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RAILROAD RETIREMENT BOARD

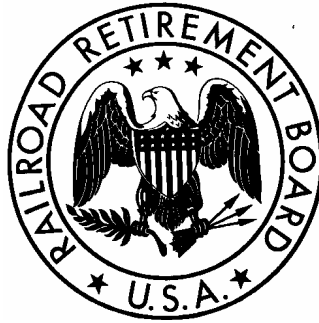
PERFORMANCE AND ACCOUNTABILITY  
REPORT



FISCAL YEAR 2006

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**Railroad Retirement Board  
Performance and Accountability Report  
Fiscal Year 2006**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b><i>Message from the Board Members</i></b> .....	3
<b><i>Management's Discussion and Analysis</i></b> .....	7
Overview of the Railroad Retirement Board .....	7
Mission .....	7
Major Program Areas .....	7
Railroad Retirement Act .....	8
Railroad Unemployment Insurance Act .....	9
Reporting Components .....	10
RRB Organizational Structure .....	10
Financial Highlights .....	13
Comparison of Net Cost of Operations and Financing Sources .....	14
Railroad Retirement Investments at Treasury .....	18
National Railroad Retirement Investment Trust .....	19
Program, Operations, and Financial Performance and Results .....	20
Strategic Goals and Objectives .....	21
Future Plans/Objectives .....	30
Program Improvements .....	30
Improper Payments Information Act (IPIA) .....	33
Systems and Controls .....	34
Summary of Actuarial Forecast .....	38
Limitations of the Financial Statements .....	38
<b><i>Performance Section – Government Performance and Results Act (GPRA) Report</i></b> .....	41
<b><i>Financial Section</i></b> .....	57
Message from the Chief Financial Officer .....	57
Financial Statements .....	58
Consolidated Balance Sheet .....	58
Consolidated Statement of Net Cost .....	59
Consolidated Statement of Changes in Net Position .....	60
Combined Statement of Budgetary Resources .....	61

## TABLE OF CONTENTS

	<u>PAGE</u>
Consolidated Statement of Financing .....	62
Statement of Social Insurance .....	63
Notes to the Financial Statements .....	64
Required Supplementary Information .....	79
Social Insurance.....	79
Program Financing.....	79
Benefits .....	80
Program Finances and Sustainability.....	80
Disaggregate of Budgetary Resources .....	88
Auditor's Reports.....	89
<b><i>Other Accompanying Information</i></b> .....	101
Inspector General's Statement on Management and Performance Challenges .....	101
Management's Comments .....	104
Improper Payments Information Act (IPIA) Reporting Details.....	105
<b><i>Appendices</i></b> .....	111
Glossary of Acronyms and Abbreviations .....	111
RRB Board Members, Inspector General, and Executive Committee .....	114

RRB's fiscal year 2006 Performance and Accountability Report is available on the Internet at: [www.rrb.gov](http://www.rrb.gov)

***MESSAGE FROM THE BOARD MEMBERS***

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## **Message from the Board Members**

This fiscal year 2006 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit program provided under the Railroad Retirement Act (RRA) and the unemployment and sickness insurance benefit program provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

The RRB has a long and distinguished tradition of excellence in serving our customers. In recent years, we have achieved high levels of accuracy and timeliness in the benefit programs we administer. We have also recorded very high levels of customer satisfaction as measured by the independently administered American Customer Satisfaction Index (ACSI) survey. The RRB has participated in 4 surveys since 2001. The previous 3 surveys included: initial employee retirees (2001), unemployment / sickness insurance beneficiaries (2002), and initial survivor beneficiaries (2005). In those surveys, we achieved overall scores of 82, 75, and 90 (out of a possible 100 points), respectively. In fiscal year 2006, we measured the satisfaction of our disability annuitants and are pleased to report an overall score of 85, which is 14 points higher than the current overall Federal score. This survey showed exceptionally high scores, ranging from 89 to 93, in the specific areas of courtesy, professionalism, responsiveness, and accuracy of our customer service personnel.

The adequacy and effectiveness of our management controls and the compliance of our financial management systems with government wide requirements is delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct Office of Inspector General identified material weaknesses in our information technology security program, performance measures, and the actuarial projection process. Also, the performance and financial data presented in this report are complete and reliable, except for the performance measures further discussed in the Systems and Controls Section.

We will continue to apply information technology and innovation to provide excellent customer service to the railroad employers, railroad employees, and the beneficiaries whom we serve. We are also committed to prudent stewardship over the agency trust funds and the administrative resources entrusted to us.

Originally signed by:

Michael S. Schwartz, Chairman  
V. M. Speakman, Jr., Labor Member  
Jerome F. Keever, Management Member

October 31, 2006

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***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## **Management's Discussion and Analysis**

### **Overview of the Railroad Retirement Board**

#### **Mission**

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

*The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

#### **Major Program Areas**

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

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

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

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and

taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

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

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the RUIA in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

### Railroad Retirement Act

Under the RRA, retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for the investment of railroad retirement funds in non-governmental assets, as well as in governmental securities. This legislation also established the National Railroad Retirement Investment Trust (NRRIT), whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2006, the RRB trust funds realized a net of \$3.5 billion, representing over 39 percent of RRB financing sources (excluding transfers to/from the NRRIT and the increase in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

#### *Railroad Unemployment Insurance Act*

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

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

## Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds and two deposit funds.

## RRB Organizational Structure

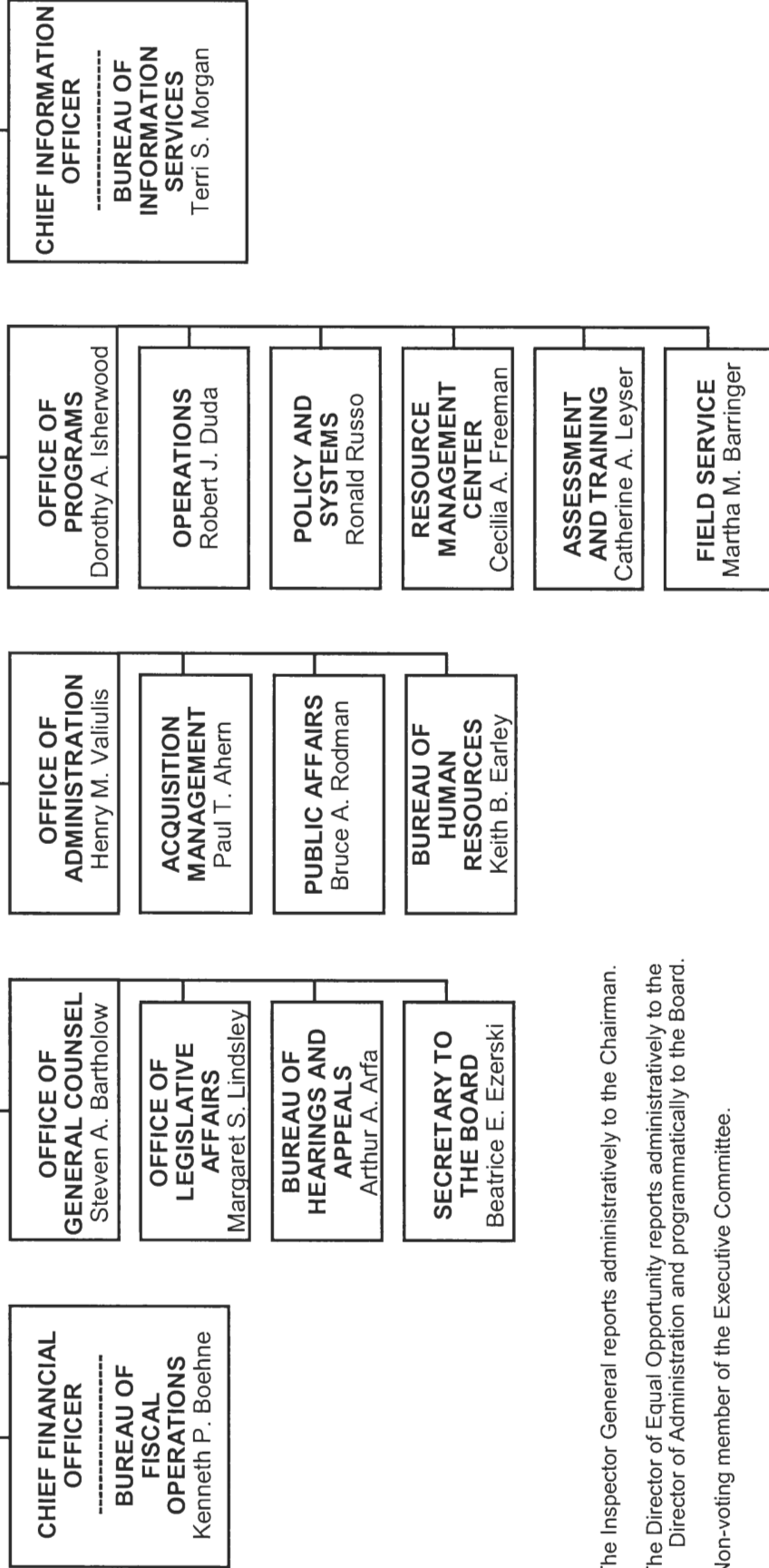
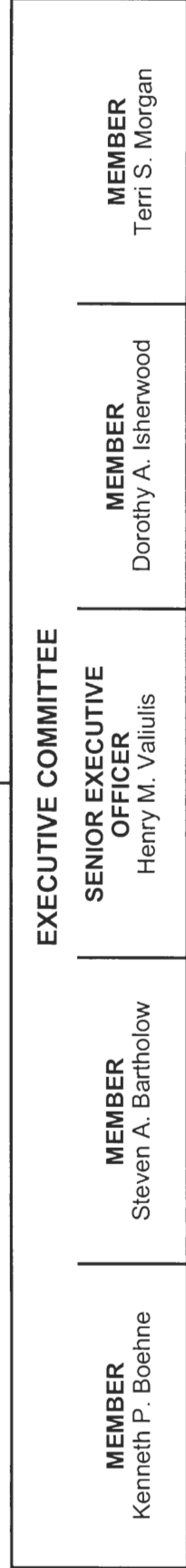
The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Keever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 N. Rush Street in Chicago, Illinois. As of September 30, 2006, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 12.



# U.S. RAILROAD RETIREMENT BOARD

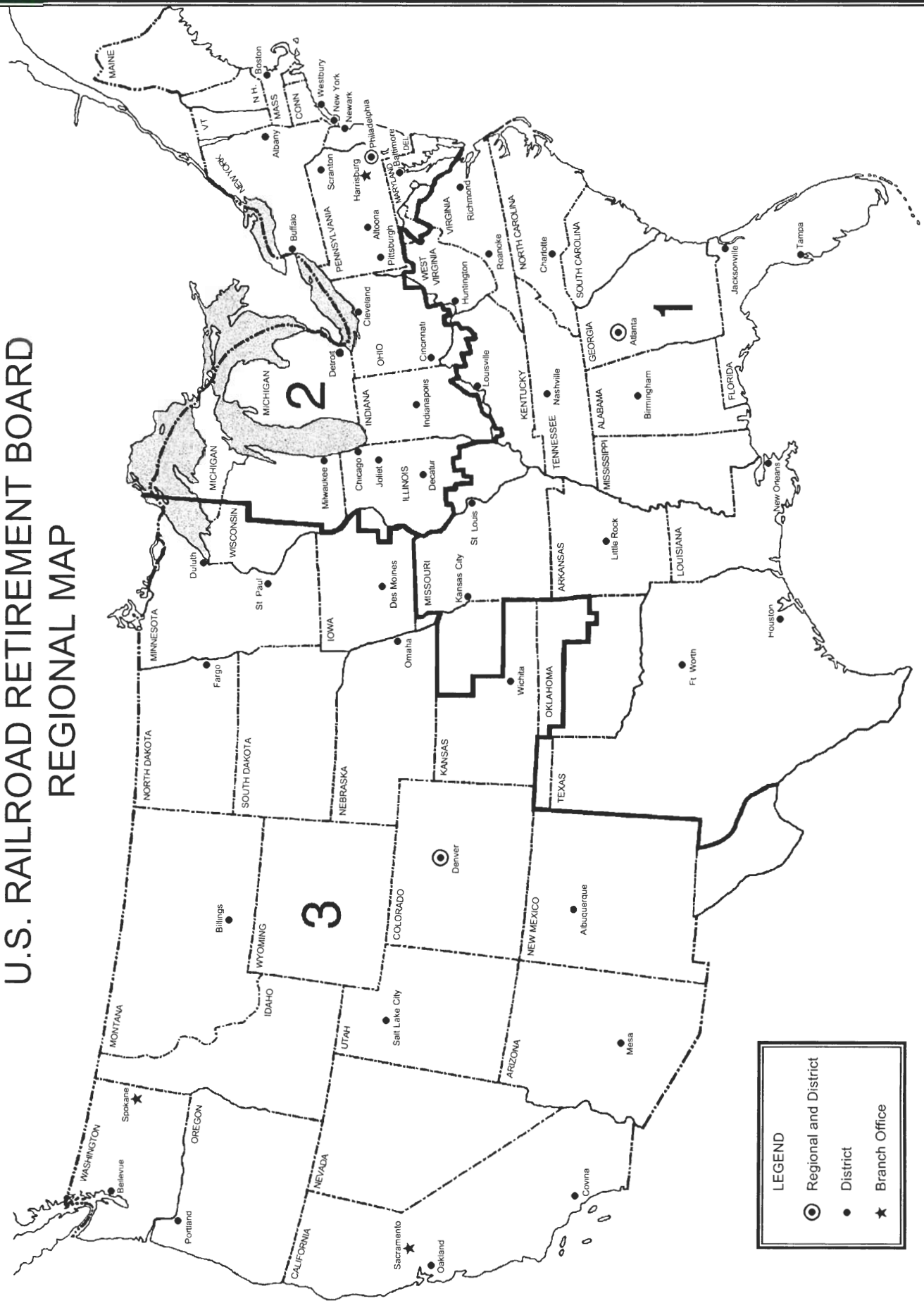


..... The Inspector General reports administratively to the Chairman.

--- The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

\* Non-voting member of the Executive Committee.

# U.S. RAILROAD RETIREMENT BOARD REGIONAL MAP





## Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT.

The fiscal year 2005 financial statements have been restated for the inclusion of the NRRIT net assets and the reporting of RUIA contributions that the RRB receives from the railroad employers as revenue. Additional information regarding the restatements is available in the Financial Section, Notes to the Financial Statements.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

### Net Position, Financing Sources, and Benefit Payments (millions)

	2006	RESTATED 2005
<u>NET POSITION AT SEPTEMBER 30</u>		
Social Security Equivalent Benefit Account	\$ 321.1	\$ 216.9
Railroad Retirement Account <u>1/</u>	29,443.8	27,850.8
Railroad Retirement Administration Fund	5.6	5.9
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	97.3	94.2
Administrative Expenses	9.4	7.5
Limitation on the Office of Inspector General	.1	.2
Dual Benefits Payments Account	8.4	11.4
Federal Payments to the Railroad Retirement Accounts	.4	.4
Total	\$29,886.1	\$28,187.3
<u>FINANCING SOURCES FOR FISCAL YEAR</u>		
Social Security Equivalent Benefit Account	\$ 5,909.0	\$ 5,492.2
Railroad Retirement Account <u>2/</u>	5,325.6	6,137.5
Railroad Retirement Administration Fund	108.9	110.2
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	75.7	86.3
Administrative Expenses	1.9	(.2)
Limitation on the Office of Inspector General	7.5	7.5
Dual Benefits Payments Account	96.0	105.2
Federal Payments to the Railroad Retirement Accounts <u>3/</u>	466.1	442.2
Total	\$11,990.7	\$12,380.9
<u>BENEFIT PAYMENTS FOR FISCAL YEAR <u>4/</u></u>		
Social Security Equivalent Benefit Account	\$ 5,632.1	\$ 5,545.2
Railroad Retirement Account	3,733.1	3,540.9
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	30.7	29.1
Sickness Insurance	42.5	43.5
Dual Benefits Payments Account	96.0	106.3
Total	\$ 9,534.4	\$ 9,265.0

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.

