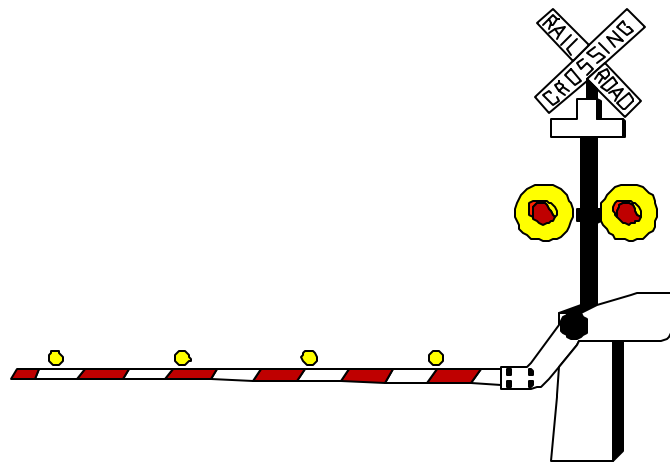


# **SEMIANNUAL REPORT TO THE CONGRESS**

**OCTOBER 1, 2001 - MARCH 31, 2002**

OFFICE OF INSPECTOR GENERAL  
RAILROAD RETIREMENT BOARD



**Railroad Retirement Board-Office of Inspector General  
Semiannual Report to the Congress  
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## ***EXECUTIVE SUMMARY***

This Semiannual Report describes the activities of the Office of Inspector General (OIG) at the Railroad Retirement Board (RRB) during the six month period ending March 31, 2002.

The OIG issued its audit report of the RRB's financial statements, related internal controls and compliance with laws and regulations. The report cited material weaknesses in the agency's overall control environment and system of information security, and a reportable condition related to debt recovery accounting. Auditors also conducted an evaluation of the RRB's information system security program and practices that disclosed weaknesses in most areas of the agency's information security program. The OIG continued to closely monitor the RRB's investment activities and the impact of the recently enacted Railroad Retirement and Survivors' Improvement Act.

The Office of Audit also performed other reviews related to internal controls, the agency contract for medical consulting services, and the quality assurance program for initial benefit awards.

The Office of Investigations achieved 24 convictions, 17 indictments and informations, and \$573,473 in recoveries, restitutions, fines, civil damages, and penalties.

## ***INTRODUCTION***

### ***Office of Inspector General***

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

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

In fiscal year 2002, the OIG has 54 employees and an operational budget of \$6,261,000. The organization has three major components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The office conducts operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

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***Railroad Retirement Board***

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

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

During fiscal year (FY) 2001, the RRB paid \$8.4 billion in retirement and survivor benefits to approximately 700,000 beneficiaries, while net unemployment and sickness insurance benefits of \$95 million were paid to almost 40,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$762 million to provide medical insurance benefits for 590,000 beneficiaries.

## **SIGNIFICANT ISSUES**

### **FINANCIAL STATEMENT AUDIT**

On February 8, 2002, the Office of Inspector General (OIG) issued its audit report of the RRB's financial statements, related internal controls and compliance with laws and regulations. Auditors reported material weaknesses in the agency's overall control environment and system of information security, and a reportable condition related to debt recovery accounting.

#### **Overall Control Environment**

As in previous audits of the agency's financial statements, the OIG cited the overall control environment as a material weakness. The conditions that led to the original finding continue to exist - the present administrative structure is the primary cause. The internal control environment remains focused on control objectives and techniques designed to meet organizational responsibilities of each individual operating unit, not the overall objectives of the RRB.

Agency management believes reorganizations and changes in the role of the RRB's Executive Committee have eliminated this material weakness. As a result, the agency did not include this finding in its Federal Managers' Financial Integrity Act reports for fiscal years 1997-2001. Although the RRB has implemented changes to the agency's organizational structure, the OIG stated that auditors have not observed a related change in the agency's organizational culture.

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**Information Security**

During fiscal year 2001, the OIG conducted a review of the RRB's information security program to assess agency compliance with the provisions of the Government Information Security Reform Act. The review identified significant deficiencies in program management and access controls. These deficiencies indicate that the agency's information security program is a source of material weakness in internal control over financial reporting. The OIG reported its assessment to agency management in the form of an executive summary dated September 5, 2001. Detailed findings were published in OIG Audit Report Number 02-04, dated February 2, 2002. (A description of this report is provided on page 7 of this report.)

