

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	2
SIGNIFICANT ISSUES	3
OFFICE OF AUDIT	
Mission	8
Report Summaries	9
Audits: Management Decisions and Implementation	14
OFFICE OF INVESTIGATIONS	
Mission	15
Accomplishments	16
Investigative Cases	17
Affirmative Civil Enforcement Program	18
Representative Investigations	19
Hotline Calls	25
REVIEW OF LEGISLATION AND REGULATIONS	26
APPENDICES	
(A) OIG Reports Issued	27
(B) OIG Reports Issued Involving Questioned Costs and Recommendations That Funds Be Put To Better Use	28
(C) Report on Receivables, Waivers, and Recoveries	30
(D) Previously Reported Significant Recommendations on Which Corrective Action Has Not Been Completed	31
(E) RRB Management Reports	32
(F) Cross References to Inspector General Act	38

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, 2000.

We continued our two major monitoring projects of the Railroad Retirement Board's (RRB) Year 2000 Project and the activities of the Investment Committee. Our review of the century rollover determined that the agency experienced only minor problems and quickly made all necessary changes. We still have serious concerns regarding the activities of the Investment Committee and its active trading of the agency's portfolio. During this reporting period, we reviewed proposed legislative changes drafted by rail labor and rail management. One proposed change would eliminate the current Investment Committee, and create a new Railroad Retirement Account Investment Board. We provided RRB management with our comments and questions on the proposals. We are also consulting with agency managers concerning the Document Imaging Implementation Plan to ensure RRB compliance with all applicable laws and regulations.

The Office of Audit completed the fiscal year 1999 financial statement audit, and again included a disclaimer of opinion. Auditors also cited the overall control environment of the agency as a material weakness. Four additional reports were issued concerning internal controls, exchange of death information between the RRB and the Social Security Administration, and the payment of benefits by direct deposit.

The Office of Investigations continued its efforts to combat and reduce fraud in RRB programs. The assistance of agency personnel in the identification of potential fraud cases is evidenced by the fact that over 80% of the current caseload resulted from RRB program referrals and computer matches.

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.

In fiscal year 1999, the Office of Inspector General had 58 employees and an operational budget of \$5,380,000. The OIG has three major components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The organization conducts its operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

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. The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. 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) 1999, the RRB paid \$8.2 billion in retirement and survivor benefits to approximately 748,000 beneficiaries, while net unemployment and sickness insurance benefits of \$69 million were paid to almost 34,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, United HealthCare Corporation. The carrier made payments totaling \$671 million to 688,000 persons.

SIGNIFICANT ISSUES

FINANCIAL STATEMENT AUDIT

Disclaimer of Opinion - Financial Interchange

On February 18, 2000, the Office of Inspector General issued its audit report of the RRB's financial statements and related internal controls for fiscal year 1999. Auditors included a disclaimer of opinion for the seventh consecutive year. The disclaimer again resulted from the lack of sufficient audit evidence to determine the proper accounting and reporting of the financial interchange, the annual funds transfer among the RRB, the Social Security Administration (SSA), and the Health Care Financing Administration (HCFA). Every financial statement audit since fiscal year 1993 has resulted in a disclaimer of opinion as a result of the use of accrual accounting estimates to record and report on the financial interchange.

The financial interchange is intended to place the SSA's Old Age, Survivors and Disability Insurance Trust Funds and HCFA's Hospital Insurance Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contribution Acts.

The figures presented in the financial statements include estimates of amounts due but unpaid at the end of each fiscal year as well as estimated interest accrued through the end of each fiscal year. The RRB's Bureau of the Actuary prepares accrual accounting estimates for the financial interchange more than six months prior to the actual settlement date. Computation of the accruals involves extensive estimation which has previously resulted in significant differences between the amounts accrued and the actual settlement. Actual

determination and settlement of the amounts due are made in June of the following fiscal year. As a result, auditors were unable to apply audit procedures to these accruals to determine what adjustments, if any, to the various accounts might be necessary.

Material Weakness: Overall Control Environment

As in all previous financial statement audits, auditors stated that the RRB's overall control environment is not adequate to ensure that agency financial statements will be free of material misstatements and prepared in accordance with applicable guidance. The RRB's present administrative structure was cited as the primary cause of this internal control weakness. The agency's managers do not seek assistance across organizational lines to resolve problems related to financial accounting and reporting. The internal control environment is designed to meet organizational responsibilities of individual operating units rather than the overall objectives of the RRB. In addition, the three Board Members function as chief executive officers, each responsible to a different constituency. The creation of a single chief executive is needed to ensure issues are resolved on a timely basis.

The agency has made extensive organizational changes since the overall control environment was cited in the audit of the RRB's FY 1993 financial statements. As a result, the RRB did not include this issue as a material weakness in its Federal Managers' Financial Integrity Act reports for FYs 1997, 1998 and 1999. RRB management believe the agency has eliminated the material weakness.