2/ Change in NRRIT-held net assets is included in the Railroad Retirement Account above.

3/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

4/ Net of recoveries and excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

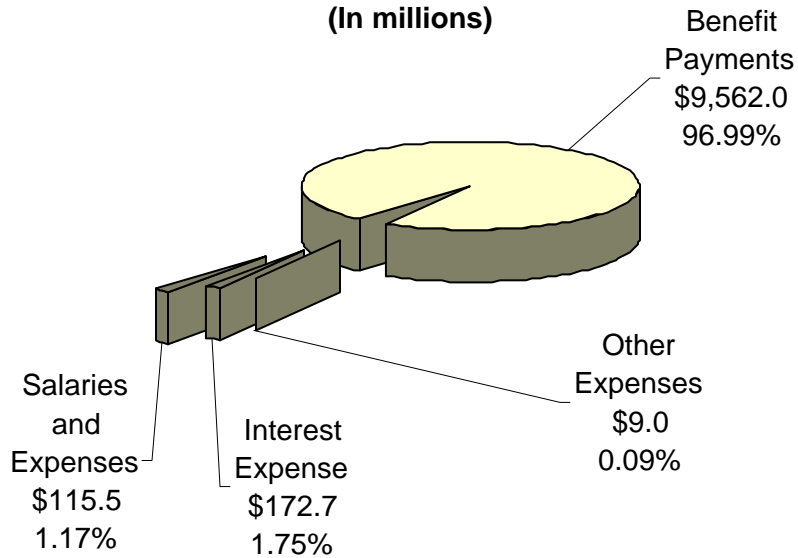
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2006 and 2005 were \$9,823.0 million and \$9,544.9 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2005 to fiscal year 2006 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2006 and 2005 is shown on the following pages.

**NET COST OF OPERATIONS  
(In millions)**

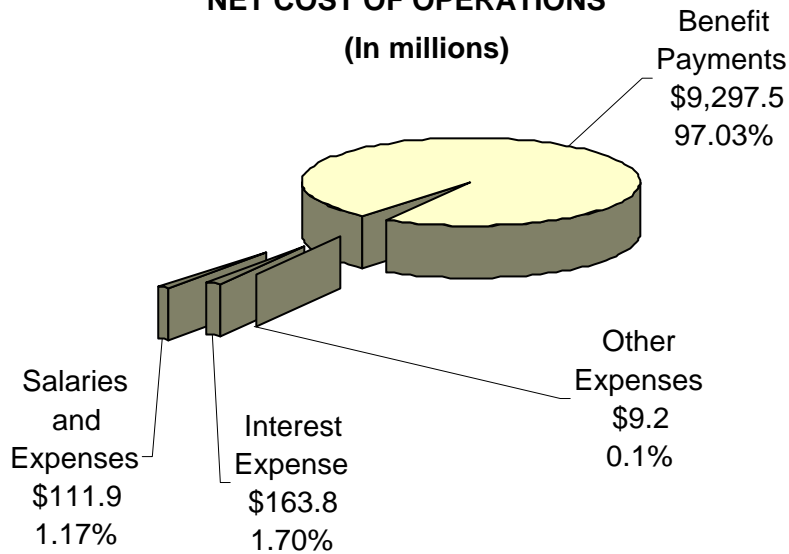
	FY 2006	RESTATED FY 2005	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	\$ 172.7	\$ 163.8	\$ 8.9	5.4%
Salaries and expenses	115.5	111.9	3.6	3.2%
Benefit payments – RRB	9,562.0	9,297.5	264.5	2.8%
Other expenses	9.0	9.2	(0.2)	(2.2%)
Subtotal	9,859.2	9,582.4	276.8	2.9%
Less: Earned revenues	36.2	37.5	(1.3)	(3.5%)
Net cost of operations	\$9,823.0	\$9,544.9	\$278.1	2.9%

**FY2006  
NET COST OF OPERATIONS  
(In millions)**



Totals \$9,859.2 million, excluding reimbursements and earned revenues of \$36.2 million.

**RESTATED  
FY2005  
NET COST OF OPERATIONS  
(In millions)**



Totals \$9,582.4 million, excluding reimbursements and earned revenues of \$37.5 million.

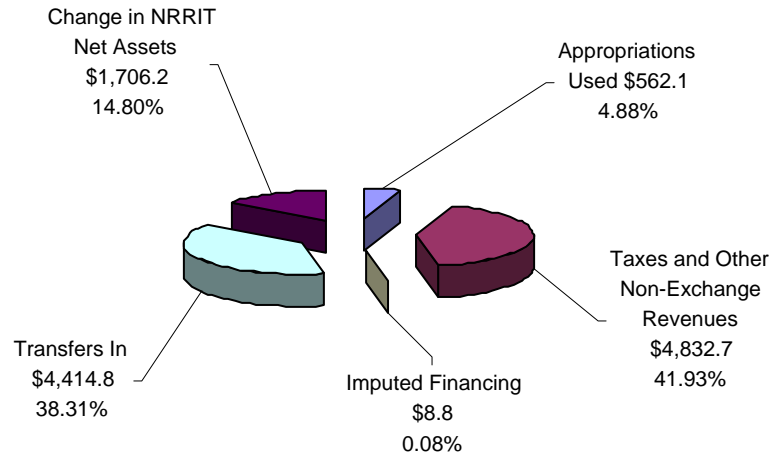
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2005 to fiscal year 2006.

**FINANCING SOURCES**  
(In millions)

	FY 2006	RESTATED FY 2005	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	\$ 562.1	\$ 548.4	\$ 13.7	2.5
Taxes and other non-exchange revenues:				
Payroll taxes	4,673.5	4,538.5	135.0	3.0
Interest revenue and other income	58.9	49.7	9.2	18.5
Carriers refunds – principal	12.9	(14.1)	27.0	191.5
RUI revenue	87.4	97.1	(9.7)	(10.0)
Subtotal	<u>\$4,832.7</u>	<u>\$ 4,671.2</u>	<u>\$161.5</u>	<u>3.5</u>
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.8	8.6	0.2	2.3
Transfers in:				
Financial Interchange, net	3,467.8	3,368.9	98.9	2.9
NRRIT	947.0	809.0	138.0	17.1
Subtotal	<u>\$ 4,414.8</u>	<u>\$ 4,177.9</u>	<u>\$236.9</u>	<u>5.7</u>
Other:				
Change in NRRIT net assets	<u>1,706.2</u>	<u>2,633.6</u>	<u>(927.4)</u>	<u>(35.2)</u>
Subtotal	\$11,524.6	\$12,039.7	(\$515.1)	(4.3)
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Loss Contingency	<u>0.0</u>	<u>100.0</u>	<u>(100.0)</u>	<u>(100.0)</u>
Total	\$11,524.6	\$11,939.7	(\$415.1)	(3.5)

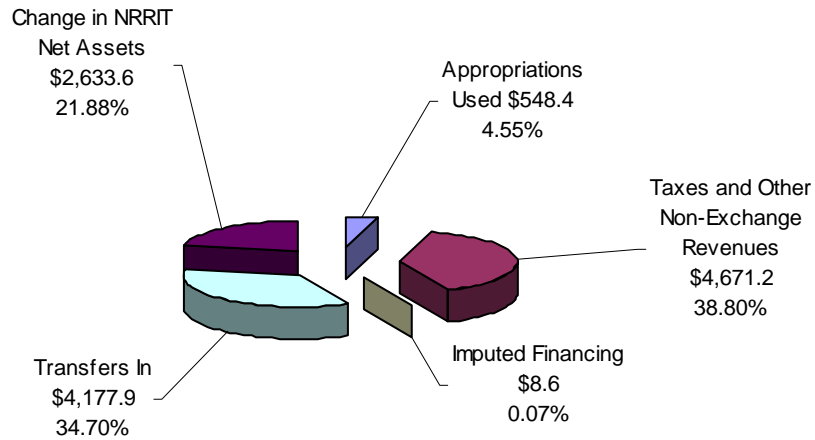
# FINANCING SOURCES (In millions)

**FY 2006**



**Total Financing Sources \$11,524.6 million.**

**RESTATED  
FY 2005**

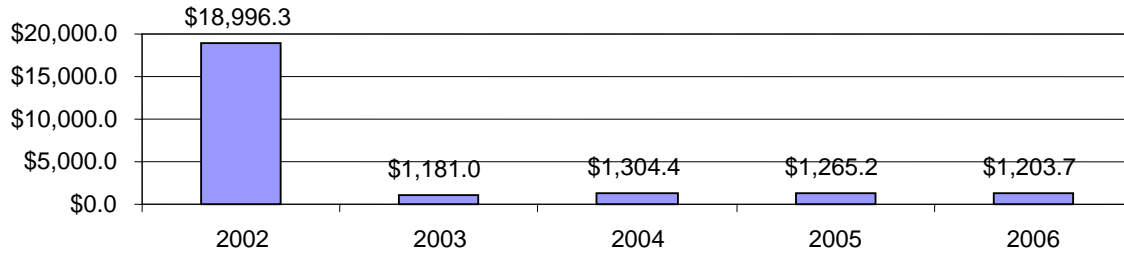


**Total Financing Sources \$12,039.7 million, excluding \$100 million loss contingency.**

Railroad Retirement Investments at Treasury

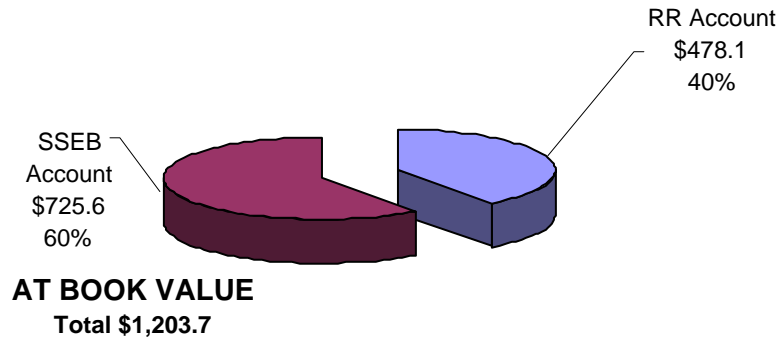
The book value of all railroad retirement investments, including accrued interest, decreased to \$1,203.7 million as of September 30, 2006, from \$1,265.2 million on September 30, 2005 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2002, through September 30, 2006.

**INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)  
AT SEPTEMBER 30, 2002 - 2006  
(In millions, excluding NRRIT net assets)**



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2006.

**RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY  
AS OF SEPTEMBER 30, 2006  
(In millions, excluding NRRIT net assets)**



### Railroad Retirement Account

On September 30, 2006 and 2005, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled \$478,075,635 and \$571,093,294, respectively. The balance on September 30, 2006, consisted of \$476,712,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and \$1,363,635 in accrued interest. The balance on September 30, 2005, consisted of \$569,975,000 in 3.875 percent par value specials (with market value equal to face value) maturing on October 3, 2005, and \$1,118,294 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

### Social Security Equivalent Benefit Account

On September 30, 2006 and 2005, the book values of the SSEB Account investments, including accrued interest, totaled \$725,637,871 and \$694,111,271, respectively. The balance on September 30, 2006, consisted of \$723,754,000 in 4.750 percent par value specials maturing on October 2, 2006, and \$1,883,871 in accrued interest. The balance on September 30, 2005, consisted of \$692,653,000 in 3.875 percent par value specials maturing on October 3, 2005, and \$1,458,271 in accrued interest.

### National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal government and not subject to title 31, United States Code. The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

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

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of beneficiary payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

### **Program, Operations, and Financial Performance and Results**

During fiscal year 2006 (ended September 30, 2006), railroad retirement and survivor benefit payments totaled \$9.5 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled \$73.2 million in fiscal year 2006, net of recoveries. During fiscal year 2006, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost \$1.2 billion to about 124,000 beneficiaries.

In fiscal year 2006, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2006 included:

- Providing payments to 619,000 retirement and survivor beneficiaries.
- Providing payments to 9,000 unemployment insurance beneficiaries.
- Providing payments to 20,000 sickness insurance beneficiaries.
- Processing 27,210 (through May 2006) retirement, survivor, and disability applications for benefits and then determining eligibility.
- Processing 174,071 (through May 2006) applications and claims for unemployment and sickness insurance benefits.
- Issuing 271,077 (as of June 9, 2006) certificates of employee railroad service and compensation.

During fiscal year 2006, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of \$101.518 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2006 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2006, if available. We also reported actual results from prior years, as applicable. Full-year performance results for fiscal year 2006 will be included in our next Performance and Accountability Report.

### **Summary of Achievement by Strategic Goal**

**Strategic Goal I: Provide Excellent Customer Service.** We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2006, we expect that overall payment accuracy rates will exceed 98 percent and that all timeliness goals will be met.



**Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources.** The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2006, we expect to meet or exceed our performance goals.

### **Strategic Goals and Objectives**

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of initial railroad retirement applications, those receiving unemployment and sickness insurance benefits, survivor applications, and disability applications. The RRB's website ([www.rrb.gov](http://www.rrb.gov)) has also been very well-received by the public.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from recent legislative changes to the RRB, and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, the RRB's Strategic Plan for 2003-2008 established two strategic goals on which we will focus our efforts. These goals are unchanged in our Strategic Plan for 2006-2011.

#### *Provide excellent customer service*

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

#### *Serve as responsible stewards for our customers' trust funds and agency resources*

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in five key areas:

- Strategic Management of Human Capital,
- Competitive Sourcing,
- Improved Financial Performance,
- Expanded Electronic Government, and
- Budget and Performance Integration.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

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The next page begins a discussion of our key performance indicators.

**Discussion of Key Performance Indicators**

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

**Key Performance Indicator 1: Initial Recurring Retirement Payment Accuracy**

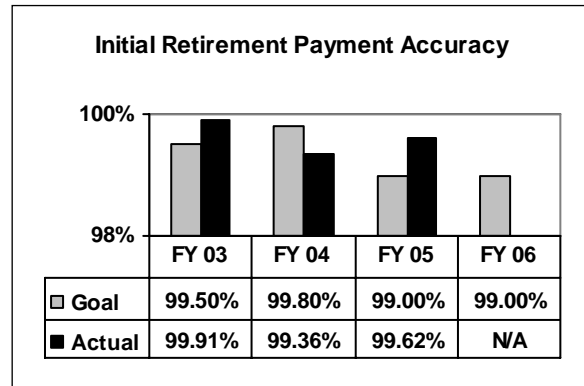
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

**FY 2006 Goal:** 99.00%  
**Our FY 2006 Performance:** Not available

Full-year data will be available in fiscal year 2007.