**Accounting for Benefit Overpayment Recoveries**

In fiscal year 2000, the OIG identified weaknesses in internal control over debt recovery transactions that adversely impact the ability of the agency to ensure the reliability of financial reporting and the safeguarding of accounts receivable. Errors were detected in debt recovery transactions that included returned benefit payments that had not been credited to debtor accounts; benefit payments that had been erroneously credited to debtor accounts as recoveries; and delayed recording of certain debt recoveries. An examination of these errors indicated weaknesses in the related internal controls. Although management has implemented some OIG recommendations, they have not taken the recommended actions in several key areas.

## **INVESTMENT COMMITTEE ACTIVITIES**

The Office of Inspector General has closely monitored the activities of the RRB's Investment Committee and identified serious control weaknesses that included the lack of a consistent long-term investment strategy, poor cash management practices, and a lack of documentation to justify investment decisions.

On December 21, 2001, the Railroad Retirement and Survivors' Improvement Act (RRSIA) was signed into law. The legislation contains significant changes in the structure and financing of future benefits, as provided by the Railroad Retirement Act (RRA). In addition to the benefit and tax provisions, the RRSIA establishes the National Railroad Retirement Investment Trust (NRRIT) and an independent board of seven trustees with the responsibility for the investments used to support RRA benefit programs. Of the seven trustees, three will represent the interest of labor, three will represent the interests of management, and one will be an independent member.

On January 28, 2002, the OIG issued a management information report recommending that the Board Members immediately rescind the investment authority it had delegated to the agency's Investment Committee. This recommendation was made to ensure that the Investment Committee's activities do not complicate the transfer of investment authority to the Trust. The Board Members disagreed with the recommendation, stating that the Board will continue to have statutory authority to invest trust fund monies after the NRRIT is operational. They also stated that, if investment opportunities arise, the Investment Committee should be in a position to exercise the Board's investment authority.



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To date, the labor and management members of the Trust have been named; these individuals will soon elect the trustee for the public interest. On March 15, 2002, the Board transferred \$2 million to the trust for the payment of various start-up operational expenses of the trust. Negotiations among the RRB, the Department of the Treasury, and the Trust continue to ensure the timely and effective transfer of investment authority for approximately \$18 billion in trust funds.

The OIG will continue to monitor the agency's activities to ensure the requirements of RRSIA are met.

**COMPLIANCE WITH THE  
GOVERNMENT INFORMATION SECURITY REFORM ACT**

In accordance with the provisions of the Government Information Security Reform Act, OIG auditors conducted an evaluation of the RRB's information system security program and practices. Review results disclosed weaknesses in most areas of the agency's information security program. Security responsibilities are fragmented throughout the agency. As a result, auditors cited the program as a source of material weakness in internal control over financial reporting. This report contained 28 recommendations for corrective action.

The most significant weaknesses related to program management and access controls. Other identified weaknesses included passwords that do not expire, inactive and duplicate accounts, and information system privileges for separated employees and contractors that had not been revoked.

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Auditors found that employees with decision-making responsibilities for information system security had not been provided with adequate formal training in theory, principles and practices of system security. As a result, some employees do not have the necessary knowledge base to support the security-related decisions required by their positions.

The OIG report also cited the agency for weaknesses in the security planning and evaluation process, inadequacies in the design of controls intended to restrict individual privileges to the minimum required by their employment, and a lack of documentation for some security-related activities. The lack of a strong framework with a central management focal point is the underlying cause for numerous situations in which the controls that have been designed and placed into operation are less than fully effective.

The agency's Bureau of Information Services has taken, or is planning to take, corrective action in response to most of the recommendations presented in the report. However, bureau management has noted that limited resources and other security priorities will make it difficult to establish target dates for implementation that are the responsibility of a newly created risk management group.

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## **OFFICE OF AUDIT**

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

During this reporting period, OA issued its audit of the RRB's financial statements for fiscal year 2001 and continued its review of the information security of the agency's systems. Auditors also conducted oversight for the development of the agency's document imaging system, legislative changes to the Railroad Retirement Act, and the investment activities of the RRB.

In addition to the reports described under the Significant Issues section of this report, the OIG performed other audits and reviews that are summarized in the following pages.

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**Weaknesses in RRB Controls for Protecting Social Security Numbers**

The OIG is currently participating in a review of controls over the access, disclosure and use of social security numbers (SSNs) by Federal agencies that is being conducted by the President's Council on Integrity and Efficiency.

Initial testing performed by auditors indicated that the agency is not adequately protecting SSNs and other sensitive information from unauthorized disclosure. Due to the sensitive nature of data that was left unsecured and subject to unauthorized disclosure, auditors issued this report to alert RRB management of the need for immediate corrective action.