However, auditors disagreed and recommended the Board Members assign the responsibility for facilitating cross-organizational cooperation in the design and implementation of internal controls to the agency's Executive Committee.

Investment Activities

During this semiannual period, the OIG maintained its monitoring activities of the RRB Investment Committee. The Committee continued to actively trade holdings in the portfolio based upon the rationale that securities can be sold and the proceeds used to achieve higher returns in the future. The relative size of the “actively managed” portfolio and the performance over time is indicative of the lack of expertise in this area. At the end of fiscal year 1996, the RRB’s portfolio had market-based holdings with an initial cost of \$5.3 billion and an unrealized gain of \$99.6 million. At the end of December 1999, the portfolio consisted of market-based holdings with an initial cost of \$8.8 billion and an unrealized loss of \$688.2 million. The OIG remains concerned that the agency’s current investment strategy is not providing an increased level of security for current and future beneficiaries.

The OIG also reviewed proposed legislative changes drafted by rail labor and rail management. One of the proposals would create a new Railroad Retirement Account Investment Board and eliminate the current Investment Committee. The Board would consist of nine members, three from the RRB, three members designated by rail labor and three additional members designated by rail management. This group would have responsibility for establishing investment guidelines and select outside investment advisors to make investments consistent with the guidelines. The OIG provided RRB management with observations and questions on the proposals. The issue of appropriate oversight of investments continues to be a critical one.

Monitoring of the Year 2000 Conversion Project

The Office of Inspector General continued its monitoring of the RRB’s Year 2000 project during this reporting period. During the century rollover, the agency experienced only minor problems with some systems and made necessary

corrections without delay. To ensure full program delivery during the rollover, the RRB conducted a "Day One" strategy. A core staff worked throughout the nation between December 31, 1999 and January 1, 2000 to ensure full program delivery when the RRB offices opened to the public on January 3, 2000. Employees tested daily payment runs for retirement, survivor, unemployment and sickness cases, and certified the results with the Department of the Treasury on January 1, 2000.

RRA Document Imaging Implementation Plan

The OIG reviewed the agency's Document Imaging Implementation Plan for its retirement, survivor and disability programs, and provided comments to the Chairman of the RRB's Automated Data Processing Steering Committee. This group has responsibility for the review of information technology investments.

The plan proposes to create an electronic system of records to replace paper documents and files that currently are used to administer retirement, survivor and disability benefit programs. Documents used to administer these programs would be scanned to create an electronic image, and the original documents would be destroyed after a quality review process. The plan also advocates electronic work flow processing of benefit adjudication and payments.

The OIG has expressed serious concerns concerning the failure of the plan to address many critical issues. No clear statements are provided concerning compliance with the Federal Records Act, the Freedom of Information Act, and the Privacy Act. In addition, the agency have given no indication that it has explored alternative solutions, such as lower cost storage for its paper records.

The OIG maintains that some original paper documents must be maintained in order for the agency to meet its mission responsibilities, even if these documents are imaged for ease of processing and paying benefits. The plan also proposes

the destruction of original documents sixty days after they have been scanned. Further, it is not clear that all supporting documents and proofs submitted with an application would be imaged.

This system of electronic records may result in some efficiencies in the RRB's business processes and some savings related to the storage and transportation of beneficiary records. However, the agency must consider other needs and responsibilities while planning this electronic records system. The RRB must also ensure that it is in compliance with all statutory requirements.

The OIG will continue to consult with agency managers concerning this project. This office will ensure that all documents necessary to meet its oversight responsibilities are retained, and that the RRB complies with all applicable laws and regulations.

OFFICE OF AUDIT

The Office of Audit (OA) conducts reviews to: (1) promote economy, efficiency, and effectiveness in the administration of RRB programs and (2) detect and prevent waste, fraud and abuse in such programs. Through the Inspector General, this office ensures that the Board Members and the U.S. Congress are informed of current and potential problems in the RRB's operating programs, 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 the audit of the RRB's fiscal year 1999 financial statements and continued monitoring efforts of the agency's Year 2000 project and investment committee activities. The financial statement audit again included a disclaimer of opinion, and auditors cited the overall control environment of the agency as a material weakness (See Significant Issues, page 3). Four additional reports were issued concerning internal controls, exchange of death information between the RRB and the Social Security Administration, and the payment of benefits by direct deposit.

Review of Internal Controls Over Fixed Assets

The agency's Bureau of Supply and Service (BSS) has the primary responsibility for the creation and maintenance of records for the purchase, deployment and disposition of assets. Administrative Circular BSS-2, issued April 1, 1998, describes the policies and procedures governing the tracking, maintenance and disposal of the agency's accountable property. BSS uses the fixed assets subsystem of the Federal Financial System, a mainframe computer application, to maintain the master accountable property record. An accountable property officer in each major organizational unit is responsible for apprising BSS of changes to the location or status of assets. Once the decision is made to include an asset in the fixed assets system, the asset must be recorded and its location monitored until the agency sells, destroys or disposes of the item. As of April 1999, a total of 7,697 individual assets with a total original cost of \$38.7 million were included in the fixed assets inventory record.