**FY 2005 Goal:** 99.00%  
**Our FY 2005 Performance:** 99.62%

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



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

**Key Performance Indicator 2: Unemployment Insurance Payment Accuracy**

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

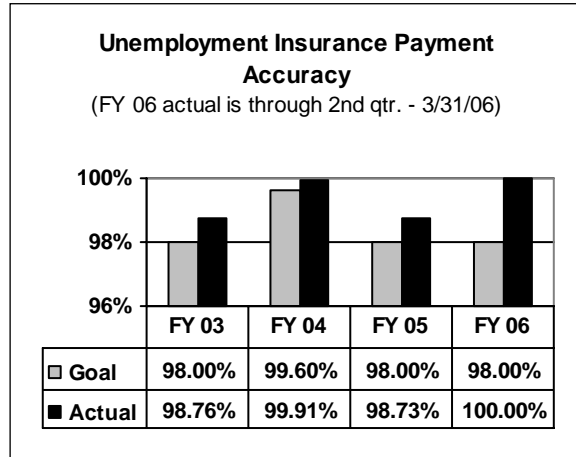
**FY 2006 Goal:** 98.00%

**Our FY 2006 Performance:** 100%  
through the 2nd quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2006. Full-year data will be available in fiscal year 2007.

**FY 2005 Goal:** 98.00%

**Our FY 2005 Performance:** 98.73%



**Data Definition:** This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

**Key Performance Indicator 3: Sickness Insurance Payment Accuracy**

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

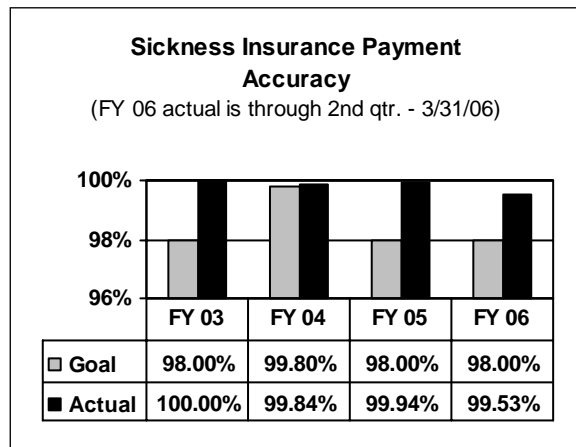
**FY 2006 Goal:** 98.00%

**Our FY 2006 Performance:** 99.53%  
through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2006. Full-year data will be available in fiscal year 2007.

**FY 2005 Goal:** 98.00%

**Our FY 2005 Performance:** 99.94%



**Data Definition:** This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

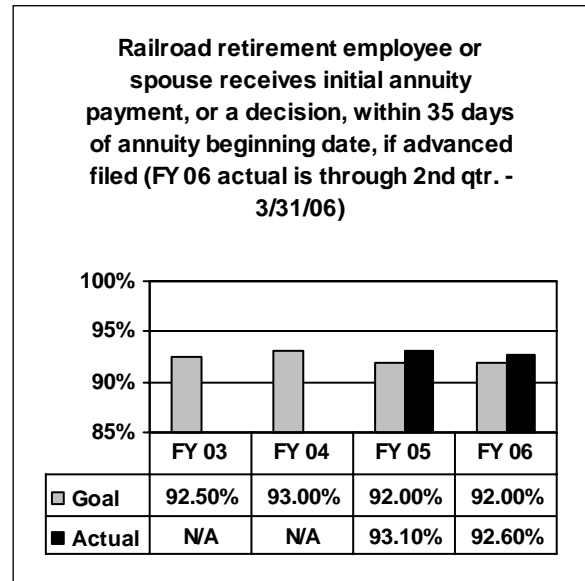
**Key Performance Indicator 4: Timeliness of Initial Railroad Retirement Annuity Payments (if advanced filed)**

**FY 2006 Goal:** 92.00%  
**Our FY 2006 Performance:** 92.60%  
 through the 2<sup>nd</sup> quarter

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

**FY 2005 Goal:** 92.00%  
**Our FY 2005 Performance:** 93.10%

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. Nevertheless, we have historically reported our performance as the percent of retirement age and service applications for which all RRB processing is completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury (Treasury) or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data. Beginning in fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time, but only measures the retirement adjudicative processing time. There are usually several days between the end of the retirement adjudicative process and the point where the payment is certified to the Treasury, or the letter is released to the USPS. We believe that the impact of this flaw is mitigated by the fact that while we allow 5 days for Treasury and USPS handling, within the 35-day customer service standard, in fact, the Treasury actually deposits funds within 2 business days of receipt of the RRB's authorization for payment. Similarly, the USPS standard is to deliver first class mail within 3 business days. Agency review of the same sample data the OIG used in the audit found that 92.93% of the advanced filed cases were authorized for payment within 32 days of the annuity beginning date. The percentage goes up to 93.7% at 33 days. Thus, it is reasonable to assume that the customer would have received payment or a letter within the 35-day published standard.



We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time. Overall, though, we believe that the data reported remains a fair representation of the basic service our customers receive.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases and understated the number of advance filing cases. As a result, we have now excluded performance data for years prior to fiscal year 2005.

In addition, the RRB's OIG found a reporting flaw in our measurement process for 3<sup>rd</sup> party payment cases which affected 2 out of 150 cases in the sample. The correction of this system problem is scheduled for October 2006.

**Key Performance Indicator 5: Timeliness of Initial Railroad Retirement Annuity Payments (if not advanced filed)**

**FY 2006 Goal:** 94.00%  
**Our FY 2006 Performance:** 95.30%  
 through the 2<sup>nd</sup> quarter

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

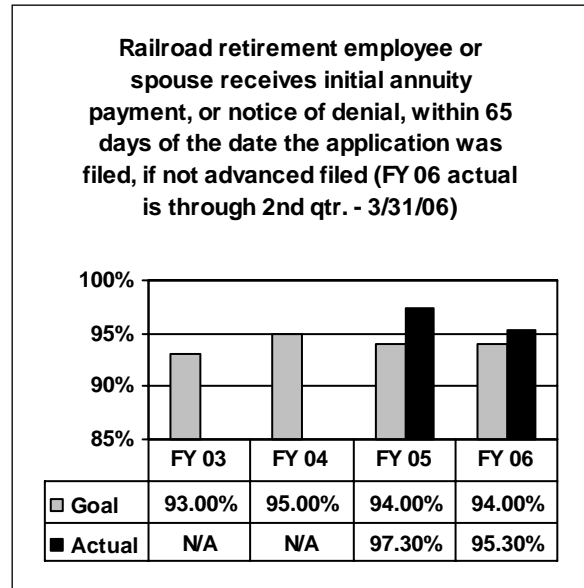
**FY 2005 Goal:** 94.00%  
**Our FY 2005 Performance:** 97.30%

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of retirement age and service applications where RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS

handling. A recent audit by our Office of Inspector General (05-05, dated May 17, 2005) found several technical problems with the data which are described in the discussion of the previous key indicator. For fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time but only measures the retirement adjudicative processing time. We believe, however, that the results remain a fair representation of the service our customers receive. Using sample data for July 2004, the OIG found that 95.19% of the non-advanced filed applications were processed within the stated 60-day measure. The agency would have reported that 98.65% for the same sample period. Thus, actual performance still exceeded the targeted level. Note that, while the issues described in detail for Key Indicator 4 above apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases. As a result, we have now excluded performance data for years prior to fiscal year 2005.



**Key Performance Indicator 6: Timeliness of New Survivor Benefit Payments**

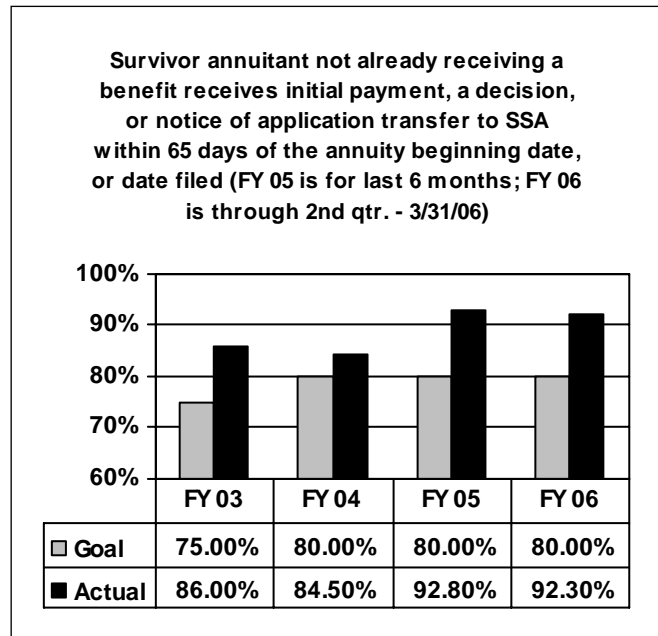
**FY 2006 Goal:** 80.00%  
**Our FY 2006 Performance:** 92.30%  
 through the 2<sup>nd</sup> quarter

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

**FY 2005 Goal:** 80.00%  
**Our FY 2005 Performance:** 92.80%  
 For the last 6 months of the fiscal year

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer’s perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling.

Measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified by the RRB’s OIG. These inconsistencies were corrected effective with April 2005 data.



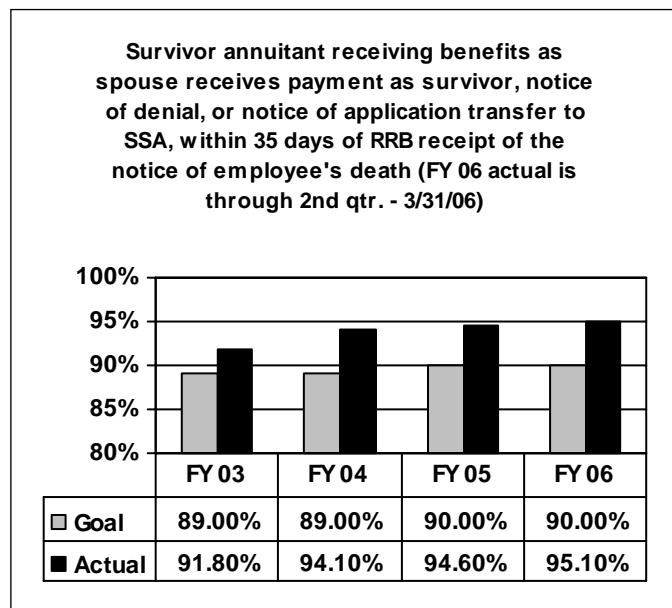
**Key Performance Indicator 7: Timeliness of Spouse to Survivor Benefit Payment Conversions**

**FY 2006 Goal:** 90.00%  
**Our FY 2006 Performance:** 95.10%  
 through the 2<sup>nd</sup> quarter

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

**FY 2005 Goal:** 90.00%  
**Our FY 2005 Performance:** 94.60%

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer’s perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 30 days, allowing 5 days to account for Treasury or USPS handling.



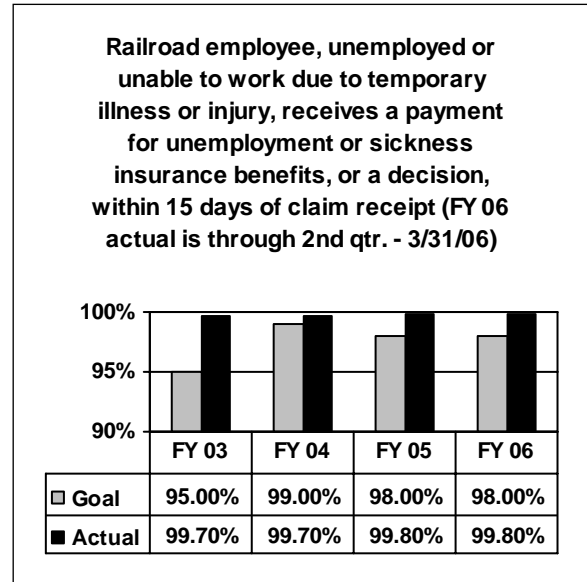
**Key Performance Indicator 8: Timeliness of Unemployment or Sickness Insurance Payments**

**FY 2006 Goal:** 98.00%  
**Our FY 2006 Performance:** 99.80%  
 through the 2<sup>nd</sup> quarter

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

**FY 2005 Goal:** 98.00%  
**Our FY 2005 Performance:** 99.80%

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer’s perspective. However, we base our performance calculation on the percent of claims where all RRB processing is completed within 10 days, allowing 5 days to account for Treasury or USPS handling.

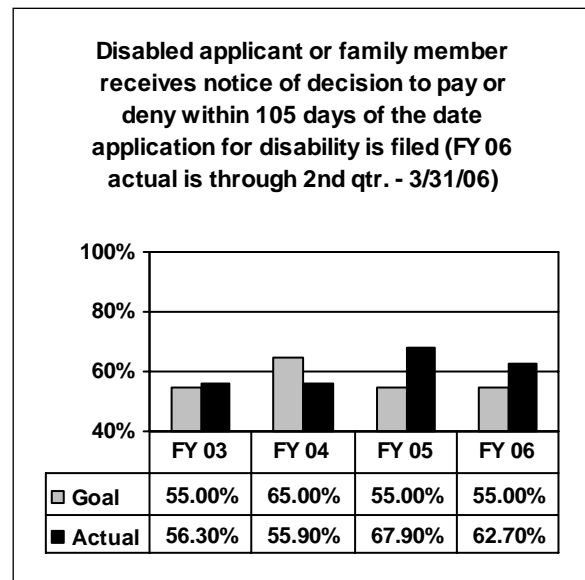


**Key Performance Indicator 9: Timeliness of Disability Decisions**

**FY 2006 Goal:** 55.00%  
**Our FY 2006 Performance:** 62.70%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** We have been able to exceed our goal due to experienced claims examining staff and the timely performance by the contractor for consultative medical examinations needed to make disability decisions. However, mid-year performance has declined because of staff losses. A 6-month disability examiner training class is scheduled to begin in fiscal year 2006, which will increase the number of staff resources dedicated to the disability workload.

**FY 2005 Goal:** 55.00%  
**Our FY 2005 Performance:** 67.90%



**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer’s perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 100 days, allowing 5 days to account for USPS handling.



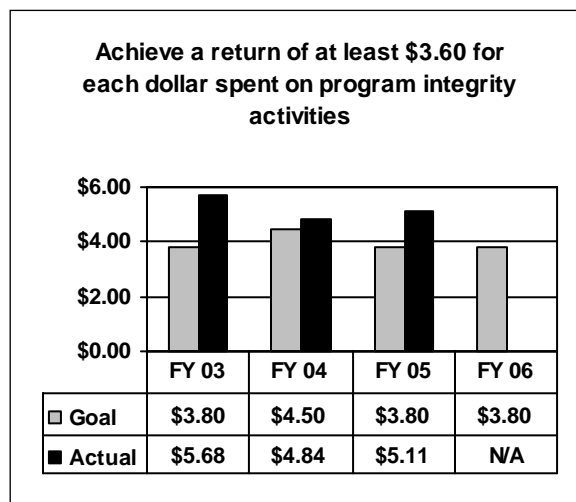
**Key Performance Indicator 10: Return on Investment in Program Integrity Activities**

**FY 2006 Goal:** \$3.80 : \$1  
**Our FY 2006 Performance:** Not available

FY 2006 data will be available in FY 2007.

**FY 2005 Goal:** \$3.80 : \$1  
**Our FY 2005 Performance:** \$5.11 : \$1

**We exceeded our goal.** Our fiscal year 2005 goal was to achieve a return of \$3.80 for each dollar spent on program integrity activities. We achieved a rate of return of \$5.11 for each dollar spent.