Documents containing SSNs and sensitive information were found in storage containers, unlocked trash containers and trash bags located in the elevator lobbies on seven different floors of the headquarters building as well as in work areas. Discarded documents contained names, addresses, SSNs, dates of birth and numerous medical records of individuals.

Auditors also found a number of plastic cards used to produce temporary building admittance identification cards that had been discarded in a box in the headquarters building. Such cards could be altered and taken by anyone in the building, including employees, cleaning personnel or contractors, and used to provide building access to unauthorized individuals.

This report recommended that management immediately take steps to protect SSNs and other sensitive data by securing documents identified for disposal in locked containers on each floor of the headquarters building.

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The Senior Executive Officer (SEO) has issued an instructional memorandum to all agency employees concerning the protection of SSNs and other sensitive data against unauthorized disclosures. The SEO has also ensured that locked shredding containers are located on each floor of headquarters, and that all unused identification cards have been secured.

**Inspection of the Railroad Retirement Board's Quality Assurance Program for Initial Benefit Awards**

The agency's Office of Programs established a quality control function to provide management with timely information on the accuracy of initial benefit payments. The quality assurance staff conducts reviews of initial employee, spouse and widow(er) applications and manually processed post-adjudication actions. This group conducts a stratified, random sampling of cases processed during the fiscal year to determine accuracy rates as well as compliance with policies and procedures. Semiannually, personnel representing various components within the Office of Programs meet to discuss pertinent errors, present solutions to problems, and to reach agreement on corrective actions.

The Office of Programs' 1997 Plan for Quality included information on the planned use of Statistical Process Control (SPC), a technique used to identify variances in the processing of a product or service and to provide statistically sound projections of quality and timeliness. Management identified SPC as the technique best suited to control and improve the quality of services within the Office of Programs.

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A pilot project using SPC for sickness applications was conducted for two years, but then discontinued because management determined this method was too labor intensive. However, some employees misinterpreted this action as the end to all SPC reviews. Management responded by stating that, although all aspects of SPC may not be implemented, this technique would continue to be used when and where needed.

OIG auditors recommended that the Office of Programs clarify its intentions for using SPC services. Management concurred and will address the principles to be used in measuring and improving quality in the customer quality assurance plan targeted for completion by September 30, 2002.

**Review of the Railroad Retirement Board's Internal Controls Related to Changes in the Full Retirement Age**

In 1983, legislation amending the Social Security Act was enacted that mandated a gradual increase in the full retirement age from 65 to 67. This change also impacts railroad retirees because the Railroad Retirement Act (RRA) uses the same full retirement age as the Social Security Act. In addition, any individual who reached early retirement age in calendar year 2000 or later is affected by this amendment. Because benefits are reduced for each month that an individual is under full retirement age, the maximum annuity reduction is now gradually increasing from 20% to 30%.

Auditors conducted a review to ensure that the changes in the full retirement age have been incorporated into agency policies, procedures and payment systems, and that the agency is computing benefits in compliance with those changes. The review indicated that the overall system of management

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controls provides reasonable assurance that annuities awarded in calendar year 2000 accurately reflected the change in the full retirement age. The agency's current quality assurance functions also provide an effective means to detect errors in the calculation of benefits related to the age changes.

Auditors did identify that the agency had not updated its regulations related to delayed retirement credits and employee disability benefits to reflect changes in the full retirement age. However, the current regulations do not impact benefit payments currently being paid in these categories because the impacted individuals will not reach age 65 or full retirement age until 2003 or later. The regulations do provide inaccurate information about the administration of RRA programs. Auditors recommended that the agency draft amendments to update the regulations in this area. As a result, the amendments were drafted, recently approved by agency management, and will be forwarded for publication and comment in the Federal Register.

**Review of the RRB's Contract With Consultative Examinations, Ltd. For Medical Consulting Services**

The Railroad Retirement Act mandates that the RRB administer a disability program for railroad workers and their dependents. The agency is responsible for evaluating evidence submitted in support of disability applications, obtaining additional evidence when necessary, and awarding/denying disability benefits. The agency utilizes the services of medical consultants to provide advisory medical opinions, offer medical expertise, and consult on disability benefit and claim matters.

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This audit revealed that improvements are necessary to improve the RRB's monitoring of its contract with Consultative Examinations, Ltd. (CEL), the current contractor for medical consulting services. During an unannounced visit to CEL facilities, auditors determined that the contractor is not adhering to the provisions of its contract with the RRB. CEL is (1) not providing adequate security for RRB claim folders that contain confidential information on RRB annuitants and are subject to the Privacy Act; (2) not performing a sufficient quality assurance review or submitting quarterly quality assurance review reports to the RRB; and (3) not providing current medical licenses for all doctors preparing medical opinions under the contract.