Auditors conducted this review to assess the effectiveness and efficiency of internal control over fixed assets. They determined that the large number of low value property items included in the agency's property records inflate the amount of time and manpower required to perform and complete the inventory and reconciliation process. Assets under \$1,000 account for 60% of all assets, but represent only 6% of the total costs of all recorded assets.

Annual inventories by individual offices are not completed in a timely manner, delaying the reconciliation of the accountable property record. As a result, the master record is not accurate, and cannot be used for planning acquisitions, deploying assets, or deterring theft. Auditors also determined that no complete physical verification review has been performed since 1994 because of delays in the reconciliation and inventory process. In fact, current location codes are so general that auditors could not locate equipment using available organization and location codes. Some organizational units have elected to maintain their own property records because the master listing is not adequate to meet their

needs. Finally, auditors discovered large quantities of computer equipment in unsecured areas of the headquarters building awaiting delivery to particular offices.

This audit report recommended that the agency (1) develop and implement a new, comprehensive system of fixed asset accounting and internal control; and (2) provide for storage of new equipment in a restricted access location pending distribution to end-users. Management concurred with the findings and have initiated corrective action.

Review of Railroad Retirement Board (RRB) and Social Security Administration (SSA) Exchange of Death Information

The Office of Inspector General performed this review to determine the timeliness and accuracy of data exchanges of death information between the two agencies. During fiscal year 1998, the agency identified \$31.2 million in benefit overpayments to 31,680 deceased annuitants. Among other reasons, the RRB overpays benefits because it does not suspend benefits immediately based on death information received from SSA. The current agreement between the agencies requires that the RRB verify the fact and date of death provided by SSA before taking any action affecting payments. Such verification requires about 40 days. Auditors estimated that the verification procedures resulted in the issuance of approximately \$950,000 in erroneous benefits to 839 annuitants during fiscal year 1998.

The report recommended the agency (1) investigate revising the death match agreement to allow immediate suspension of benefits prior to any verification actions; and (2) establish procedures to immediately suspend RRB benefits payments when deaths are identified as a result of computer death match programs with SSA. Program managers agreed to contact the Office of

Management and Budget to determine if current guidelines will permit the recommended revisions.

Auditors also determined that the RRB does not always initiate collection action in a timely manner because it has no effective procedures for terminating benefits upon receipt of SSA death information. Although RRB suspension actions stops the issuance of benefit payments, the agency does not initiate collection of overpayments until benefit payments are terminated. No time limit has been established for terminating benefits when the agency is unable to verify death data. Collection action can be delayed for years, increasing the difficulty of recovering the monies owed. Auditors recommended the development of internal controls to ensure the timely termination and collection of overpayments. Management concurred with the finding and will revise procedures as necessary.

Review of Internal Control Over Payroll Taxes

The Department of the Treasury collects and measures taxes paid under the Railroad Retirement Act (RRA). Treasury periodically transfers taxes collected to the appropriate RRB trust fund and advises the RRB accordingly. The RRB collects all taxes payable under the Railroad Unemployment Insurance Act directly from railroad employers. During fiscal year 1999, a total of approximately \$4 billion in payroll taxes were collected from over 750 railroads and 255,000 railroad workers in their employment. Over 98% of the tax payments were made electronically.

Audits of the RRB's financial statements for FYs 1993-1998 cited the agency's limited ability to verify the completeness of RRA payroll tax receipts collected and transferred by the Treasury as an internal control weakness. Auditors performed this review to assess the adequacy of internal control over accounting

for payroll tax revenue. The audit also included an evaluation of the status of the internal control weakness.

Auditors determined that existing internal controls are inadequate to prevent the processing of unauthorized transactions by the Federal Financial System (FFS), the mainframe computer application that supports the agency's accounting and financial management activities. They recommended that the current manual authorization process be replaced with on-line authorization of FFS transactions using the automated control that currently exists in the FFS system. Management agreed with this finding and will complete corrective action by April 30, 2000.

Auditors also concluded that the RRB has developed internal control techniques intended to "ensure that Treasury accurately credits railroad retirement tax deposits to the railroad retirement trust funds." The audit also reported that current procedures are sufficient to ensure the reliability of financial reporting for RRA payroll tax revenue.

Effectiveness of RRB Procedures for Paying RRB Benefits by Direct Deposit

The Federal Financial Management Act of 1994, as amended by the Debt Collection Improvement Act of 1996, required that payments made by Federal agencies, except for payments under the Internal Revenue Code of 1986, shall be made electronically after January 1, 1999. However, subsequent regulations essentially gave beneficiaries the option of receiving their benefits by either direct deposit or by check.