As part of our fiduciary responsibilities to the rail community, we must ensure that the correct amount of benefits is being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare and Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

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

## Future Plans/Objectives

### Program Improvements

- **Medicare Modernization Act (MMA)** Beginning in November 2005, qualified railroad retirement beneficiaries (QRRB's) were able to enroll in prescription drug plans (PDP) under Medicare Part D. Benefits under Part D were available beginning January 1, 2006. Low income beneficiaries are eligible for extra help in paying for monthly premiums, deductibles and co-payments under Part D. SSA is responsible for determining eligibility for low-income Part D subsidies.

The RRB is working with the Centers for Medicare & Medicaid Services (CMS) and SSA to implement Medicare Part D and other provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also known as the Medicare Modernization Act. To date, we have:

1. Prepared a one-time file for use by SSA in identifying railroad retirement beneficiaries potentially eligible for prescription drug subsidy assistance. The file was transmitted to SSA on April 28, 2005.
2. Revised the record layout and programming for an existing daily file transmitted to SSA. The revised file is used by SSA to identify newly eligible Medicare beneficiaries potentially eligible for prescription drug subsidies.
3. Developed programming to prepare and transmit a monthly file to SSA to report address changes and information about subsidy changing events. The first file was transmitted on November 29, 2005.
4. Completed programming to receive and edit Daily Enrollment Files from CMS. The Daily Enrollment Files include records of new enrollments and changes to enrollments in PDP's and Medicare Advantage plans.
5. Developed programs to process Daily Enrollment File records for beneficiaries enrolled in Medicare Advantage Plans with Part B premium reductions.
6. Developed programs to prepare and transmit Daily Premium Notification Files to CMS. The Daily Premium Notification Files are used to advise CMS of the disposition of the Daily Enrollment File records.
7. Completed program changes necessary to generate notices to beneficiaries who enroll in PDP's and elect to have premiums withheld from RRB benefits.
8. Developed temporary programming to automatically calculate and refund excess premiums withheld from payments made to beneficiaries enrolled in Medicare Advantage Plans with Part B premium reductions.
9. Completed programs to support the mailing of notices on November 14, 2005, to approximately 530,000 beneficiaries. We mailed the notices to ensure that the beneficiaries were aware that they were eligible to enroll in Medicare PDP's, and to explain the options available for paying monthly Part D premiums.

As of June 2006, a total of 317,500 railroad retirement beneficiaries were enrolled in Medicare PDP's. The percentage of railroad retirement beneficiaries enrolled in Medicare PDP's is consistent with the overall percentage of Medicare beneficiaries enrolled in Part D plans.

We have not yet completed work on automated systems changes that will allow beneficiaries to have Part D premiums withheld from the monthly benefits paid by the RRB. (Railroad retirement beneficiaries who have monthly Part D premiums pay their premiums

by direct bill arrangements with their plans.) Work on the system changes to allow Part D premium withholding from monthly benefit payments has been temporarily suspended while we focus available resources on implementing the provision of MMA that requires beneficiaries with annual incomes over \$80,000 (\$160,000 for couples) to pay higher Part B premiums beginning January 2007. SSA will make determinations as to the amount of an individual's Part B premium. RRB will process determination transactions to ensure that proper Part B premiums are deducted or billed each month.

- **Medicare Contracting Reform** Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act establishes Medicare Contracting Reform (MCR) that will be implemented over the next several years. Under this provision, CMS is to replace the current Part A Medicare Fiscal Intermediaries and Part B Carriers, using competitive procedures with new Medicare Administrative Contractors (MAC's) by 2011. The MAC's will handle both Part A and Part B Medicare claims.

The RRB is authorized to contract with a carrier or carriers to provide supplemental medical insurance benefits (Medicare Part B, only) by the Social Security Act, subsection 1842(g). We currently have a nationwide contract with Palmetto GBA to act as the carrier for the RRB's Part B Medicare program. Consequently, the RRB will need to work closely with CMS to meet the new legal contract reform requirements and, at the same time, ensure that our railroad Medicare beneficiaries are not disadvantaged by the implementation of the new MAC's.

- **RRB HelpLine Improvements** We implemented several enhancements in January 2005, to the services available to customers who call our toll-free interactive voice response (IVR) system (i.e., the RRB HelpLine). Those enhancements included:
  - Revised call flows to incorporate new service options and simplify access to services;
  - Added an option to allow callers to request duplicate RRA tax statements; and,
  - Expanded general information about a variety of subjects, and a new "urgent" announcement service.

We are in the planning stage for additional enhancements, including changes to the process for verifying the identity of callers by either using the same PIN/password system developed for the RRB's Internet MainLine services or a similar PIN/password system. In connection with this change, we will provide callers with options to establish passwords, change passwords, and request new passwords. These enhancements will provide a higher level of system security, and allow for expansion of services into other areas.

Steps to improve the RRB HelpLine and add new services will be taken in conjunction with the agency's plans to support a nationwide 800-number service that would allow callers to either access an IVR system or connect to a field service claims representative.

- **Internet Unemployment and Sickness Insurance Benefit Services** In 2004, the RRB made applications and claims for unemployment insurance benefits available on-line at [www.rrb.gov](http://www.rrb.gov). In calendar year 2005, the RRB completed a project to automate the processing of unemployment insurance benefit claims that pass mechanical screening for eligibility. In 2005, the RRB also implemented a service enabling unemployment and sickness insurance beneficiaries to view their account statement on-line. The account statement lists recent forms filed and unemployment and sickness insurance benefit

payments. In 2007, the RRB plans to implement on-line biweekly claims for sickness insurance benefits.

- **Palmetto GBA Secure Change of Addresses and Death Notifications** Palmetto GBA, the RRB's Part B Medicare carrier, receives several thousand calls each month from railroad retirement beneficiaries who are either reporting an address change or death of another beneficiary, or requesting a replacement Medicare card. Palmetto receives these calls because of their regular communication with beneficiaries who file claims for payment of Part B medical services. Under current procedure, Palmetto must refer many of these callers to the RRB. The referral is an extra call for the beneficiary, and is a step that many beneficiaries fail to take.

We are now working with Palmetto to develop a secure web-based application that will enable authorized Palmetto customer service representatives to report address changes, deaths and requests for replacement Medicare cards directly to the RRB over the Internet. The application, which is now targeted for completion in late 2006, will also allow RRB personnel to view the transactions in order to process the reports through existing RRB systems.

- **Employer Reporting System (ERS) – Internet Site** We continue to add new forms and services to the employer site. In 2006, we are working to add the pre and post payment notices. These are two notices required under the RUIA related to the employer's experience-rated contribution rate. One is a notice to the employer of an employee's application or claim for benefits. The other is a notice to the employer of the amount of benefits the RRB paid to the employee. Following the addition of these two forms in fiscal year 2007, we will implement some security enhancements and coding standardization, and make some changes based on suggestions received from the system's users, and begin the process of converting the software from SAS-based technologies to .Net and DB2-Connect, using internal resources. This will allow for reduced costs of future application development in a more user friendly environment.

In fiscal year 2008, given our requested funding level, we will continue to move forward with the conversion of ERS and we plan to add a major application which consolidates and integrates 13 forms. The application includes the three annual reports: creditable compensation, gross earnings, and sick pay, as well as several related forms. This project will also incorporate changes the RRB is making to expand money amount fields on the service and compensation reports.

- **RRBVision** The RRB has a Windows-based web communications system called MediaSite Live that allows users to view video (RRBVision) presentations with accompanying training materials, such as PowerPoint presentations or on-line screens. Presentations can be viewed in real-time or saved to the server for later viewing. In fiscal year 2007, we will increase the number of internal training presentations available to RRB employees to over 100. In fiscal year 2008, or earlier if funding allows, we also plan on expanding RRBVision to be available to covered railroad employers and the general public on the RRB's website ([www.rrb.gov](http://www.rrb.gov)). This would allow us to provide on-line training and assistance to employers at their convenience and in another training format. This would be beneficial in improving reporting accuracy and reducing initial phone calls to the RRB. Presentations made available to the general public would furnish information on benefits and forms to allow another option in assisting the public, providing better customer service and reducing the number of phone inquiries.

### Improper Payments Information Act (IPIA)

The RRB's Office of Programs calculated the amount of improper payments made in fiscal year 2005 for each of the two programs our agency administers – as listed in the former Section 57 of OMB Circular A-11, the Retirement and Survivor Benefits (RRA) and Railroad Unemployment Insurance Benefits (RUIA). That information, which is provided in an appendix to this report, reveals that neither of the RRB's benefit payment programs exceeds the OMB threshold for improper payments. Therefore, the agency is not required to prepare and monitor a formal action plan for reducing or eliminating improper payments.

Although it does not require the RRB to have a formal plan for targeting precise levels of improper payments, the IPIA continues to have a real impact on the agency by ensuring a continued high priority for ongoing activities and initiatives designed to reduce specific categories of improper payments.

We have ongoing activities and projects aimed at improving the accuracy of payments and reducing erroneous payments which include:

- quality assurance programs which identify activities that are susceptible to error and process improvements to prevent further errors,
- program integrity efforts which aim to validate continued entitlement to RRA and RUIA benefits, and
- an internal control review process for all benefit payment processes, which identifies and addresses potential weaknesses that may create improper payments.

In addition, we continue to improve adjudication and payment systems and procedures to minimize errors. We are also pursuing various initiatives which will minimize specific types of improper payments in the RRA program:

- We have developed a system that expands on our process of evaluating adjustments received from employers to our employee service and compensation records and adjust annuities, if needed. This initiative identifies specific RRA improper underpayments and pays out additional benefits due. The initial implementation of this process (called RESCUE) was in fiscal year 2006 – to handle adjustments and reports posted in January 2006, and later. In fiscal year 2007, RESCUE will evaluate adjustments posted prior to January 2006, and pay out additional benefits due. This will resolve many of the improper payments that have been included in the estimates.
- We are working on a special project to resolve unverified SSN's of railroad employees. This will ensure that the correct earnings are recorded to the correct SSN which serves as a basis of our calculation of benefits.
- We are developing ways to identify earnings of our auxiliary beneficiaries (spouse, children, and widow(er)s) when inconsistencies related to their SSN on record do not allow us to match to the SSA earnings database or "death match" files.

- We have implemented a multi-phase process which allows users to enter any annuitant's earnings information on-line, and store the information in a database. This system now allows the RRB to adjust ongoing payments for earnings on a much more timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings.
- We are in the process of developing better procedures to identify unreported last pre-retirement employment earnings after the annuity beginning date.
- We have initiated a new monitoring program for annuitants who are over age 105. Our review of this category allows us to detect overpayments as a result of fraud or death, and gives us the opportunity to encourage the establishment of representative payees if we determine that annuitants are having difficulty managing their funds.

Despite all our best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's account receivable balance for the RRA program at the end of fiscal year 2005 was \$36,341,790. This balance includes \$9,564,863 classified as Currently Not Collectible. We estimate that approximately 81.2 percent of these receivables will be collected and that the remaining 18.8 percent will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of future benefits, reclamation from the financial institution of benefits erroneously paid after the death of a beneficiary, and direct payment from debtors. Fraudulent payments are referred to the Office of Inspector General for prosecution through the Department of Justice. Delinquent accounts are referred to the Department of the Treasury for cross-servicing and offset of Federal payments.

### Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities, and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 43 assessable units. The number of assessable units varies from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for periodic, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2006, responsible officials performed in-depth reviews of 3 assessable units, assessed all 43, and certified 42.

The RRB reported a material weakness relating to deficiencies in the Information Technology Security Program in fiscal year 2002; the remaining actions needed to close out the deficiencies are implementation of two access control recommendations and completion of a management control review.

In fiscal year 2005, the OIG identified significant deficiencies in three areas, which it reported as material weaknesses in the fiscal year 2005 Performance and Accountability Report. They are:

1. Information Technology Security – previously reported deficiencies in access controls and training continued, and two new deficiencies in meeting FISMA requirements for risk assessments, and testing and evaluation;
2. Performance Measures – the lack of procedures on data validation and retention of supporting documentation; and,
3. Actuarial Projection Process – inadequate internal control over the projections and related reports.

The agency is committed to resolving these deficiencies. Responsible Official and Organization Head certifications for fiscal year 2006 include information about actions underway to address each of these. We will continue to monitor progress during fiscal year 2007.

## **Management Assurances**

The Railroad Retirement Board states and assures that to the best of our knowledge:

1. In accordance with Office of Management and Budget Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act §2.
2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the Federal Managers' Financial Integrity Act §4.
3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the Federal Financial Management Improvement Act §803(a), the Government Performance and Results Act, and OMB Circular No. A-11.
4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security, Performance Measures and the Actuarial Projection Process, as material weaknesses.

## **Description of OIG-Identified Material Weaknesses**

1. The information technology security program is weakened by deficiencies in risk assessment, testing and evaluation, and access controls in both the general support and major application systems.

The fiscal year 2007 plan is to complete the management control review using controls structured for certification and accreditation testing. In fiscal year 2008, the plan is to resolve the two remaining audit recommendations associated with logical access controls; 23 related recommendations have been resolved to date. We will then evaluate the Information Technology Security material weakness to determine whether it has been eliminated.



2. The agency performance measurement program is weakened by deficiencies in data validation and the retention of supporting documentation.

The fiscal year 2007 plan is to adopt and implement procedures on data validation and retention of supporting documentation processes. We expect to complete corrective action on this matter in fiscal year 2007.

3. The actuarial projection process is weakened because it is not supported by formal written policies, procedures and model documentation, and does not provide for a periodic evaluation of compliance with internal requirements.

The fiscal year 2007 plan is to prepare formal written policy and procedures documentation, and provide for a periodic evaluation of compliance with internal requirements. We expect to complete corrective action on this matter in fiscal year 2007.

Originally signed by:

Michael S. Schwartz, Chairman of the Board  
V. M. Speakman, Jr., Labor Member  
Jerome F. Kever, Management Member

## Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2006. Our intermediate employment assumption is used for the Statement of Social Insurance. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2006-2080, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2006-2016. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period except for small, short-term cash flow problems in 2008 and 2009 under the pessimistic assumption.

## Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).
2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

***PERFORMANCE SECTION –  
GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)  
REPORT***

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## **Performance Section - Government Performance and Results Act (GPRA) Report**

The following performance report is based on the major goals and objectives from the RRB's Strategic Plan for 2003 – 2008. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness, and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality, and customer satisfaction. In addition, the annual performance budget is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors, and monitored on an agency-wide basis. We have also implemented an initiative to conduct validation studies on selected indicators, and developed an administrative circular regarding documentation, validation and retention of performance data.

### **e-Government initiatives**

Over the last several years, the RRB has implemented significant automation initiatives and other improvements. Because of these accomplishments, the RRB is able to operate with reduced resources and is continuing to streamline its operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

We are continuing to make services available over the Internet to railroad and labor employers. The RRB has developed a secure Internet-based Employer Reporting System (ERS) to accept reports from covered railroad and labor employers concerning employee service and compensation data. Through March 2006, approximately 55 percent of the total reporting employers were using the site. Nearly 5,900 forms were filed on ERS during fiscal year 2005 which reduced costs to the RRB and the employers. Based on the increased usage and comments from employers, we will continue to increase the number of forms and applications available on the Internet.

Version 3 of the System Processing Excess Earnings Data (SPEED) system was implemented during 2005. SPEED provides a single source for both retirement and survivor annuitant earnings information and will eventually automate annuity adjustments associated with work reports and excess earnings. With this release, SPEED automated adjustments to reinstate survivor cases after withholding for the appropriate number of months based on estimated annual earnings. In the early part of 2006, we added year-end survivor processing to automate survivor suspension actions, notices and call-ups for current year estimated excess earnings. We are now actively working on automating the retirement temporary work deduction adjustment process.