The OIG issued recommendations to ensure the RRB addresses the identified weaknesses by establishing procedures to ensure CEL is in compliance with all terms of the contract. Auditors also recommended that the agency perform periodic, unannounced reviews of the CEL facility. Management concurred with the report findings and scheduled all corrective actions for completion by June 30, 2002.



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**AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION**

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

**Management Decisions**

Recommendations requiring a management decision on October 1, 2001	3
New recommendations issued during this period pending a management decision	0
Previous recommendations for which a management decision was made	<u>0</u>
Number of recommendations pending a management decision on March 31, 2002	3

**Corrective Actions**

Prior recommendations requiring action on October 1, 2001	109
New recommendations issued during this period	44
Recommendations for which corrective actions were completed from October 1, 2001 - March 31, 2002	<u>- 54</u>
Recommendations pending final action on March 31, 2002	99

## OFFICE OF INVESTIGATIONS

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

During this reporting period, OI received an anonymous hotline call from an irate woman who, while leaving a message, made several threats against President Bush. OI agents traced the call to an address in Washington, D.C., and referred the matter to the U.S. Secret Service. Based on this referral, the woman was located, arrested and placed in a mental facility by agents from the Secret Service. The Secret Service later advised OI that the woman was of record with that agency for previously making threats against individuals protected by that agency.

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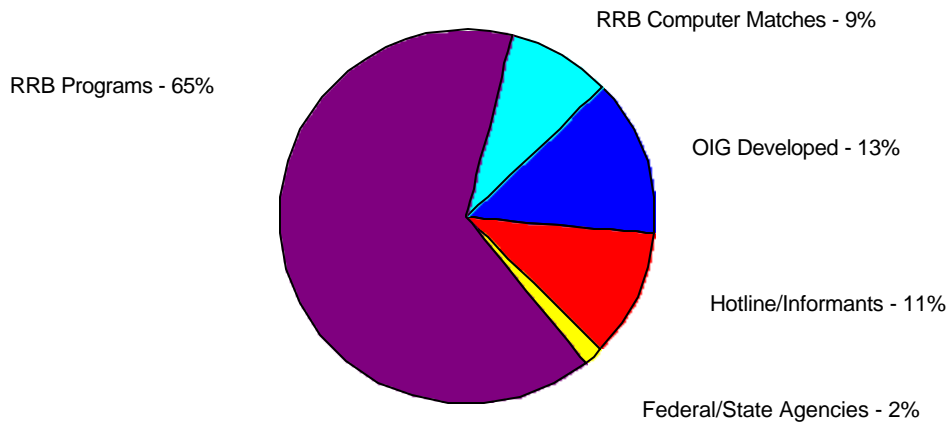
<b>INVESTIGATIVE ACCOMPLISHMENTS</b>	<b>FY 2001</b>	<b>10/01/01 - 03/31/02</b>
Convictions	51	24
Civil Judgements	53	24
Indictments/Informations	37	17
Investigative Recoveries	\$ 297,792	\$ 82,558
Restitutions and Fines	\$ 942,219	\$ 285,119
Civil Damages and Penalties	\$ 761,637	\$ 205,796
Potential Economic Loss Prevented (PELP)	\$ 754,256	0
Community Service Hours	580	408
Disciplinary/Administrative Action	1	0
Civil Complaints	24	3
Criminal Complaints	5	2
Arrests	2	1
Subpoena Service:		
Inspector General	17	4
Federal Grand Jury	32	18
Trial	0	9
Program Fraud Civil Remedies Act Referrals	5	0
U.S. Attorney Referrals	404	117