Auditors conducted this review to determine if the RRB was in compliance with the requirements to pay benefits electronically. Review results indicated that the agency has established procedures and effectively promoted direct deposit as

the preferred method of paying beneficiaries. The RRB issued press releases, held informational conferences with railroad employees, and required field office personnel to promote direct deposit. As a result, participation by RRB beneficiaries in the direct deposit program increased to 76% as of November 30, 1999.

During fiscal year 1999, the RRB made 6,897,507 benefit payments by direct deposit. At a savings of \$.41 per payment by using electronic deposits rather than issuing checks, the agency saved approximately \$2.8 million as a result of the direct deposit program.

AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION

Through a Memorandum of Understanding, the Director of Administration transferred the responsibility for managing the open audit follow-up system to the Office of Inspector General. This system tracks the status of corrective actions for all audit recommendations. Procedures are in place to ensure that the agency is in compliance with all applicable regulations. 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, 1999	4
New recommendations issued during this period	
pending a management decision	1
Previous recommendations for which a management	
decision was made	-4
Number of recommendations pending a management decision	
on March 31, 2000	<u>1</u>

Corrective Actions

Prior recommendations requiring action on October 1, 1999	85
New recommendations issued during this six month reporting period	8
Recommendations for which corrective actions	
were completed from October 1, 1999 - March 31, 2000	-22
Recommendations pending final action	
March 31, 2000	<u>71</u>

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 (SSA-OIG), the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, the Postal Inspection Service and the Defense Criminal Investigative Service.

Operational Issues

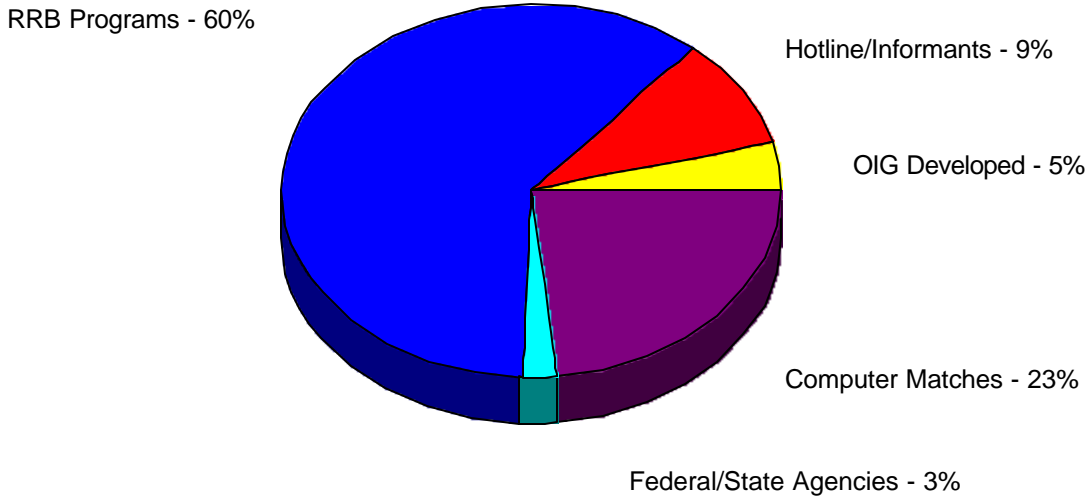
During this reporting period, the OIG signed a Memorandum of Understanding (MOU) with the Department of Justice which provides blanket deputation law enforcement authority to qualifying OIG criminal investigators. This MOU replaces the previous law enforcement authority that had been granted to the OIG on a case by case basis. This method of conveying law enforcement authority to the investigators has reduced the administrative burden, improved the efficiency of OIG operations, and provided greater safety for OIG special agents.

INVESTIGATIVE ACCOMPLISHMENTS

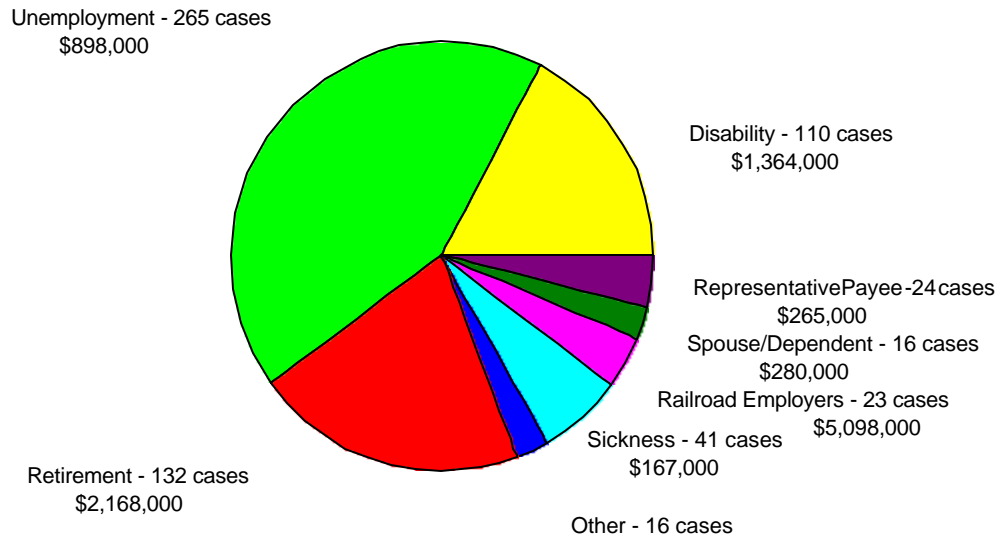
	FY 1999	10/01/99 - 03/31/00
Convictions	79	35
Civil Judgements	50	27
Indictments/Informations	71	21
Investigative Recoveries & Savings	\$ 309,316	\$ 576,766
Restitutions and Fines	\$1,313,667	\$ 310,992
Civil Damages and Penalties	\$ 899,637	\$ 462,067
Potential Economic Loss Prevented (PELP)	0	\$ 426,551
Community Service Hours	735	504
Disciplinary/Administrative Action	0	1
Complaints	38	21
Arrests	35	3
Subpoena Service:		
Inspector General	15	12
Federal Grand Jury	69	17
Program Fraud Civil Remedies Act Referrals	0	2
U.S. Attorney Referrals	285	220