We added several new beneficiary online service options on the RRB's website resulting in improved service to our customers with implementation of the RUIAnet system. This system provides both online unemployment applications and claims for benefits effective in March and November 2004, respectively. So far, about 15 percent of claimants are choosing to claim

unemployment insurance benefits online. In November 2005, we added a service enabling beneficiaries to view their unemployment and sickness insurance accounts online. The account statement lists recent forms filed and unemployment and sickness insurance benefit payments. Also, in November 2005, the RRB implemented mechanical screening of unemployment insurance claims filed online.

In February 2006, the RRB added a secure e-mail service enabling railroad employers to communicate with the RRB about reimbursements due the RRB under sections 2(f) and 12(o) of the RUIA. The service provides secure messaging to protect beneficiary privacy and expedites information employers need to complete actions on pay-for-time lost and personal-injury settlements.

In November 2005, RRB's Debt Recovery Division launched Treasury's Pay.gov for collection of debts incurred under the Railroad Retirement Act and Railroad Unemployment Insurance Act. Pay.gov uses Internet technologies to provide railroad employers, employees, retirees and the general public with the ability to electronically make payments to the RRB 24 hours a day. Pay.gov is accessible from any computer with Internet access by going through a link on RRB.gov or directly to the Pay.gov site.

The RRB HelpLine received 372,458 calls in fiscal year 2005, compared to 408,467 calls in fiscal year 2004. We released 1,310 Railroad Retirement Act rate letters, 2,263 replacement Medicare cards, 1,979 service and compensation statements, and 519 replacement tax statements as a result of customer calls. A total of 99,402 callers made requests for information about local field office addresses and telephone numbers.

The RRB has a Windows-based web communications system called MediaSite Live that allows users to view video (RRBVision) presentations with accompanying training materials, such as PowerPoint or online screens. We continued to expand RRBVision presentations to cover technical and non-technical training and make these presentations available to the proper staffs in a timely fashion. All agency staff members, particularly those in field service locations throughout the country, are now able to view training materials and presentations previously unavailable to them. The benefit of having on-demand training presentations available in a consistent manner has improved employee training and satisfaction with training. The agency has been able to reduce travel time and costs by providing RRBVision presentations ahead of actual classroom training. We have also been able to make training presentations available the next day after the implementation of procedural changes. These presentations are also captured and can be viewed multiple times for the benefit of current and future employees, which also supports our succession planning efforts.

In another e-Government initiative, the RRB is participating in the project to create and maintain an online Forms Catalog at [www.forms.gov](http://www.forms.gov). The online forms catalog provides citizens and businesses with a common access point to locate forms issued by the Federal government. Over 5,000 forms are now available online. The RRB has 45 public-use forms available in the catalog and will continue adding public-use forms to the catalog during fiscal year 2006.

### **Service and administrative improvements**

The implementation of the Health Insurance Portability and Accountability Act (HIPAA) required that all claims for reimbursement, except for small providers under the Medicare programs, be submitted electronically beginning on October 16, 2003. Since that time, the electronic media claims submitted to Palmetto GBA, our Part B Medicare carrier, in HIPAA-compliant format has

grown steadily from less than 10 percent at its inception to approximately 100 percent at the end of December 2005. In addition, the percentage of claims that are submitted electronically to Palmetto GBA has also increased from 34.7 percent in October 2004, to 57 percent in December 2005.

### **Systems security**

The RRB's information security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services. To ensure mission continuity and connect with the agency's overall business processes, we have established a comprehensive training program that utilizes the Office of Personnel Management sponsored USALearning's Karta computer security curriculum. One hundred eighty-one employees with computer security responsibilities were enrolled in this role-based training program completing a combined total of over 1,000 online classes. Additional specialized technical education is also provided as necessary for the computer analysts and engineers to maintain their skills and enhance proficiency.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by simply focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing new and innovative presentations for the agency staff. Every year, the RRB awareness program has experienced exemplary levels of participation measures by all employees and contractors.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. With the fully operational Forensic Analysis Workstation that is now in place, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today (USB Drives, Desktop, Notebook and Server Hard Drives, Flash media Cards, etc.).

Standards and policy are key components to the security management strategy. The RRB Information Systems Security Policy, Standards and Guidelines Handbook was edited to include revisions to Chapters on "Risk Management" and "Information Security Level Designations" to conform to current National Institute of Standards and Technology guidance. The policies promulgated in the RRB Automated Information Systems Security program apply to all RRB offices, bureaus, employees and contractors, and any other individuals who use RRB systems, data or information. These revisions describe the foundation assessments required as part of the certification and accreditation evaluation process mandated by Office of Management and Budget Circular A-130.

In addition to expanding the privacy content in the annual computer security awareness training this year, a separate broadcast e-mail was sent to all employees concerning safeguarding of Federally-owned personally identifiable information as our 2006 privacy awareness notice. This was done partially in response to OMB Memorandum 06-15, *Safeguarding Personally Identifiable Information*.

**Program evaluations**

<b>Program Evaluation</b>	<b>Results in Fiscal Year 2006</b>
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Actuarial Valuation	The 23 <sup>rd</sup> Actuarial Valuation, completed in June 2006, indicated that barring a sudden, unanticipated large drop in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 36 years.
Actuarial Status Report of Railroad Unemployment Insurance System	The report, which was released in June 2006, was generally favorable. Experience-based contribution rates are expected to keep the unemployment system solvent, except for small, short-term cash-flow problems in 2008 and 2009 under the most pessimistic assumption. However, projections show a quick repayment of any loans.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages.
Quality assurance reports	The RRB's program integrity report for fiscal year 2005, released in November 2006, showed that program integrity activities resulted in the establishment of about \$12.8 million in recoverables, recovery of \$9.1 million, benefit savings of \$770 thousand, and referral of 215 cases to the Office of Inspector General.
Client satisfaction surveys	The RRB earned a score of 85 out of a possible 100 on an American Customer Satisfaction Index (ACSI) survey of initial disability annuitants, completed in August 2006. The score was 14 points higher than the current overall federal government score.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages.
Enterprise architecture assessment	The RRB completed an enterprise architecture assessment in February 2006, reporting a total assessment value of 1.70 out of a possible 5.00.
Computer security and privacy assessment	See performance goals II-C-2, II-C-3 and II-C-4 in the chart of performance objectives on the following pages.
Electronic government (E-Gov) activities	See "Program Improvements" in the "Management's Discussion and Analysis" section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Management's Discussion and Analysis" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2003 through March 31, 2006 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2005. At the time this report was prepared, we had incomplete information on our fiscal year 2006 performance. The discussion of any unmet fiscal year 2006 performance goals and indicators will be presented in next year's report.

This performance report was prepared by RRB employees.



RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT		2003 Actual (At \$99.35m) <sup>1/</sup>	2004 Actual (At \$100.7m) <sup>1/</sup>	2005 Actual (At \$102.543m) <sup>1/</sup>	2006 Projected (At \$101.518m) <sup>1/</sup>	2006 Actual (At \$101.518m) <sup>1/</sup>
<b>Strategic Goal I: Provide Excellent Customer Service</b>						
<b>Performance Goal I-A: Pay benefits accurately and timely.</b>						
I-A-1. Achieve a railroad retirement benefit payment accuracy rate <sup>2/</sup> of at least 99%. (Measure: % accuracy rate)	Initial recurring payments:	99.91%	99.36%	99.62%	99.00%	Data not available
	Sample post recurring payments:	99.70%	99.92%	99.89%	99.00%	Data not available
I-A-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate <sup>2/</sup> of at least 99%. (Measure: % accuracy rate)	Unemployment:	98.76%	99.91%	98.73%	98.00%	100%
	Sickness:	100%	99.84%	99.94%	98.00%	99.53%
I-A-3. Achieve a railroad retirement case accuracy rate <sup>2/</sup> of at least 94%. (Measure: % of case accuracy)	Initial cases:	93.6%	94.7%	95.5%	91.0%	Data not available
	Post cases:	96.1%	97.8%	95.8%	94.0%	Data not available
I-A-4. Achieve a railroad unemployment/sickness insurance case accuracy rate <sup>2/</sup> of at least 97%. (Measure: % of case accuracy)	Unemployment:	98.5%	99.75%	98.01%	97.0%	100%
	Sickness:	100%	99.25%	99.51%	97.0%	98.06%
I-A-5. Railroad retirement employee or spouse receives initial annuity payment, or a decision, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 30 adjudicative processing days <sup>3/</sup> )		N/A	N/A	93.1%	92.0%	92.6%
I-A-6. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 60 adjudicative processing days <sup>3/</sup> )		N/A	N/A	97.3%	94.0%	95.3%

RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT	2003 Actual (At \$99.35m) <sup>1/</sup>	2004 Actual (At \$100.7m) <sup>1/</sup>	2005 Actual (At \$102.543m) <sup>1/</sup>	2006 Projected (At \$101.518m) <sup>1/</sup>	2006 Actual (At \$101.518m) <sup>1/</sup>
I-A-7. Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 processing days <sup>4/</sup> )	86.0%	84.5%	92.8% <sup>5/</sup>	80.0%	92.3%
I-A-8. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 30 processing days <sup>4/</sup> )	91.8%	94.1%	94.6%	90.0%	95.1%
I-A-9. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 60 processing days <sup>4/</sup> )	95.2%	95.4%	96.9%	90.0%	97.6%
I-A-10. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days <sup>4/</sup> )	100%	99.25% of cases sampled	99.8%	96.0%	99.5%
I-A-11. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days <sup>4/</sup> )	99.3%	99.4%	99.6%	96.0%	99.4%
I-A-12. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 10 processing days <sup>4/</sup> )	99.7%	99.7%	99.8%	98.0%	99.8%
I-A-13. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 100 processing days <sup>4/</sup> )	56.3%	55.9%	67.9%	55.0%	62.7%
I-A-14. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days <sup>4/ 5/</sup> )	94.1%	94.8%	94.4%	92.0%	95.5%

<b>RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT</b>					
	<b>2003 Actual (At \$99.35m) <sup>1/</sup></b>	<b>2004 Actual (At \$100.7m) <sup>1/</sup></b>	<b>2005 Actual (At \$102.543m) <sup>1/</sup></b>	<b>2006 Projected (At \$101.518m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.518m) <sup>1/</sup></b>
I-A-15. Maintain an end-of-year normal carry-forward balance in 8 targeted workload categories. (Measure: number on hand at end of year)	3,934	4,281	6,756	7,500	3,638
I-A-16. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	181	194	207	200	206
<b>Performance Goal I-B: Provide relevant, timely, and accurate information which is easy to understand.</b>					
I-B-1. Inquirer receives answer or acknowledgment of written correspondence within 15 days of receipt. (Measure: % ≤ 10 processing days <sup>2/</sup> )	99.3%	99.3%	98.5%	95.0%	98.7%
I-B-2. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys and reviews; number of valid challenges to published data)	Deferred	ACSI survey deferred	The final report on the widow(er)s survey was completed in August 2005. RRB's score of 90 was highest of Federal agencies.	Conduct an ACSI survey	The final report on a survey of initial disability annuitants was completed in August 2006. RRB's score was 85.
I-B-3. Maintain the combined balance of unprocessed record corrections and cases requiring review for corrected tax statements below the end-of-year normal working level. (Measure: number on hand at end of year)	93	891	124	1,200	175
<b>Performance Goal I-C: Provide a range of choices in service delivery methods.</b>					
I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: # of services available through electronic media)	New indicator for FY 2005	12 services available	14 services available	17 services available	15 services available
<b>Performance Goal I-D: Ensure efficient and effective business interactions with covered railroad employers.</b>					
I-D-1. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure: % of service and compensation records posted by April 15)	New indicator for FY 2005	New indicator for FY 2005	95.0%	95.0%	99.0% (through 04/15/06)

<b>RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT</b>					
	<b>2003 Actual (At \$99.35m) <sup>1/</sup></b>	<b>2004 Actual (At \$100.7m) <sup>1/</sup></b>	<b>2005 Actual (At \$102.543m) <sup>1/</sup></b>	<b>2006 Projected (At \$101.518m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.518m) <sup>1/</sup></b>
I-D-2. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately)	New indicator for FY 2005	New indicator for FY 2005	99.0%	95.0%	99.0% (through 04/15/06)
I-D-3. Covered employer annual reports of employees filed electronically, or on magnetic media. (Measure: % of employee records filed electronically, or on magnetic media)	97.0%	97.0%	98.0%	97.0%	98.0% (through 04/15/06)
I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: % of employers who use the new online reporting process; # of services available through electronic media)	Deferred	4 Internet services available	55.0% 4 Internet services available	60.0% 6 Internet services available	54.0% 6 Internet services available
I-D-5. Resolve problem situations with covered employers timely and appropriately. (Measure: % of reported problems resolved within 90 days)	New indicator for FY 2005	New indicator for FY 2005	100%	95.0%	100%
<b>Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources</b>					
<b>Performance Goal II-A: Ensure that trust fund assets are projected, collected, recorded and reported appropriately.</b>					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs and a variety of other collection efforts. (Measure: funds collected vs. total debts outstanding)	66%	69%	66%	55%	46%
II-A-2. Release quarterly and annual notices accurately and timely to employers regarding their experience rating-based contributions. (Measure: Yes/No)	New indicator for FY 2005	New indicator for FY 2005	Yes	Yes	Yes

<b>RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT</b>		<b>2003 Actual (At \$99.35m) <sup>1/</sup></b>	<b>2004 Actual (At \$100.7m) <sup>1/</sup></b>	<b>2005 Actual (At \$102.543m) <sup>1/</sup></b>	<b>2006 Projected (At \$101.518m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.518m) <sup>1/</sup></b>
II-A-3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.) (Measure: % completed)	100% of the 2000 reconciliations by 02/18/2003	100% of the 2001 reconciliations by 02/20/2004	100% of the 2002 reconciliations by 12/17/2004	100% of the 2003 reconciliations by 02/28/2006	100% of the 2003 reconciliations were completed by 12/15/2005.	
II-A-4. Perform monthly reasonableness tests comparing railroad retirement taxes deposited electronically, which represent over 99 percent of all railroad retirement taxes, against tax receipts transferred to the RRB trust funds by the Department of the Treasury (Treasury) to provide reasonable assurance the RRB trust funds are receiving appropriate tax funds. (Measure: reasonableness test performed and anomalies reconciled with Treasury (Yes/No))	Yes	Yes	Yes	Yes	Yes	
II-A-5. Prepare annual Performance and Accountability Report (including audited financial statements and other financial and performance reports) by the required due dates. (Measure: Yes/No)	New indicator for FY 2004 (Financial statements were completed timely)	Yes. The FY 2003 Performance and Accountability Report was released in January 2004.	Yes. The FY 2004 Performance and Accountability Report was released 11/10/04.	Yes	Yes. The FY 2005 Performance and Accountability Report was released on 11/10/05.	
II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	94.1%	95.7%	90.3% <sup>2/</sup>	90.0%	94.2%	
<b>Performance Goal II-B: Ensure the integrity of benefit programs.</b>						
II-B-1. Achieve a return of at least \$3.60 for each dollar spent on program integrity activities. (Measure: \$ recoveries & savings per \$ spent)	\$5.68 : \$1.00	\$4.84 : \$1.00	\$5.11 : \$1.00	\$3.80 : \$1.00	Data will be available at the end of the fiscal year.	
II-B-2. Maintain active wage matches with all 50 States to ensure the accuracy of benefit payments. (Measure: # of States matching)	50 States, plus Puerto Rico & Washington, DC	50 States, plus Puerto Rico & Washington, DC	50 States, plus Puerto Rico & Washington, DC	50 States, plus Puerto Rico & Washington, DC	On schedule with 50 States, plus Puerto Rico & Washington, DC	
II-B-3. Ensure ongoing entitlement to disability by conducting continuing disability reviews. (Measure: # of continuing disability reviews on hand at the end of year does not exceed normal working balance (Yes/No))	New indicator for FY 2005	New indicator for FY 2005	No	No	No	



RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT	2003 Actual (At \$99.35m) <sup>1/</sup>	2004 Actual (At \$100.7m) <sup>1/</sup>	2005 Actual (At \$102.543m) <sup>1/</sup>	2006 Projected (At \$101.518m) <sup>1/</sup>	2006 Actual (At \$101.518m) <sup>1/</sup>
<b>Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations.</b>					
<p>II-C-1. Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measure: Number of position types (descriptions) for which core competencies have been defined. Number of employees whose skills have been assessed. Number of employees involved with skills-enhancement programs.) (Measure for FY 2006 and later: Structured succession planning activities are continuing. (Yes/No))</p>	<p>New indicator New indicator New indicator</p>	<p>1 position 39 employees 18 employees</p>	<p>6 positions 73 employees 31 employees</p>	<p>Yes</p>	<p>Yes</p>
<p>II-C-2. Annually assess/update all computer security, disaster recovery, and business resumption plans for the agency. (Measure: Yes/No)</p>	<p>New indicator for FY 2005</p>	<p>Assessment and updates of all scheduled plans completed.</p>	<p>Yes. The agency has completed a Business Impact Analysis and a Business Continuity Plan.</p>	<p>No. Only the assessments and updates of security plans for systems with major changes will be completed. The Business Continuity Plan will be reviewed and updated by 06/30/06. An IT Disaster Recovery Plan is in draft status with a final target date of 09/30/06.</p>	<p>No. The Business Continuity Plan (BCP) was updated with alternate non-IT site information in January 2006, and Appendix H of the BCP, the Emergency Management Organization, was updated in February 2006. An IT Disaster Recovery Plan is currently in draft status.</p>
<p>II-C-3. Develop and implement new procedures for responding to and reporting computer security incidents. (Measure: Yes/No)</p>	<p>New indicator for FY 2005</p>	<p>Procedures have been developed, and reports of identified incidents are documented. The RRB also purchased an Intrusion Detection System (IDS).</p>	<p>Yes. The IDS was installed on 11/19/04, and was placed in operation on 02/12/05. The IDS tuning phase was completed by 06/30/05. Computer security incident procedures are in place and reports of incidents are documented.</p>	<p>Yes. The RRB will contract with a third-party vendor to perform network vulnerability assessments of its LAN general support system. This will be performed again in FY 2008.</p>	<p>Yes. The Department of Energy's Computer Incident Advisory Center began vulnerability assessment testing in January 2006, and they are still performing tests of the RRB's LAN general support system.</p>

RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT	2003 Actual (At \$99.35m) <sup>1/</sup>	2004 Actual (At \$100.7m) <sup>1/</sup>	2005 Actual (At \$102.543m) <sup>1/</sup>	2006 Projected (At \$101.518m) <sup>1/</sup>	2006 Actual (At \$101.518m) <sup>1/</sup>
II-C-4. Assess computer security training requirements and implement an ongoing training program for agency staff. (Measure: Yes/No)	New indicator for FY 2005	Yes. Training needs were assessed and a security curriculum was developed based on audit findings. An ongoing awareness training program for computer users at the agency was completed with 100% participation by agency personnel.	Yes. The agency has established two training tracks. Track one provides technical expertise and functional skills for IT technical staff, and track two focuses on knowledge of security assessments, planning, policy development and safeguard controls. All employees requiring IT security education participate in track two; however, technical employees use both tracks.	Yes. The agency will continue with two training tracks. RRB technical staff require a track with specialized IT training as new skills and capabilities are needed to respond to technological changes. In addition, track one participants join with other staff who also have security responsibilities in the second track program for IT security training. All agency staff also complete a computer security awareness program.	Yes. A total of 181 RRB employees with computer security responsibilities are receiving Web-based training at the OPM USALearning site with a second training track for specialized technical education. All RRB staff annually complete a computer security awareness program.
II-C-5. Implement a methodology to successfully estimate, track and monitor total costs and time schedules for information technology investments through the project life cycle, incorporating both web and mainframe investments. (Measure: Yes/No)	New indicator for FY 2005	New indicator for FY 2005	The pilot portion of this multi-phase project was completed at the end of FY 05. All projects are now being entered and tracked in MS Project.	A post-implementation review will be ongoing for the remainder of FY 06 to tune the system to ensure that project measures are working for the IT environment.	A post-implementation review is continuing for the remainder of FY 06 to tune the system to ensure that project measures are working for the IT environment. Some "best practices" are being developed.
II-C-6. Assemble and publicize an annual inventory of RRB commercial activities on the RRB Website. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-7. Complete public-private competitions on the required activities listed on the Federal Activities Inventory Reform (FAIR) Act inventory. (Measure: % of the FTE's listed on the FAIR Act inventory for which competitions completed)	5% (cumulative)	5% (cumulative)	5% (cumulative)	Meet target level established by OMB	OMB has not established a target for FY 2006. RRB has competed about 5% of the FTEs on the FAIR Act inventory.
II-C-8. Meet government percentage goal for use of performance-based contracting techniques for eligible service contract funds. (Measure: Yes/No)	New indicator for FY 2005	New indicator for FY 2005	Yes	Yes	Yes

RAILROAD RETIREMENT BOARD FY 2006 ANNUAL PERFORMANCE REPORT		2003 Actual (At \$99.35m) <sup>1/</sup>	2004 Actual (At \$100.7m) <sup>1/</sup>	2005 Actual (At \$102.543m) <sup>1/</sup>	2006 Projected (At \$101.518m) <sup>1/</sup>	2006 Actual (At \$101.518m) <sup>1/</sup>
II-C-9. Support government-wide procurement of e-Government initiatives using the point of entry vehicle of <a href="http://www.FedBizOpps.gov">www.FedBizOpps.gov</a> for all eligible actions. (Measure: Yes/No)		New indicator for FY 2005	New indicator for FY 2005	Yes	Yes	Yes
<b>Performance Goal II-D: Effectively carry out the responsibilities of the Railroad Retirement Board under the Railroad Retirement and Survivors' Improvement Act of 2001 with respect to the activities of the National Railroad Retirement Investment Trust.</b>						
II-D-1. Review monthly reports submitted by the Trust. (Measure: Yes/No)		New indicator for FY 2004	Yes	Yes	Yes	Yes
II-D-2. Review annual management reports submitted by the Trust. (Measure: Yes/No)		New indicator for FY 2004	Yes	Yes	Yes	Yes
II-D-3. Review annual audit reports of the Trust's financial statements. (Measure: Yes/No)		New indicator for FY 2004	Yes	Yes	Yes	Yes

<sup>1/</sup> Dollar amounts shown are funds obligated or appropriated for the fiscal year. Actual results for fiscal year 2006 represent status as of 3/31/06 unless otherwise noted.

<sup>2/</sup> Payment Accuracy Rate – the percentage of **dollars** paid correctly as a result of adjudication actions performed. Case Accuracy Rate – the percentage of **cases** that do not contain a material payment error. Case accuracy rates reflect only those errors that are detected as a result of reviewing award actions performed during the fiscal year being studied. (A material error is (1) an incorrect payment of \$5.00 or more at the point the error is identified, (2) an incorrect payment of less than \$5.00 totaling 1 percent or more of the monthly rate, or (3) any situation in which a non-entitled benefit is paid.)

<sup>3/</sup> In audit report 05-05, dated May 17, 2005, the OIG found problems with the performance data for these indicators. One significant problem has been resolved, allowing us to report performance for fiscal year 2005, and later. However, there are still some system limitations that prevent inclusion of all internal processing time in the performance data. We are addressing them.

<sup>4/</sup> Measure does not include the time for customer receipt (from U.S. Treasury or Postal Service).

<sup>5/</sup> Measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified during this reporting period. These inconsistencies have been corrected effective with April 2005 data. Therefore, this report is for the last 6 months of the fiscal year only.

<sup>6/</sup> This indicator includes both retirement and survivor disability payments. The retirement payments are impacted by the system limitations identified in footnote 3 above. The timeliness of the retirement payments is measured by *adjudicative processing days*, while the timeliness of the survivor payments is measured by the *total processing days*. When the system limitations for retirement cases are corrected, this inconsistency will be eliminated.

<sup>7/</sup> The percentage has been adjusted from 88.4% to reflect two audit recommendations implemented at the end of the fiscal year.



**Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2005**

<p><b>Performance Indicator I-A-16.</b> Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days.)</p> <p>Our goal for fiscal year 2005 was 200 days. We achieved a level of 207 days.</p>	<p>During fiscal year 2005, the Bureau of Hearings and Appeals diverted resources to continue updating the RRB's regulations. In addition, two hearings officers retired, but due to funding constraints, only one position was filled. With the new employee not yet performing at the full performance level, as well as reduced resources available for hearing appeals, meeting this objective was impeded.</p>
<p><b>Performance indicator I-C-1.</b> Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: number of services available through electronic media.)</p> <p>Our goal for fiscal year 2005 was to provide 15 services. We provided 14 services.</p>	<p>We projected three additional services for 2005, but only completed two, one planned and one unplanned. We implemented the filing of unemployment insurance claims via the Internet (planned) and the handling of requests for a duplicate tax statement via the RRB Helpline (unplanned). Of the other two services projected for 2005, one, the ability to review the status of unemployment insurance claims was completed in November 2005. The second, which allows our Medicare contractor, Palmetto, to provide changes of address and notifications of death via the Internet, is now targeted for late 2006.</p>
<p><b>Performance Indicator I-D-4.</b> Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percent of employers who use the new online reporting process and number of services available through electronic media.)</p> <p>Our goal for fiscal year 2005 was to provide 6 services, with 55 percent of employers using the online process. In fiscal year 2005, we provided 4 services and 55 percent of employers used the online process.</p>	<p>We did not meet our goal to have a total of six available services. The implementation of the two new applications planned for fiscal year 2005 took longer than anticipated because they were developed using a new system platform, which was different from the one used to develop the four existing applications. The two new services, ID-4K, Prepayment Notice of Employee's Application and Claims for Benefits, and ID-4E, Notice of RUIA Claim Determinations, should be available in 2006. To prevent these problems from recurring, we plan to convert the existing services to the new platform prior to adding future services.</p>

**Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2005**

<p><b>Performance Indicator II-C-1.</b> Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measures for fiscal year 2005: number of position types for which core competencies have been defined, number of employees whose skills have been assessed, and number of employees involved with skills-enhancement programs.)</p> <p>Our goals for fiscal year 2005 were to define core competencies for 1 position, assess skills for 43 employees and to involve 43 employees in skills enhancement programs. In fiscal year 2005, we defined core competencies for 6 employees, assessed skills for 73 employees, and involved 31 employees in skills enhancement programs.</p>	<p>We exceeded our goals for fiscal year 2005 in two of the three measures which we had established for the year. Although we completed skills assessments for many more employees than originally planned, we found that in many cases, the assessment did not reveal any particular gaps that needed to be filled. As a result, we enrolled fewer employees in skills enhancement programs than expected.</p>
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***FINANCIAL SECTION***

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## Financial Section

### Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2006. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB has continued high quality financial management and financial reporting during fiscal year 2006. During the year, the RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2006. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB within 21 days of the end of the quarter.
- Continued our planning for the transition to a new financial management system. Initial efforts have focused on evaluating the potential costs and monitoring the progress of other Federal agencies that are also planning for or implementing new financial management software. During fiscal year 2007, we intend to evaluate various migration options. Transition to a new financial system is tentatively planned for fiscal years 2009/2010.
- Included the audited net assets of the NRRIT in its 2006 financial statements for the first time. The RRB's fiscal year 2005 financial statements were restated to reflect the increase in NRRIT net assets for that period as well as adding the NRRIT net assets to the balance sheet. This change was a direct result of the Statement of Social Insurance becoming a primary financial statement requirement.
- Implemented audit recommendations as follows:

At the beginning of fiscal year 2006, there were 166 open audit recommendations in the agency's audit follow-up tracking system. In addition, during the fiscal year, audit reports containing another 47 recommendations were issued. As a result, the total number of open recommendations during the year was 213. At the same time, final action was completed on 77 audit recommendations, resulting in a balance at the end of the year of 136 open recommendations. Many of the open recommendations deal with information technology, including several security-related recommendations, and require ongoing, long-term corrective actions to bring them to closure. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurance section.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.



Kenneth P. Boehne  
Chief Financial Officer

RAILROAD RETIREMENT BOARD  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2006 AND 2005  
(in dollars)

	<u>FY 2006</u>	<u>RESTATED FY 2005</u>
<b>ASSETS</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$24,469,861	\$74,888,380
Investments (Note 4)	1,203,713,506	1,265,204,565
Accounts Receivable (Note 6)	3,855,266,651	3,736,301,894
<b>Total Intragovernmental</b>	<b>5,083,450,018</b>	<b>5,076,394,839</b>
NRRIT Net Assets (Note 5)	29,372,752,000	27,666,492,289
Accounts Receivable, Net (Note 6)	30,350,971	27,435,248
Inventory and related property, Net (Note 7)	97,070	98,949
General Property, Plant and Equipment, Net (Note 8)	1,471,016	1,798,139
Other	31,691	42,686
<b>TOTAL ASSETS</b>	<b><u>\$34,488,152,766</u></b>	<b><u>\$32,772,262,150</u></b>
<b>LIABILITIES (Note 9)</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$473,225,000	\$453,850,000
Debt	3,030,001,471	3,041,835,141
Other	987,950	912,793
<b>Total Intragovernmental</b>	<b>3,504,214,421</b>	<b>3,496,597,934</b>
Accounts Payable	746,703	625,911
Benefits Due and Payable	819,087,219	795,282,599
Other	278,020,074	292,462,925
<b>TOTAL LIABILITIES</b>	<b><u>4,602,068,417</u></b>	<b><u>4,584,969,369</u></b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations		11,802,025
Unexpended Appropriations - Earmarked Funds (Note 17)	434,877	
Unexpended Appropriations - Other Funds	8,469,010	
Cumulative Results of Operations		28,175,490,756
Cumulative Results of Operations - Earmarked Funds (Note 17)	29,877,180,462	
<b>TOTAL NET POSITION</b>	<b><u>29,886,084,349</u></b>	<b><u>28,187,292,781</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$34,488,152,766</u></b>	<b><u>\$32,772,262,150</u></b>

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

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF NET COST  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(in dollars)**

	<u>2006</u>	<u>Restated 2005</u>
<b>Program Costs:</b>		
<b>Railroad Retirement Program</b>		
Gross Costs (Note 11)	\$9,740,207,228	\$9,463,596,172
Less: Earned Revenue	<u>7,698,032</u>	<u>7,858,273</u>
Net Program Costs	9,732,509,196	9,455,737,899
Total Net Costs	<b>9,732,509,196</b>	<b>9,455,737,899</b>
<b>Railroad Unemployment and Sickness Insurance Program</b>		
Gross Costs (Note 11)	118,940,272	118,823,241
Less: Earned Revenue	<u>28,259,164</u>	<u>29,422,262</u>
Net Program Costs	90,681,108	89,400,979
Total Net Costs	<b>90,681,108</b>	<b>89,400,979</b>
<b>Costs Not Assigned to Program</b>	0	0
<b>Less: Earned Revenues Not Attributed to Programs</b>	<u>236,717</u>	<u>250,073</u>
<b>NET COST OF OPERATIONS</b>	<u><b>\$9,822,953,587</b></u>	<u><b>\$9,544,888,805</b></u>