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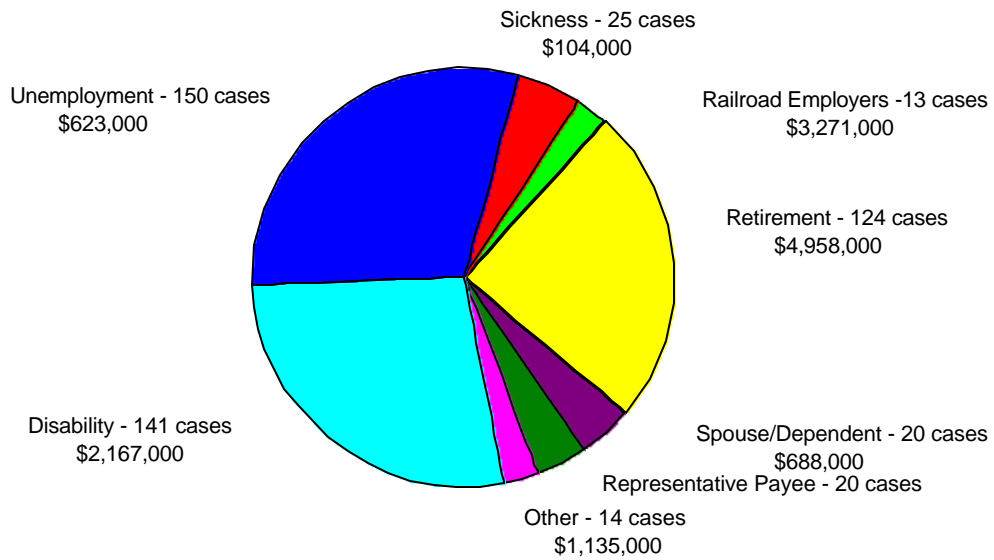
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**INVESTIGATIVE CASES**

During this semiannual period, OI opened 91 investigations and closed 120 cases. The major sources of case referrals are illustrated below.



OI's current caseload totals 507 criminal matters, representing approximately \$13 million in fraud against the RRB.



## **REPRESENTATIVE INVESTIGATIONS**

### **Railroad Employer Fraud**

OI investigates cases involving false reporting by railroad employers. Such cases are often worked jointly with the Internal Revenue Service under the direction of the Department of Justice Tax Division attorneys. These cases can involve complex fraud schemes which result from collusion among railroad employers, retired railroad workers and third party employers. These schemes have a substantial impact on the agency's trust funds because the retirees are receiving benefits to which they are not entitled and, at the same time, the employers are not submitting contributions to the trust funds as required.

By law, railroad employers are required to advise the agency of changes in their operations, organization or ownership that would affect their status for coverage under the Railroad Retirement and Railroad Unemployment Insurance Acts. The OIG has found that, due to a minimal policing of employers by the agency, it is very easy for employers to assign employees to affiliated business entities and report them as being covered under the Federal Insurance Contributions Act. Some employers have transferred employees to temporary employment agencies or payroll servicing companies to carry out the fraud.

OI continues to review the results of audits conducted by the agency's Audit and Compliance Division to identify fraud matters related to railroad employers. OI currently has 13 open cases involving allegations related to railroad employers.

## **Retirement Benefit Investigations**

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained seven convictions and four civil judgements for retirement fraud. Defendants received six months and nine days imprisonment, 16½ years probation, nine months house arrest, and were ordered to pay \$129,631 in restitution, \$9,534 in penalties and \$30,796 in damages. The RRB will recover \$35,421 in overpayments as a result of OIG investigations.

Examples of recent retirement cases follow.

- An RRB District Office referred a case involving a widow annuitant who had died ten years ago but whose RRB annuity benefit checks were being cashed by a relative. The subsequent OI investigation determined that the annuitant had died on July 11, 1990, but no notification of her death was sent to the RRB. From August 1990 to February 2001, her son received and negotiated 127 checks by forging his mother's name, resulting in the theft of \$103,583 in RRB administered retirement benefits. On February 26, 2002, the subject pleaded guilty to Title 18, U.S.C. §641, Theft of Government Funds. He was sentenced to five months imprisonment, five months of home confinement, and then will be placed on supervised release for three years. He was also ordered to make full restitution to the RRB.

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- A referral from the Social Security Administration (SSA) indicated that an RRB widow annuitant may be claiming benefits to which she was not entitled due to remarriage. An SSA representative had interviewed an applicant for retirement benefits who indicated his wife did not wish to apply for benefits because she was currently receiving RRB benefits. The wife's first husband, an RRB annuitant, had died, but information of his death had not been provided to the RRB. The wife also had failed to notify the RRB of her remarriage.

On February 14, 2002, the woman was convicted on one count of Title 18, U.S.C. §641 Theft of Public Money. She was sentenced to five years probation and ordered to make restitution of \$41,865.

- Based upon a referral from the RRB's Debt Recovery Division, OI initiated another investigation concerning a widowed annuitant who had reportedly died in 1998. The annuitant's daughter had failed to notify the RRB of her mother's death. Government funds totaling \$8,420 continued to be issued via U.S. Treasury checks that were negotiated by the woman's daughter and niece.

The women subsequently entered into Consent Judgements and agreed to make restitution to the government totaling \$15,830. The RRB will receive the original fraudulent overpayment amount, and the Department of Justice will receive the remaining \$7,410.