INVESTIGATIVE CASES

During this semiannual period, OI opened 141 investigations and closed 237 cases. The major sources of case referrals are illustrated below.



OI's current caseload is approximately 627 criminal matters, representing over \$11.3 million in fraud against the RRB. A breakdown of the cases by RRB program area and estimated fraud losses is provided in the table below.



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 27 civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$462,068 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.

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 statute, 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 23 open cases involving allegations related to railroad employers.

Retirement Benefit Cases

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 21¼ years probation, 1 a years house arrest, and 1 b years in jail. They were ordered to pay \$212,994 in restitution, \$143,200 in damages, and \$148,000 in penalties. In addition to these court judgements, the RRB will recover \$333,906 in overpayments as a result of OIG investigations..

Examples of recent retirement cases follow.

- # A random cross check conducted by the RRB identified an annuitant who had passed away, but to whom the agency was issuing benefit checks. OI special agents determined that the annuitant had passed away in 1986, but no notification was sent to the RRB. The agency continued to issue monthly annuity checks via direct deposit.

The investigation revealed the annuitant's son, who shared a joint checking account with his father, had written checks against the account since his father's death. The subject illegally took \$157,378 in RRB funds and was sentenced to 21 months in Federal prison, three years of supervised released, and ordered to make immediate restitution for the full amount.

Unemployment and Sickness Insurance Cases

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 23 convictions and 20 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, 36 years of probation, 2 years suspended sentences, 2 years and 4½ months imprisonment, and 1 a years house arrest. They were ordered to pay \$64,100 in restitution, \$3,675 in fines, \$59,019 in damages, \$40,975 in penalties and to perform 364 hours of community service. The RRB will be able to recover an additional \$78,772 as a result of OI investigations.

Examples of typical cases involving individuals fraudulently receiving unemployment or sickness insurance benefits follow.

- # A state computer matching program with the State of Indiana identified a subject who collected unemployment benefits while employed as a railroad conductor. The investigation determined that the claimant was overpaid \$6,347 in unemployment benefits. He pleaded guilty and was sentenced to one year probation and ordered to make full restitution to the RRB. The subject is required to make monthly payments until the overpayment is fully repaid.

- # Based on a referral from the RRB's Sickness and Unemployment Benefits Division, OI special agents conducted an investigation of a subject who collected unemployment benefits while employed. The subject was working for a security firm and failed to notify the RRB of his employment. He submitted ten false claims, resulting in the theft of \$2,860 in benefits. On October 5, 1999, the subject was interviewed in the OIG. At the same time, a check of local police records was conducted which revealed an outstanding warrant for him. Two OI special agents and Chicago Police Officers arrested the subject. The subject was convicted by the Cook County's State's Attorney, and sentenced to one year conditional discharge and ten days of community service.

- # Another unemployment insurance claimant residing in New Jersey collected benefits for 158 days while employed. The subject submitted 16 false claims totaling \$6,641 to the RRB. The subject was convicted and sentenced to 24 months probation and ordered to make full restitution to the RRB.

- # The investigation of a North Carolina claimant revealed he falsely collected unemployment insurance benefits for 127 days while working from July 1994 to January 1995. The subject submitted 15 false claims to the RRB totaling \$4,572 in benefits. The OIG received another referral from an RRB program bureau which indicated that \$1,180 had been recovered, but that a second conflict had been established. The total loss to the RRB was recalculated at \$7,690.

On February 7, 2000, a Consent Judgement was entered against the claimant and he was ordered to make full restitution to the RRB.

Disability Cases

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 4 convictions and 2 civil judgements for disability fraud. Defendants in these cases were sentenced to 6½ years probation, 4 months house arrest and ordered to perform 140 hours of community service. They were also ordered to pay \$30,223 in restitution, \$58,161 in damages, and \$5,729 in penalties. An additional \$50,000 in overpayments will be recovered as a result of OI investigations concerning disability fraud cases.