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

RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
AS OF SEPTEMBER 30, 2006 AND 2005  
(in dollars)

	FY 2006 (CY)			RESTATED FY 2005 (PY)
	EARMARKED FUNDS	ALL OTHER FUNDS	ELIMINATIONS	CONSOLIDATED TOTAL
<b>CUMULATIVE RESULTS OF OPERATIONS</b>				
BEGINNING BALANCES	\$28,175,490,756			\$28,175,490,756
ADJUSTMENTS:				
CORRECTIONS OF ERRORS				25,032,862,071
BEGINNING BALANCE, AS ADJUSTED	28,175,490,756			28,175,490,756
<b>BUDGETARY FINANCING SOURCES:</b>				
APPROPRIATIONS USED	466,085,873	95,995,821		562,081,694
NON - EXCHANGE REVENUE	5,298,753,391	2,414	(466,085,874)	4,832,669,931
TRANSFERS IN FROM NRRIT (Note 12)	947,000,000			947,000,000
TRANSFERS IN/OUT WITHOUT REIMBURSEMENT	3,467,814,000			3,467,814,000
<b>OTHER FINANCING SOURCES (NON-EXCHANGE)</b>				
IMPUTED FINANCING	8,817,957			8,817,957
OTHER				(100,000,000)
CHANGE IN NRRIT NET ASSETS	1,706,259,711			1,706,259,711
TOTAL FINANCING SOURCES	11,894,730,932	95,998,235	(466,085,874)	11,524,643,293
NET COST OF OPERATIONS	10,193,041,226	95,998,235	(466,085,874)	9,822,953,587
NET CHANGE	1,701,689,706			1,701,689,706
CUMULATIVE RESULTS OF OPERATIONS	29,877,180,462			29,877,180,462
<b>UNEXPENDED APPROPRIATIONS</b>				
BEGINNING BALANCES	370,750	11,431,275		11,802,025
ADJUSTMENTS:				
CORRECTIONS OF ERRORS				2,000
BEGINNING BALANCE, AS ADJUSTED	370,750	11,431,275		11,802,025
<b>BUDGETARY FINANCING SOURCES:</b>				
APPROPRIATIONS RECEIVED	466,150,000	97,970,000		564,120,000
OTHER ADJUSTMENTS		(4,936,444)		(4,936,444)
APPROPRIATIONS USED	(466,085,873)	(95,995,821)		(562,081,694)
TOTAL BUDGETARY FINANCING SOURCES	64,127	(2,962,265)		(2,898,138)
TOTAL UNEXPENDED APPROPRIATIONS	434,877	8,469,010		8,903,887
NET POSITION	\$29,877,615,339	\$8,469,010		\$29,886,084,349

The accompanying notes are an integral part of these financial statements



RAILROAD RETIREMENT BOARD  
 COMBINED STATEMENT OF BUDGETARY RESOURCES  
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
 (in dollars)

	<u>FY 2006</u>	<u>RESTATED FY 2005</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated balance, brought forward, October 1	\$15,323,716	\$15,083,263
Adjustment to beginning balance (Note 20)	(118,324)	0
Adjusted unobligated balance, brought forward, October 1	<u>\$15,205,392</u>	<u>\$15,083,263</u>
Recoveries of prior year unpaid obligations	933,937	1,403,436
Budget authority:		
Appropriation	10,730,700,185	10,473,081,838
Spending authority from offsetting collections:		
Earned:		
Collected	37,760,934	38,276,903
Change in receivables from Federal sources	97,565	(687)
Subtotal	<u>10,768,558,684</u>	<u>10,511,358,054</u>
Nonexpenditure transfers, net, anticipated and actual:		
Temporarily not available pursuant to Public Law	(8,961,274)	(57,564)
Permanently Not Available	(441,125,344)	(488,640,336)
	<u>(4,936,444)</u>	<u>(2,762,264)</u>
<b>TOTAL BUDGETARY RESOURCES</b>	<b><u>\$10,329,674,951</u></b>	<b><u>\$10,036,384,589</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred: (Note 19)		
Direct	\$10,309,804,264	\$10,013,134,379
Reimbursable	7,822,479	7,926,494
Subtotal	<u>10,317,626,743</u>	<u>10,021,060,873</u>
Unobligated balance	1,309,390	1,276,942
Unobligated balance not available	<u>10,738,818</u>	<u>14,046,774</u>
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b><u>\$10,329,674,951</u></b>	<b><u>\$10,036,384,589</u></b>
<b>CHANGE IN OBLIGATED BALANCES</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$849,518,757	\$826,606,893
Adjustment to beginning balance (Note 20)	149,662	11,760
Adjusted unpaid obligations, brought forward, October 1	<u>\$849,668,419</u>	<u>\$826,618,653</u>
Less: Uncollected customer payments from Federal sources, brought forward, October 1	96,809	0
<b>Total unpaid obligated balance, net</b>	<b><u>\$849,765,228</u></b>	<b><u>\$826,618,653</u></b>
Obligations incurred net (+/-)	\$10,317,626,743	\$10,021,060,873
Less: Gross outlays	(10,292,673,433)	(9,996,758,020)
Less: Recoveries of prior year unpaid obligations, actual	(933,937)	(1,403,436)
Change in uncollected customer payments from Federal sources	(97,565)	687
Obligated balance, net, end of period:		
Unpaid Obligations (Note 13)	\$873,687,793	\$849,421,948
Less: Uncollected customer payments from Federal sources	(757)	96,809
<b>Total, unpaid obligated balance, net, end of period</b>	<b><u>\$873,687,036</u></b>	<b><u>\$849,518,757</u></b>
<b>NET OUTLAYS (Note 14)</b>		
Gross outlays	\$10,292,673,433	\$9,996,758,020
Less: Offsetting collections	(37,760,934)	(38,276,903)
Less: Distributed offsetting receipts	<u>(3,933,814,000)</u>	<u>(3,810,862,000)</u>
<b>Net Outlays</b>	<b><u>\$6,321,098,499</u></b>	<b><u>\$6,147,619,117</u></b>

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

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF FINANCING  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005  
(in dollars)**

	<u>2006</u>	<u>RESTATED 2005</u>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$10,317,626,743	\$10,021,060,873
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(38,792,436)</u>	<u>(39,679,652)</u>
Obligations Net of Offsetting Collections and Recoveries	10,278,834,307	9,981,381,221
Less: Offsetting Receipts	<u>(3,933,814,000)</u>	<u>(3,810,862,000)</u>
Net Obligations	<b>6,345,020,307</b>	<b>6,170,519,221</b>
<b>Other Resources</b>		
Imputed Financing from Costs Absorbed by Others	8,817,957	8,618,630
Other	<u>1,706,259,711</u>	<u>2,533,623,289</u>
Net Other Resources Used to Finance Activities	<b>1,715,077,668</b>	<b>2,542,241,919</b>
Total Resources Used to Finance Activities	<b>8,060,097,975</b>	<b>8,712,761,140</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(326,791)	(4,101,029)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	1,137,987	144,043
Resources That Finance the Acquisition of Assets	<u>(1,706,720,927)</u>	<u>(2,634,049,671)</u>
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>3,467,814,000</u>	<u>3,368,862,000</u>
Total Resources Used to Finance Items Not Part of Net Cost of Operations	<b>1,761,904,269</b>	<b>730,855,343</b>
Total Resources Used to Finance Net Cost of Operations	<b>9,822,002,244</b>	<b>9,443,616,483</b>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	229,122	4,630
Other	<u>189,489</u>	<u>775,039</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<b>418,611</b>	<b>779,669</b>
<b>Components Not Requiring or Generating Resources:</b>		
Depreciation and Amortization	532,732	492,653
Other	<u>100,000,000</u>	<u>100,000,000</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<b>532,732</b>	<b>100,492,653</b>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<b>951,343</b>	<b>101,272,322</b>
<b>Net Cost of Operations</b>	<b><u>\$9,822,953,587</u></b>	<b><u>\$9,544,888,805</u></b>

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

**Statement of Social Insurance (Note 15, Note 16)**

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2006

(Present values in millions of dollars)

		Unaudited	Unaudited	Unaudited	Unaudited
	<u>1/1/2006</u>	<u>1/1/2005</u>	<u>1/1/2004</u>	<u>1/1/2003</u>	<u>1/1/2002</u>
Estimated future income (excluding interest) received from or on behalf of:					
Current participants not yet having attained retirement age	\$64,980	\$56,842	\$55,778	\$58,315	\$60,452
Current participants who have attained retirement age	62,480	56,859	54,882	54,491	51,137
Those expected to become participants	44,309	31,313	30,327	32,419	30,843
Subtotal - future income for the 75-year period	171,770	145,014	140,986	145,225	142,432
Estimated future expenditures:					
Current participants not yet having attained retirement age	84,068	72,927	71,803	72,976	75,781
Current participants who have attained retirement age	91,734	84,054	81,128	80,374	73,840
Those expected to become participants	24,966	15,783	13,912	13,789	12,776
Subtotal - future expenditures for the 75-year period	200,767	172,764	166,843	167,139	162,397
Estimated future excess of income over expenditures:	(28,997)	(27,750)	(25,857)	(21,914)	(19,965)

## **Notes to the Financial Statements: Fiscal Years Ended September 30, 2006 and 2005**

### 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2006 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2006. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

#### B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).
- Social Security Equivalent Benefit (SSEB) Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).
- Dual Benefits Payments (DBP) Account (0111) funds the phase-out costs of certain vested dual benefits from general appropriations. Account 0111 is considered a general fund. Our authority to use these collections is 45 USC §231(N)(d).
- Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. Account 0113 is considered an earmarked fund. This account has no basis in law.
- Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad

Unemployment Insurance Trust Fund, Administrative Expenses. Account 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.
- Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. Account 8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.
- Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Account 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 108-7.
- Savings Bonds Allotment (6050), and City and State Taxes (6275) were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

#### C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

#### D. Basis of Accounting

As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

## E. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Treasury, excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

## 2. Related Parties

The RRB has significant transactions with the following governmental and nongovernmental agencies:

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2006 and 2005, net payroll taxes transferred to the RRB by Treasury were \$4.7 billion and \$4.5 billion, respectively.

Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2006 and 2005, investments, including accrued interest, totaled \$1.2 billion and \$1.27 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2006 due to the financial interchange advances during fiscal year 2005 included principal of \$3.2 billion and interest of \$170 million. The amount paid by the RRB to Treasury in fiscal year 2005 due to the financial interchange advances during fiscal year 2004 included principal of \$3.2 billion and interest of \$159 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2006, the RRB trust funds realized \$3.8 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2006 and 2005 were almost \$1.2 billion, each year.

- The Centers for Medicare and Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred \$471 million

and \$445 million to CMS in fiscal years 2006 and 2005, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2006 and 2005 were \$7.2 million each year.

- The General Services Administration (GSA) provides payroll processing services to the RRB. In addition, the RRB paid rent to GSA in the amounts of \$3.6 million and \$3.4 million for fiscal years 2006 and 2005, respectively.
- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to \$101.5 million and \$94.8 million for fiscal years 2006 and 2005, respectively.
- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2006 and 2005, the NRRIT transferred \$947 million and \$809 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

### 3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2006	RESTATED 2005
A. Fund Balances:		
(1) Trust Funds	\$15,554,765	\$63,075,571
(2) Appropriated Funds	8,903,887	11,802,026
(3) Other Fund Types	11,209	10,783
	<hr/>	<hr/>
Total	\$24,469,861	\$74,888,380
	<hr/>	<hr/>
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	\$ 1,309,655	\$ 1,276,942
(b) Unavailable	10,738,818	14,046,774
(2) Obligated Balance not yet Disbursed	12,410,179	59,553,881
(3) Non-Budgetary FBWT	11,209	10,783
	<hr/>	<hr/>
Total	\$24,469,861	\$74,888,380
	<hr/>	<hr/>

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

### 4. Investments

On September 30, 2006 and 2005, the book values of the RRB's investments held at the Treasury, including accrued interest, totaled \$1,203,713,506 and \$1,265,204,565, respectively.

The balance on September 30, 2006, consisted of \$1,200,466,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and \$3,247,506 in accrued interest. The balance on September 30, 2005, consisted of \$1,262,628,000 in 3.875 percent par value specials (with market value equal to face value) maturing on October 3, 2005, and \$2,576,565 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

## 5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at market value, as of September 30, 2006 and 2005. These figures were provided to the RRB by the NRRIT on November 15, 2006, for the fiscal year ended September 30, 2006.

## 6. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2006	2005
Financial Interchange – Principal	\$3,631,000,000	\$3,505,500,000
Financial Interchange – Interest	122,600,000	135,800,000
Department of Labor	101,538,678	94,820,436
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	127,973	181,458
Total	\$3,855,266,651	\$3,736,301,894



- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2006	2005
Accounts receivable - Benefit overpayments	\$36,638,586	\$32,029,588
Accounts receivable – Past due RUI contributions and taxes	96,788	34,249
Accounts receivable - Interest, penalty & administrative costs	254,498	356,309
Total	<u>\$36,989,872</u>	<u>\$32,420,146</u>
Less: Allowances for doubtful accounts	<u>6,638,901</u>	<u>4,984,898</u>
Net Total	<u>\$30,350,971</u>	<u>\$27,435,248</u>

The RRB's September 30, 2006, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of \$36,989,872 includes \$32,163,935 (87%) in railroad retirement program receivables and \$4,825,937 (13%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is \$6,638,901. This includes \$5,693,018 (85.8%) for the railroad retirement program and \$945,883 (14.2%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

## 7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

## 8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is \$5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

Classes of Fixed Assets	Service Lives	At September 30, 2006		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,538,506	\$ 113,281
ADP software	5 years	19,539,768	19,431,024	108,744
Equipment	5-10 years	5,465,009	5,175,598	289,411
Internal-Use Software in Development		959,580	0	959,580
		<u>\$28,616,144</u>	<u>\$27,145,128</u>	<u>\$1,471,016</u>

Classes of Fixed Assets	Service Lives	RESTATED At September 30, 2005		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,475,289	\$ 176,498
ADP software	5 years	19,467,854	19,249,268	218,586
Equipment	5-10 years	5,519,563	4,985,779	533,784
Internal-Use Software in Development		869,271	0	869,271
		<u>\$28,508,475</u>	<u>\$26,710,336</u>	<u>\$1,798,139</u>

See Note 18 regarding restatements.