## **Unemployment and Sickness Insurance Investigations**

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. The primary source of UI/SI fraud cases remains state computer matching programs that compare RRB beneficiaries with individuals for whom wages have been reported.

During this reporting period, OI obtained 15 convictions and 19 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, 16 months imprisonment, 28½ years probation, and two months house arrest. They were ordered to pay \$79,756 in restitution, \$96,158 in damages, \$10,000 in fines, \$35,708 in civil penalties and to perform 408 hours of community service. The RRB will also be able to recover an additional \$21,928 as a result of OI investigations.

Based on information developed from the state wage matching programs, the RRB's Sickness and Unemployment Insurance Division referred the cases described below to OI for followup investigation. In all the cases, the initial allegations indicated that the subjects had collected unemployment insurance benefits while working for private employers.



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- OI investigated an employee of a large grocery chain in Maryland and discovered that she had fraudulently collected UI benefits from June through December 1997. She failed to reveal this employment to the RRB, submitted 14 false claims to the RRB, and collected benefits totaling \$5,491 for 125 days while she was employed. On March 4, 2002, a Civil Judgement by Default was entered against the subject for a violation of Title 31, U.S.C. §3729(a), False Claims Act for \$116,086, plus post judgement interest from the date of the judgement until paid in full.
  
- OI investigation of another subject identified a construction worker who falsely collected UI benefits for 150 days while he was employed. He had previously been arrested and/or convicted of armed robbery, assault and narcotics possession. The subject has submitted 18 false claims, resulting in a theft of \$5,790. A Civil Judgement by Default was also entered against this subject for violation of the False Claims Act for \$17,370, plus post judgement interest from the date of the judgement until paid in full.
  
- A third subject, an employee of a major delivery service, collected benefits for 153 days while employed. He submitted 33 false claims to the RRB, resulting in the theft of \$6,148. He received a Default Judgement and was ordered to pay \$16,920.

## **Disability Investigations**

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. During this reporting period, OI obtained one civil judgement and one criminal conviction for disability fraud. One individual was sentenced to three years probation. Defendants in these cases were ordered to pay \$23,868 in restitution, and \$33,600 in civil damages and penalties. An additional \$16,063 in overpayments will be recovered as a result of OI investigations concerning disability fraud cases.

A description of a typical disability case follows.

- Based upon a hotline complaint, OI opened an investigation of an annuitant who was allegedly operating a lumber sawmill business and collecting RRB administered disability benefits. Disability annuitants are restricted to earning not more than \$400 monthly or a total of \$4,999 per year. The investigation revealed that the annuitant had owned and operated an incorporated business since March 1992. He had falsified his disability application, failed to notify the RRB of his employment and did not report his earnings, as required. As a result, an overpayment was calculated at \$43,838.

On February 12, 2002, the annuitant pleaded guilty to one count of violating Title 18, U.S.C. §1001, False Statements. He was sentenced to six months of home confinement, placed on five years probation, fined \$2,000 and ordered to make restitution to the RRB for the total overpayment amount.

## **AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM**

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

During this reporting period, a total of 16 civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$123,608 to the government when the funds are collected.

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

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

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## **HOTLINE CALLS**

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

	<b><u>10/01/01 - 03/31/02</u></b>
Total Contacts: (Telephone Calls and Letters)	671
Referred to: RRB-OIG, Office of Investigations	29
RRB Bureaus/Offices	376
Other Federal Agencies	13
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	7
Other (misdirected calls, follow up calls to agents , etc.)	246

## **LEGISLATIVE & REGULATORY REVIEW**

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

The OIG continued to monitor the progress of the Railroad Retirement and Survivors' Improvement Act. The legislation was signed into law on December 21, 2001. A brief discussion of the impact of the law on the agency's investment activities can be found on page 6 of this report.

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***APPENDIX A - OIG REPORTS ISSUED***

- P Review of the Railroad Retirement Board's Internal Controls Related to Changes in the Full Retirement Age, December 10, 2001
  
- P Review of the Railroad Retirement Board's Contract with Consultative Examinations, Ltd. for Medical Consulting Services, January 4, 2002
  
- P Management Information Report - Monitoring of Investment Committee Activity, January 28, 2002
  
- P Review of Information Security at the Railroad Retirement Board, February 5, 2002
  
- P Fiscal Year 2001 Financial Statement Audit, February 8, 2002
  
- P Management Information Report - Weaknesses in RRB Controls for Protecting Social Security Numbers, February 13, 2002
  
- P Inspection of the Railroad Retirement Board's Quality Assurance Program for Initial Benefit Awards, February 14, 2002