Examples of disability cases follow.

- # Based upon a referral from the RRB's Disability Benefits Section, OI initiated an investigation of a disability annuitant who allegedly became employed while receiving disability benefits. Special agents determined that the annuitant was working as an investigator for a law firm, and failed to report his employment to the RRB, as required. The law firm was compensating the annuitant by making payments to a small corporation owned by the annuitant's wife. In addition, the subject's salary exceeded maximum wage limitations, resulting in the theft of \$9,500 in benefits.

On January 24, 2000, the subject entered into a Plea Agreement for violating Title 45, U.S.C., Section 231(l), False Reporting. He was sentenced to one year probation, ordered to pay \$2,500 in fines and \$48,500 in penalties, and to make full restitution of \$9,500 to the RRB.

- # Based on an agency referral, OI investigated a disability annuitant who allegedly had failed to report his employment to the RRB while collecting disability benefits. Investigation revealed that, between June 1996 and October 1997, the annuitant was employed as an insurance claims adjuster for weather related catastrophes. The annuitant's wages exceeded the monthly wage limitations resulting in the theft of \$16,490 in benefits.

The subject entered into a Pretrial Diversion Agreement for violating 18 U.S.C., Section 641, Theft of Public Money, Property or Records. He subsequently entered into a Settlement Agreement for the same offense. As a result of these agreements, he was placed on probation for 18 months, ordered to perform 40 hours of community service, and directed to make full restitution of \$16,490 to the RRB.

Employee Misconduct

The Office of Investigations also has the responsibility for ensuring agency integrity by investigating allegations of misconduct by RRB employees and contractors.

- # During this semiannual period, OI conducted an investigation after receiving an anonymous complaint alleging that an RRB program manager was conducting his private law practice during official government time.

The investigation revealed that, between January 1991 and February 1999, the employee authored approximately 602 documents totaling 3,221 pages. These documents included books, real estate transactions, wills, estate and tort claims, as well

as other documents related to legal and personal matters. A substantial amount of work on these documents was performed during official government time using government equipment.

On September 21, 1999, OI presented this case for criminal prosecution to the U.S. Attorney's Office for the Northern District of Chicago. The Assistant U.S. Attorney declined criminal prosecution in favor of administrative remedies. On January 4, 2000, the RRB's Chief Financial Officer suspended the employee for ten calendar days. The employee appealed the suspension to the three member RRB Board; the Labor and Management Members denied the grievance and approved the suspension. The agency's Chair cast a dissenting vote and indicated that a more severe penalty was warranted.

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.

10/1/99 - 3/31/00

Total Contacts: (Telephone Calls and Letters)	871
Referred to: RRB-OIG, Office of Investigations	82
RRB Bureaus/Offices	600
Other Federal Agencies	5
United Health Care Corporation/Durable Medical Equipment Regional Carriers	8
Other (misdirected calls, follow up calls to agents , etc.)	176

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 administration of the agency's programs and on the prevention of fraud and abuse.

The OIG advised the Railroad Retirement Board that proposed legislation for law enforcement authority for OIG special agents currently conferred pursuant to a memorandum of understanding with the Department of Justice is essential for the economy and efficiency of its operations. The legislation also provides an appropriate level of oversight.

APPENDIX A

OIG REPORTS ISSUED

- Review of Internal Control Over Fixed Assets, Report No. 00-01, October 5, 1999
- Review of RRB and SSA Exchange of Death Information, Report No. 00-02, February 2, 2000
- Effectiveness of RRB Procedures for Paying RRB Benefits by Direct Deposit, Report No. 00-03, February 9, 2000
- Fiscal Year 1999 Financial Statement Audit, February 18, 2000

Letter to Management, Report No. 00-04

Auditors' Report, Report No. 00-05

Report on Internal Control, Report No. 00-06

Report on Compliance with Laws and Regulations, Report No. 00-07

- Review of Internal Control Over Payroll Taxes, Report No. 00-08, March 30, 2000

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, 1999	0	0	0
B. Which were issued from October 1, 1999 through March 31, 2000	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from October 1, 1999 through March 31, 2000	0		
(i) dollar value of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision had been made by March 31, 2000	0		0
Reports for which no management decision was made within six months of issuance	0		0

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

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by October 1, 1999	0	
B. Which were issued from October 1, 1999 through March 31, 2000	0	
Subtotals (A + B)	0	
C. For which a management decision was made from October 1, 1999 through March 31, 2000	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, 2000	0	
Reports for which no management decision was made within six months of issuance	0	

APPENDIX C

REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES

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

Office of Audit

<u>Report No.</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			

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

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

The OIG is continuing to consult with Department of Justice officials to obtain additional information from their systems regarding civil damages and penalties that are deposited to the Department of the Treasury miscellaneous account.

