar year 2022. The long-term stability of the system, however, is still questionable. Under the current financing structure, actual levels of railroad employment and investment performance over the coming years will largely determine whether corrective action is necessary.

National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) was established pursuant to Section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) that was signed into law on December 21, 2001. The RRSIA set February 1, 2002, as the date that the NRRIT was to become effective.

The NRRIT is to manage and invest railroad retirement assets. The RRSIA authorizes the NRRIT to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of Railroad Retirement Account assets was limited to U.S. Government securities.

The NRRIT's Board of Trustees is comprised 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 Trustees.

In March 2002, the RRB transferred $2 million to the NRRIT to provide a pool of funds for administrative activities. The RRB also worked with the NRRIT, the Department of the Treasury and the Office of Management and Budget in finalizing a comprehensive memorandum of understanding on accounting and financial reporting responsibilities.

During FY 2002, the Trustees took steps to establish an investment strategy. They also adopted governing by-laws, several policy guidelines on internal administrative issues, and selected a Chief Investment Officer, a custodial institution, and an accounting/auditing firm.

In August 2002, the Trustees unanimously adopted a final Asset-Liability/Asset Allocation Study. The study sets the overall diversification targets for the broad asset classes: equity and fixed income, as well as targets for sub-asset classes such as domestic and international equity; private equity; and investment grade and high yield bonds.

With the completion of the study, the Trustees were in a position to develop a specific set of investment guidelines for the NRRIT. Such guidelines were adopted by the NRRIT on August 21, 2002.

In March 2002, the RRB transferred $2 million from the Railroad Retirement Account to NRRIT to cover operating expenses. In September 2002, the RRB transferred $1,429,588,907.88 from the Railroad Retirement Account and $70,411,092.12 from the Railroad Retirement Supplemental Account, for a total of $1.5 billion, to the NRRIT. Once this transfer was made, the Railroad Retirement Supplemental Account ceased to exist in accordance with Section 106 of the RRSIA. Upon receipt of the funds, the NRRIT began the diversification of investments contemplated by the RRSIA.

Going forward the RRB will continue to implement provisions of the RRSIA, including transferring additional funds to the NRRIT. In fiscal year 2003 (through January 24, 2003), the RRB has transferred $10.25 billion to the NRRIT, which is in addition to the $1.502 billion transferred in FY 2002.

Systems and Controls

FMFIA Assurance Statement for Fiscal Year 2002

On December 20, 2002, the Railroad Retirement Board reported to the President that the results of its fiscal year 2002 evaluation of controls prescribed by the Federal Managers' Financial Integrity Act (FMFIA), as well as other information (such as internal and external audits), provide reasonable assurance that the RRB's system of controls, taken as a whole, is in compliance with Section 2, Internal Controls, and Section 4, Financial Systems, of the FMFIA.

The Railroad Retirement Board (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.

Management Control

To ensure compliance with the FMFIA, the RRB has divided its activities functionally into 46 assessable units encompassing program, administrative, and financial operations. The number of assessable units varies 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 all assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management attention. High impact and vulnerable assessable units are scheduled for periodic, in-depth reviews as deemed necessary by the Managment Control Review Committee in consultation with senior management.

During FY 2002, responsible officials assessed and certified 45 of 46 assessable units and performed in-depth reviews of 4 assessable units. Since passage of the FMFIA in 1982, the RRB has identified 72 material weaknesses and corrected 71.

Risk Management is the assessable unit that is not being certified because deficiencies in operational and technical controls constitute a material weakness in the RRB's Information Security Program and non-conformance with the security requirements for Federal financial systems. The weakness and the actions to correct it were reported in our September 16, 2002, report to the Office of Management and Budget submitted pursuant to the provisions of the Government Information Security Reform Act (GISRA) and in the FMFIA report to the President.

Financial Management

The RRB uses modern management techniques, automation, and integrated financial management systems to support its mission and achieve the objective of the FMFIA to standardize and modernize Federal government financial systems and establish fiscal accountability. The RRB financial management systems incorporate internal reviews and controls to ensure operability and accountability and provide an accurate, timely, reliable and flexible source of financial and management information.

The RRB core financial management functions are centralized in mainframe-based Federal Financial System (FFS) software offered by American Management Systems, Inc. FFS complies with the Core Financial System Requirements established by the Joint Financial Management Improvement Program, including support of the U.S. Government Standard General Ledger and prompt payment legislation requirements. It also complies with the related requirements established by the General Accounting Office, the Office of Management and Budget, and the Department of the Treasury.

Core FFS components support budget formulation and execution, general ledger and trust fund accounting, procurement and accounts payable, travel management, fixed assets and inventory control. A Program Accounts Receivable System developed from the accounts receivable component of FFS supports management of receivables arising from benefit payment programs and complies with debt collection legislation.

A mainframe-based payroll and personnel system, developed from off-the-shelf computer software offered by Tesseract Corporation, provides distributed on-line entry of time and attendance information and electronic interfaces with appropriate FFS components.

Cost distribution is provided by a local area network based cost accounting system using mainframe data. The cost accounting system could be used, if needed, to account for costs on a project basis.

Kenneth P. Boehne
Chief Financial Officer

Peter A. Larson
Director of Fiscal Operations