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**APPENDIX B**

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A . For which no management decision had been made by October 1, 2001	0	0	0
B. Which were issued from October 1, 2001 through March 31, 2002	0	0	0
Subtotals (A+ B)	0	0	0
C. For which a management decision was made from October 1, 2001 through March 31, 2002	0	0	0
(I) dollar value of disallowed costs	0	0	0
(li) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by March 31, 2002	0	0	0
Reports for which no management decision was made within six months of issuance	0	0	0

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

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by October 1, 2001	1	\$ 520,000
B. Which were issued from October 1, 2001 through March 31, 2002	0	
Subtotals (A + B)	1	\$ 520,000
C. For which a management decision was made from October 1, 2001 through March 31, 2002	0	
(I) dollar value of recommendations that were agreed to by management	0	
(ii) dollar value of recommendations that were not agreed to by management	0	
D. For which no management decision had been made by March 31, 2002	1	\$ 520,000
Reports for which no management decision was made within six months of issuance	1	\$ 520,000



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***APPENDIX C - REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES***

The FY 1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities. Figures are to be provided for each semiannual period and as a cumulative number.

**Office of Audit**

<u>Report</u>	<u>Funds to be Put To Better Use</u>	<u>Funds Agreed by Management</u>	<u>Receivables Established</u>	<u>Waivers</u>	<u>Recoveries To Date</u>
99-03	\$ 50,850	\$ 50,850	\$ 50,850	\$ 50,490	\$ 360
99-14	\$ 83,000	\$ 83,000*	\$ 34,423		\$ 30,584
99-16	\$ 48,000,000	\$ 48,000,000			
99-17	\$ 11,000,000	\$ 11,000,000			
00-16	\$ 235,000	\$ 235,000			\$ 253,846**

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

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

**Office of Investigations**

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

October 1, 1998 - March 31, 1999	\$ 344,465
April 1, 1999 - September 30, 1999	\$ 511,190
October 1, 1999 - March 31, 2000	\$ 495,402
April 1, 2000 - September 30, 2000	\$ 542,732
October 1, 2000 - March 31, 2001	\$ 457,015
April 1, 2001 - September 30, 2001	\$ 533,341
October 1, 2001 - March 31, 2002	\$ 403,384

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**APPENDIX D - RRB MANAGEMENT REPORTS\***

**MANAGEMENT REPORT ON FINAL ACTION  
ON AUDITS WITH DISALLOWED COSTS FOR  
THE SIX MONTH PERIOD ENDING MARCH 31, 2002**

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

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

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**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS  
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE  
FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2002**

	<u>Number</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	3	\$ 59,007,145 *
B. Audit reports on which management decisions were made during the period.	1	\$ 529,996 **
C. Total audit reports pending final action during the period. (A + B)	4	\$ 59,537,141
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented.	0	0
2. Value of recommendations that management concluded should not or could not be implemented.	0	0
3. Total of 1 and 2.	0	0
E. Audit reports needing final action at the end of the period (C - D.3).	4	\$ 59,537,141

\* Comprised of the following amounts: \$48,000,000 from Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change;" \$10,606,200 from Audit Report 99-17, "Review of Supplemental Annuities;" and \$400,945 from Audit Report 00-12, "Review of Tier 1 Reductions for Other Disability Benefits." The last figure represents combined over- and underpayments from individual case adjustments.

\*\* Comprised of \$529,996 from Audit Report 01-11, "Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments." During the reporting period, one account was adjusted by paying an individual \$89,996. However, actions associated with recommendations accounting for the remaining \$440,000 remained open at the end of the reporting period.

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**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 2002**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Initial Claims Processing (96-15)	09/20/96	None	None	A new computer system, scheduled for development in Fiscal Year (FY) 2002, will measure processing time for initial benefits. This should address the remaining recommendation.
Review of Quality Assurance Activities (97-06)	01/22/97	None	None	The remaining recommendation will be addressed as the agency develops a long-term quality assurance plan during FY 2002.
Review of Non-Priority Correspondence Handling (97-09)	03/13/97	None	None	The Office of Programs hopes to finish evaluating options for correspondence tracking in FY 2002 in order to close the remaining recommendation.
Review of Duplicate Postings of Railroad Compensation (97-19)	07/31/97	None	None	Needed programming changes to suppress duplicate earnings referrals are scheduled for completion in FY 2002. This should address the last open recommendation.
Review of Overpayments SSA Transfer Cases (97-22)	08/25/97	None	None	While system changes were made to automate non-death termination cases, preliminary tests revealed the need for added programming. After the changes are completed, some further testing will be required.