**APPENDIX D - PREVIOUSLY REPORTED SIGNIFICANT
RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS
NOT BEEN COMPLETED**

**AUDITS OF THE FINANCIAL STATEMENTS FOR FY 1993 (JULY 15, 1994),
FY 1994 (JANUARY 13, 1995), FY 1995 (APRIL 23, 1996), FY 1996
(JANUARY 10, 1997), FY 1997 (FEBRUARY 27, 1998), and FY 1998
(MARCH 5, 1999)**

The RRB has not implemented necessary changes to fully address weaknesses cited in the audits of the agency's financial statements for fiscal years 1993-1998.

- C Financial Interchange - The current timetable for the settlement process prevents the timely and accurate preparation of annual financial statements. Auditors recommended a change in accounting principle to record and report on the financial interchange during the year of settlement.
- C Crediting of retirement tax deposits - The RRB continues to work with the Internal Revenue Service and Department of the Treasury to ensure deposits are being properly credited. The agency plans to complete corrective action by June 2000.
- C Overall control environment of the agency - Although the RRB has implemented several reorganizations, agency operations have not changed significantly. Agency managers do not seek assistance across organizational lines to resolve problems related to financial accounting and reporting. The creation of single chief executive is needed to ensure issues are resolved on a timely basis.

APPENDIX E - RRB MANAGEMENT REPORTS*

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2000

	<u>Number of audit reports</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.	<u>0</u>	\$ <u>0</u>
B. Audit reports on which management decisions were made during the period.	<u>0</u>	\$ <u>0</u>
C. Total audit reports pending final action during the period. (A + B)	<u>0</u>	\$ <u>0</u>
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	<u>0</u>	\$ <u>0</u>
(b) Property	<u>0</u>	\$ <u>0</u>
(c) Other	<u>0</u>	\$ <u>0</u>
2. Write-offs	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>0</u>	\$ <u>0</u>
E. Audit reports needing final action at the end of the period (C - D.3)	<u>0</u>	\$ <u>0</u>

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

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2000**

	<u>Number of audit reports</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.	<u>3</u>	\$ <u>58,711,943</u> ¹
B. Audit reports on which management decisions were made during the period.	<u>1</u>	\$ <u>1,200,000</u> ²
C. Total audit reports pending final action during the period. (A + B)	<u>4</u>	\$ <u>59,911,943</u>
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	<u>1</u>	\$ <u>105,743</u>
2. Value of recommendations that management concluded should not or could not be implemented (completed)	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>1</u>	\$ <u>105,743</u>
E. Audit reports needing final action at the end of the period (C - D.3)	<u>3</u>	\$ <u>59,806,200</u>

¹Comprised of the following amounts: \$105,743 in over- and underpayments of employer contributions identified in Audit Report 99-14, "Review of the Railroad Unemployment Insurance Act Contributions," issued September 21, 1999; \$48,000,000, including \$18 million in interest, that could be credited to the railroad retirement trust funds as a result of Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change," issued September 28, 1999; and \$10,606,200 in projected erroneous payments from Audit Report 99-17, "Review of Supplemental Annuities," issued September 30, 1999.

²Audit Report 00-02, "Review of RRB and SSA Exchange of Death Information," issued February 2, 2000, included estimates of erroneous benefit payments amounting to \$950,000 and \$250,000 in fiscal years 1998 and 1999, respectively.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2000**

<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>
Computer Match of RUIA Benefits and Compensation Adjustment Reports (93-20)	08/04/93	None	None	The Year 2000 conversion project had delayed corrective action, with needed programming changes now under development.
Audit of the RRB's FY1993 Financial Statements	07/15/94	None	None	Corrective actions on two remaining recommendations are underway, with target completion dates in Fiscal Year 2000.
Audit of the RRB's FY1994 Financial Statements	01/13/95	None	None	The remaining recommendation will be addressed by new regulations, effective May 17, 2000, on continuing disability reviews.
Review of Initial Claims Processing (96-15)	09/20/96	None	None	Planned enhancements to an on-line processing system currently under development will include provisions for advance evidence collection.
Review of Quality Assurance Activities (97-06)	01/22/97	None	None	The Board Members approved a plan to consolidate quality assurance programs relative to benefit payments within the Office of Programs on May 5, 2000.
Review of Non-Priority Correspondence Handling (97-09)	03/13/97	None	None	The Office of Programs is developing plans to track RUIA correspondence via the imaging system workflow software.
Review of EDM Suspended Transactions (97-15)	05/08/97	None	None	Agency staff are developing a personal computer system for controlling these cases.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2000**