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**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
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<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Vested Dual Benefits Appropriations (98-15)	06/16/98	None	None	The agency will review the feasibility of benefit component accounting as part of its overall strategic planning process for information technology.
Review of Computer Problem and Change Management Process (99-05)	02/12/99	None	None	The Bureau of Information Services is implementing a reorganization of the help desk approval in December 2001. This should address the remaining open recommendation.
Review of Railroad Unemployment Insurance Act Contributions (99-14)	09/21/99	None	None	The agency is making programming changes to automate the reconciliation process for unemployment insurance reports/payments. The first phase should be completed in FY 2002. Planning and design of the remaining work will occur at that time.
Financial Interchange: Status of Prior Recommendations for Change (99-16)	09/28/99	None	\$48,000,000	The agency provided additional information to the Social Security Administration in December 2001 in support of revising Financial Interchange calculations to reflect unrecovered overpayments.

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<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Supplemental Annuities (99-17)	09/30/99	None	\$10,606,200	The agency has requested additional information on private pensions from some railroad employers and is in the process of correcting identified cases to close the remaining recommendations.
Review of Internal Controls Over Fixed Assets (00-01)	10/05/99	None	None	The agency purchased new software to improve its fixed asset tracking system and is in the process of installing and testing it.
Information Systems Security (INFOSEC) Assessment Report	06/28/00	None	None	The agency has implemented nine recommendations, with six still open. The agency's new information security officer, named in February 2002, will help address the remaining ones.
Review of Tier 1 Reductions for Other Disability Benefits (00-12)	08/04/00	None	\$ 400,945	The agency completed corrective action on the remaining open recommendation on April 30, 2002.
Review of the RRB's Compliance with the Critical Infrastructure Assurance Program (00-13)	08/09/00	None	None	The agency completed a preliminary review of computer security plans and is in the process of updating security plans for all systems during FY 2002.

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<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of the Processing of Automated Receivables, Reclamations and Credits (ARRC) System Referrals (00-14)	08/11/00	None	None	While system changes were made to improve recovery of representative payee overpayments, testing indicated a need for further programming. Once it is finished, added testing will be needed.
Review of Information Technology Contracts (00-15)	09/06/00	None	None	Corrective action on the remaining recommendation will be completed when the agency's wide-area network is fully installed and operational.
Review of Internal Control Over Financial Accounting for Debt Recoveries (00-16)	09/29/00	None	None	Final action on the three remaining open recommendations is contingent on completion of programming changes of automated systems and associated development of new procedures.
Review of Document Imaging - Railroad Unemployment Insurance Act Programs (01-01)	11/17/00	None	None	The agency completed corrective action on 16 recommendations. The remaining one will be addressed as the agency takes advantage of a new data storage system and expands backup capabilities to all local area network servers.

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OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
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<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Audit of the RRB's FY2000 Financial Statements (01-03)	02/23/01	None	None	The agency completed corrective action on three recommendations. The Bureau of Information Services is in the process of improving documentation for resolving reported mainframe problems to address the remaining recommendation.



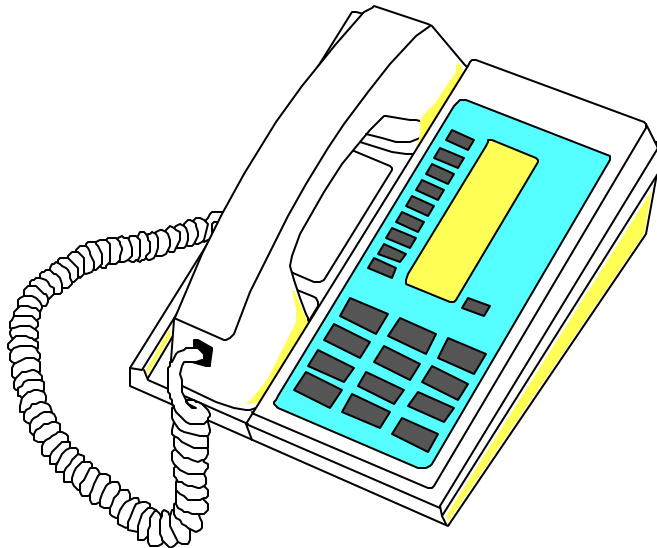
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## ***APPENDIX E - REPORTING REQUIREMENTS***

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Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	None
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Section 5(a)(5) - Instances Where Information Was Refused	None
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Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
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 <b>Management Requirements</b>	
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**REPORT**  
**FRAUD, WASTE AND ABUSE**



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