<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>
RRB Disability Review Program (97-17)	07/10/97	None	None	New regulations taking effect May 17, 2000, will discontinue periodic reviews for cases in which medical improvement is not expected, with work on a database of disability cases delayed by the Year 2000 conversion project.
Prepayment Verification Period Pilot Program (97-18)	07/31/97	None	None	The Office of Programs is studying program integrity reporting to determine the best approach for the recommended improvements.
Review of Duplicate Postings of Railroad Compensation (97-19)	07/31/97	None	None	The Year 2000 conversion project had delayed corrective action, with needed programming changes to suppress some duplicate earnings referrals now under development.
Review of the Medical Services Contract (97-20)	08/13/97	None	None	The next contract, effective October 1, 2000, will include enhanced timeliness provisions.
Review of Overpayments - SSA Transfer Cases (97-22)	08/25/97	None	None	The Year 2000 conversion project delayed corrective action, with further automation of non-death termination cases now under development.
FY1997 Financial Statement Audit (98-07)	02/27/98	None	None	The agency is developing improved internal controls over computer services.
Total and Permanent Disability Processing Efficiency (98-08)	03/06/98	None	None	Corrective action on the remaining recommendation was completed as of May 3, 2000.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2000**

<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 in the context of the Strategic IRM Plan and studies of the agency's information technology architecture.
Accuracy and Timeliness of SSA Benefits Paid by the RRB (98-17)	07/27/98	None	None	Corrective actions were delayed by work on the Year 2000 conversion project.
Review of the Accuracy of Vested Dual Benefits (98-23)	09/30/98	None	None	Necessary programming changes have been requested to ensure processing systems exclude erroneous data.
Accuracy of PREH Data and Controls over PREH Referrals (99-01)	10/14/98	None	None	The agency is currently identifying needed changes to its computer systems to provide needed military service information.
Review of Public Service Pension Offset Procedures (99-03)	10/15/98	None	None	Needed corrective actions were implemented as of April 20, 2000.
Review of Procedures for Correcting Errors in Service and Compensation Reporting Identified by the EDM System (99-04)	10/19/98	None	None	The agency is testing a PC-based program installed in April 2000 that will automate follow-ups and generate more meaningful management reports.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2000**

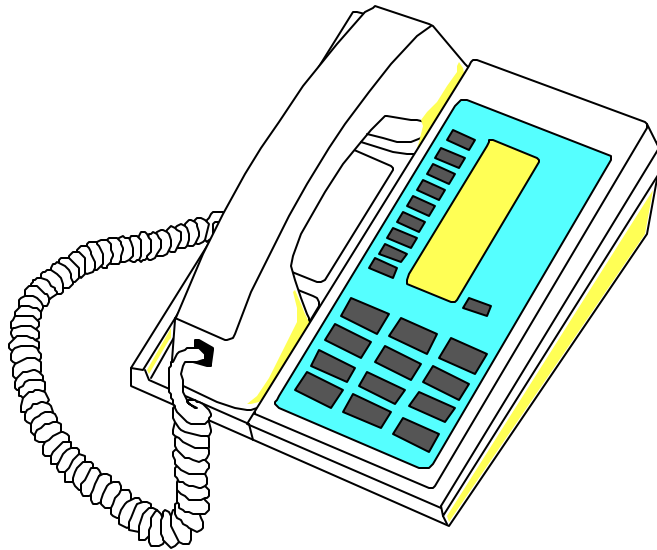
<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Computer Problem and Change Management Process (99-05)	02/12/99	None	None	The agency plans to start electronic surveys of help desk customers in December 2000 in order to measure satisfaction with service provided.
Audit of the RRB's FY1998 Financial Statements (99-06)	03/05/99	None	None	Based on an opinion from the Federal Accounting Standards Advisory Board that a cash basis of accounting should not be used for Financial Interchange transactions, the agency is exploring alternatives with OIG staff.
Management Information Report - Payment and Case Accuracy Issues Related to the Financial Statement Audit (99-07)	03/24/99	None	None	The two open recommendations will be addressed in conjunction with the pending consolidation of quality assurance activities relating to benefit payments.

APPENDIX F - REPORTING REQUIREMENTS

Inspector General Act Requirements	Page
Section 4(a)(2) - Review of Legislation and Regulations	27
Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies	3
Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	3
Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	30
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	16
Section 5(a)(5) - Instances Where Information Was Refused	None
Section 5(a)(6) - List of Audit Reports	26
Section 5(a)(7) - Summary of Each Significant Report	3
Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs	27
Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use	28
Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	None
Section 5(a)(12) - Information on Any Significant Management Decisions With Which the Inspector General Disagrees	None
Management Requirements	
Section 5(b)(1) - Comments Deemed Appropriate	Transmittal Letter
Section 5(b)(2) - Statistical Table on Final Action on Disallowed Costs	32
Section 5(b)(3) - Statistical Table on Final Action To Put Funds to Better Use	33
Section 5(b)(4) - Statement on Audit Reports With Final Action Pending	34

REPORT

FRAUD, WASTE AND ABUSE



Call the OIG Hotline: 1-800-772-4258

E-mail: Hotline@oig.rrb.gov

The OIG cannot ensure confidentiality to persons who provide information via e-mail. Do not send information by e-mail that you do not want a third party to read.

**Write: RRB-OIG Hotline Officer
844 North Rush Street
Chicago, IL 60611-2092**