## 9. Liabilities

Liabilities at September 30 consisted of:

	2006	RESTATED 2005
Intragovernmental:		
Other - Unfunded Federal Employees' Compensation Act Liability	\$ 391,040	\$ 336,911
Public:		
Other - Accrued Unfunded Leave	\$ 6,563,472	\$ 6,334,350
Total Liabilities Not Covered by Budgetary Resources	\$ 6,954,512	\$ 6,671,261
Total Liabilities Covered by Budgetary Resources	4,595,113,905	4,578,298,108
Total Liabilities	<u>\$4,602,068,417</u>	<u>\$4,584,969,369</u>

- *Debt*

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

	2006	2005
Beginning Balance, Principal	\$2,973,100,000	\$2,962,200,000
New Borrowing	3,235,200,000	3,251,000,000
Repayments	(3,250,100,000)	(3,240,100,000)
Ending Balance, Principal	2,958,200,000	2,973,100,000
Accrued Interest	71,801,471	68,735,141
Total	<u>\$3,030,001,471</u>	<u>\$3,041,835,141</u>

- *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of \$10,107,022 and \$9,794,148, at

September 30, 2006 and 2005, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

	2006	RESTATED 2005
Accrued Unfunded Liabilities	\$ 6,563,472	\$ 6,334,350
Accrued Payroll	2,835,839	2,758,875
Accrued RRB Contributions – Thrift Savings Plan	54,172	51,897
Withholdings Payable	26,020	24,876
Contingent Liability (see Note 10 for details)	268,000,000	283,000,000
Capital Lease Liability	112,578	221,025
Other	427,993	71,902
Total	<u>\$278,020,074</u>	<u>\$292,462,925</u>

#### 10. Commitments and Contingencies

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of Railroad Retirement Tax Act (RRTA) or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. Based on an August 14, 2006, judgment, the RRB's legal counsel has determined that it is probable the RR and SSEB Accounts are contingently liable for \$86 million. The amount of \$90 million was recorded in fiscal year 2003; an additional \$11 million was recorded in fiscal year 2005; and a reduction of \$15 million was recorded in fiscal year 2006 (for a total of \$86 million) and is reflected on the 2005 and 2006 Balance Sheet under other liabilities.
- Several Class 1 railroads are party to a suit claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suit has been pending the outcome of the above case. Due to the decision entered by the United States Claims Court on October 31, 2003, regarding the above case, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for an estimated amount of \$82 million. This amount was recorded in fiscal year 2003 and is reflected on the Balance Sheet for fiscal years 2005 and 2006 under other liabilities.

The amount of the contingent liability recorded for the above two actions is \$168 million.

- In fiscal year 2005, we recorded a contingent liability in the amount of \$100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due SSA.

The total contingent liability recorded is \$268 million.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Based on prior experience, it is remote that the RR Account and the SSEB Account are contingently liable for an estimated amount of \$1.084 billion. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

#### 11. Intragovernmental Costs and Exchange Revenue

	2006	RESTATED 2005
Railroad Retirement (RR) Program		
Intragovernmental Costs	\$ 200,262,640	\$ 191,475,166
Public Costs	9,539,944,588	9,272,121,006
Total RR Program Costs	<u>\$9,740,207,228</u>	<u>\$9,463,596,172</u>
Intragovernmental Earned Revenue	\$ 7,165,078	\$ 7,245,977
Public Earned Revenue	532,954	612,296
Total RR Program Earned Revenue	<u>\$ 7,698,032</u>	<u>\$ 7,858,273</u>
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	\$ 4,663,731	\$ 4,580,665
Public Costs	114,276,541	114,242,576
Total RUIA Program Costs	<u>\$ 118,940,272</u>	<u>\$ 118,823,241</u>
Intragovernmental Earned Revenue	\$ 0	\$ 0
Public Earned Revenue	28,259,164	29,422,262
Total RUIA Program Earned Revenue	<u>\$ 28,259,164</u>	<u>\$ 29,422,262</u>

These totals do not include \$236,717 and \$250,073 of earned revenues not attributable to either program for fiscal years 2006 and 2005, respectively.

#### 12. Transfers To/From NRRIT

The RRB received a total of \$947 million and \$809 million from the NRRIT during fiscal years 2006 and 2005, respectively. These funds were received into the Railroad Retirement (RR) Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	<u>2006</u>	<u>2005</u>
Undelivered Orders	<u>\$7,915,076</u>	<u>\$7,721,210</u>

14. Explanation of Material Difference Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2005. A reconciliation was not performed for the period ended September 30, 2006, since the RRB's Performance and Accountability Report is published in November 2006, and OMB's MAX system will not have actual budget data until mid-December 2006.

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

	<u>Fiscal Year 2005</u>			
	<u>Budgetary Resources (in millions)</u>	<u>Obligations Incurred (in millions)</u>	<u>Distributed Offsetting Receipts (in millions)</u>	<u>Net Outlays (in millions)</u>
1. Combined Statement of Budgetary Resources	\$10,036	\$10,022	\$3,811	\$6,148
2. Unobligated Balance, brought forward October 1, 2004	(15)			
3. Recoveries of prior year unpaid obligations	(1)			
4. Dual Benefit Obligations (0111)	(107)	(107)		
5. Sickness Insurance Benefit Recoveries	(29)	(29)		
6. Administrative Expense Reimbursement	(8)	(8)		
7. Cancelled Authority	2			
8. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(442)	(442)	(442)	
<u>Financial Interchange</u>				
9. Financial Interchange – Cash vs. Accrual (net difference)			548	(548)
<u>NRRIT</u>				
10. NRRIT Obligations / Outlays	827	827		827
11. Intrafund Transfers: NRRIT Transfer to RRA			809	(809)
12. Proprietary Receipts: NRRIT – Gains and Losses			3,094	(3,094)
13. Proprietary Receipts: NRRIT – Interest and Dividends			331	(331)
14. Rounding				(1)
15. Budget of the United States Government	<u>\$10,263</u>	<u>\$10,263</u>	<u>\$8,151</u>	<u>\$2,192</u>

15. Social Insurance

- Actuarial Surplus or (Deficiency) represents combined values for the RR Account, SSEB Account, and NRRIT.
- Estimated future income (excluding interest) includes tier 1 taxes, tier 2 taxes, income taxes on benefits, financial interchange income, advances from general revenues, and repayments of advances from general revenues.
- Estimated future expenditures include benefit and administrative costs.
- A closed group estimate of the future excess of income over expenditures using the projected tax rates under employment assumption II may be obtained by subtracting future expenditures for current participants from future income for current participants.
- Below are the fund balances used in the Statement of Social Insurance:

<u>Date</u>	<u>Fund Balance</u> (millions)	<u>Fund Balance</u> (unaudited) (millions)
1/1/2006	\$29,976	
1/1/2005		\$28,570
1/1/2004		26,616
1/1/2003		22,679
1/1/2002		20,861

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2005, whereas present values are as of 1/1/2006. Prior to 2003, present value categories for “Current participants not yet having attained retirement age” included those employees eligible for retirement who had not yet retired.
- Prior to 2006, certain accrual adjustments were included in the above fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefit ratio calculation, wherein the asset values do not include these accrual adjustments. If the accrual adjustments had been made as in prior years, the 1/1/2006 fund balance would have been \$400 million higher.

16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent interest rate, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 23<sup>rd</sup> actuarial valuation. Under employment assumption II, starting with an average 2005 employment of 233,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the “Twenty-Third Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2004.” This may be found on the RRB’s website, [www.rrb.gov](http://www.rrb.gov).

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

- Table S-1. 2004 RRB Annuitants Mortality Table
- Table S-2. 2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze
- Table S-3. 2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze
- Table S-4. 1994 RRB Active Service Mortality Table
- Table S-5. 2004 RRB Spouse Total Termination Table
- Table S-6. Probability of a retired employee having a spouse eligible for railroad retirement benefits
- Table S-7. 1995 RRB Mortality Table for Widows
- Table S-8. 1997 RRB Remarriage Table
- Table S-9. 2004 RRB Total Termination Table for Disabled Children
- Table S-10. Calendar year rates of immediate age retirement
- Table S-11. Rates of immediate disability retirement and of eligibility for disability freeze
- Table S-12. Calendar year rates of final withdrawal
- Table S-13. Service months and salary scales
- Table S-14. Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Earmarked Funds

Balance Sheet as of September 30, 2006

ASSETS

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Fund Balance with Treasury Investments	\$ (6,392,891) *	\$2,681,862	\$8,132,697	\$434,877	\$10,360,150	\$97,612	\$675,334		\$15,989,641
NRRT Net Invested Assets	725,037,871	478,075,636							1,203,713,507
Taxes and Interest Receivable	3,753,600,000	29,372,752,000	95,353,739	4,481,666	1,486,727	10,064,992	53,129	(4,555,684)	29,372,752,000
Other Assets		26,619,780					113,050		3,885,617,622
<b>Total Assets</b>	<b>4,472,844,980</b>	<b>29,880,129,278</b>	<b>103,486,436</b>	<b>434,877</b>	<b>16,328,543</b>	<b>10,162,604</b>	<b>841,513</b>	<b>(4,555,684)</b>	<b>34,479,672,547</b>
Liabilities Due and Payable	3,974,060,271	345,613,096	6,225,088	854,498	9,886,313	741,861	104,354	(4,555,684)	4,323,043,484
Other Liabilities	177,725,200	90,701,935					700,276		279,013,724
<b>Total Liabilities</b>	<b>4,151,785,471</b>	<b>436,315,031</b>	<b>6,225,088</b>	<b>434,877</b>	<b>10,740,811</b>	<b>741,861</b>	<b>804,630</b>	<b>(4,555,684)</b>	<b>4,602,057,208</b>
Unexpended Appropriations									434,877
Cumulative Results of Operations	321,059,509	29,443,814,247	97,261,348	434,877	5,587,732	9,420,743	36,883		29,877,180,462
<b>Total Liabilities and Net Position</b>	<b>\$4,472,844,980</b>	<b>\$29,880,129,278</b>	<b>\$103,486,436</b>	<b>\$434,877</b>	<b>\$16,328,543</b>	<b>\$10,162,604</b>	<b>\$841,513</b>	<b>\$(4,555,684)</b>	<b>\$34,479,672,547</b>

Statement of Net Cost for the Period Ended September 30, 2006

Gross Program Costs	\$5,804,819,794	\$3,733,192,445	\$100,848,315	\$466,085,873	\$117,062,685	\$7,647,389	\$9,763,151,679		\$9,763,151,679
Less Earned Revenues		532,954	28,259,164		7,586,440		(421,362)		35,957,196
<b>Net Program Costs</b>	<b>\$5,804,819,794</b>	<b>\$3,732,659,491</b>	<b>\$72,589,151</b>	<b>\$466,085,873</b>	<b>\$109,476,245</b>	<b>\$7,647,389</b>	<b>\$(466,083,460)</b>		<b>\$9,727,194,483</b>

Costs Not Attributable to Program Costs  
Less Earned Revenues Not Attributed to Programs  
Net Cost of Operations

			236,039			678			236,717
	<b>\$5,804,819,794</b>	<b>\$3,732,659,491</b>	<b>\$72,589,151</b>	<b>\$466,085,873</b>	<b>\$109,240,206</b>	<b>\$7,646,711</b>	<b>\$(466,083,460)</b>		<b>\$9,726,957,766</b>

Statement of Changes in Net Position for the Period Ended September 30, 2006

Net Position Beginning of Period	\$216,894,783	\$27,850,854,372	\$94,186,765	\$370,750	\$5,853,470	\$7,489,071	\$212,295		\$28,175,861,506
Appropriations Received				466,150,000					466,150,000
Expended Appropriations				466,085,873					466,085,873
Appropriations Used				(466,085,873)					(466,085,873)
Non-Exchange Revenue	34,578,538	19,327,539	4,744,340			270,098		(83,460)	58,837,055
Other Financing Sources	3,404,962,449	(29,841,915)	5,113,550		108,974,468	(20,047,894)	7,471,299		3,476,681,957
Transfers In From NRRT		947,000,000							947,000,000
Change in NRRT Assets		1,706,259,711							1,706,259,711
Net Cost of Operations	(5,804,819,794)	(3,732,659,491)	(72,589,151)	(466,085,873)	(109,240,206)		(7,646,711)	466,083,460	(9,726,957,766)
Taxes and Other Non-Exchange Revenue	2,469,443,533	2,682,874,031	65,805,844			21,709,468		(466,000,000)	4,773,832,876
Change in Net Position	<b>104,164,726</b>	<b>1,592,959,875</b>	<b>3,074,563</b>	<b>64,127</b>	<b>(285,738)</b>	<b>1,931,672</b>	<b>(175,412)</b>		<b>1,701,753,833</b>
<b>Net Position End of Period</b>	<b>\$321,059,509</b>	<b>\$29,443,814,247</b>	<b>\$97,261,348</b>	<b>\$434,877</b>	<b>\$5,567,732</b>	<b>\$9,420,743</b>	<b>\$36,883</b>		<b>\$29,877,615,339</b>

\* The negative cash balance for the SSEB (Fund 60x6010) account is a result of regular, retroactive year-end adjustments made by Treasury.



## 18. Restatements

Since the assets of the NRRIT are included in the RRB's Statement of Social Insurance (a basic statement for the first time in fiscal year 2006), management, in conjunction with the RRB's Inspector General, agreed to restate the financial statements of the RRB to include NRRIT net assets. For fiscal year 2005, the Balance Sheet, the Statement of Changes in Net Position, and the Statement of Financing were restated to include the net assets of the NRRIT. NRRIT net assets of \$27,666.5 million were added to the Balance Sheet. The Statement of Changes in Net Position was restated to include a prior-period adjustment of \$25,032.9 million to bring in the audited NRRIT net assets as of September 30, 2004, and the increase in NRRIT net assets for fiscal year 2005 amounting to \$2,633.6 million. Other resources on the Statement of Financing were increased by \$2,633.6 million as a result of the increase in NRRIT net assets for fiscal year 2005.

After a consultation with DOL, OMB and the Financial Management Service, it has been determined that the RUIA contributions that the RRB receives from railroad employers should be reported as revenue to the RRB. As a result of this accounting change, the restatement of fiscal year 2005 on the Statement of Changes in Net Position shows an increase in non-exchange revenue and a decrease in transfers-in without reimbursement in the amount of \$97.2 million.

In conjunction with the material restatements described above, we made certain other corrections with only immaterial impact on the financial statements.

The overall effect of the restatements was an increase in assets of \$27,666,708,385 on the Balance Sheet; an increase in the Statement of Net Cost of \$95,774; an increase in cumulative results of operations on the Statement of Changes in Net Position of \$25,032,864,071; a decrease in budgetary resources and status of budgetary resources on the Statement of Budgetary Resources of \$341,407; and an increase in total resources used to finance activities of \$2,633,165,752 on the Statement of Financing.

## 19. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

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

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2005 and 2006.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2006 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

20. Changes to Obligated and Unobligated Balances at the Beginning of Fiscal Year 2006

The change to the unobligated balance and the balance of unpaid obligations at the beginning of fiscal year 2006 relate to the restatement of prior year balances associated with the capitalization of two operating leases.

## UNAUDITED

### Required Supplementary Information

#### Social Insurance

##### Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier 1 payroll taxes are coordinated with social security taxes so that employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier 2 tax rate is based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.

Revenues in excess of benefit payments are invested to provide additional trust fund income. The NRRIT oversees most investments, including all investments in non-governmental assets.

Additional trust fund income is derived from the financial interchange (FI) with the social security trust funds, revenues from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Administration (SSA) Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and the Centers for Medicare and Medicaid Services (CMS) Federal Hospital Insurance (FHI) trust fund in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the FI are performed according to social security law. The amount of benefits payable under the RRA has no effect on the results.

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the amount of social security payroll and income taxes relating to railroad employment and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit reimbursements, a transfer would be made in favor of the social security trust funds.

On a present value basis, funds provided through the FI are expected to equal \$72,053 million, or 41.9 percent of the estimated future income of \$171,770 million.

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### Benefits

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

### Program Finances and Sustainability

The RRB must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made of the various components of income and outgo under three employment assumptions.

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2006. The figures in the table are based on the 23<sup>rd</sup> actuarial valuation extended through calendar year 2080. The present values in the table are based on estimates of income and expenditures through the year 2080. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. Future tier 2 tax rates were recomputed for the Statement of Social Insurance because of the difference between audited NRRIT asset values and those used for the 23<sup>rd</sup> actuarial valuation. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 23<sup>rd</sup> actuarial valuation. Under employment assumption II, starting with an average 2005 employment of 233,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial Estimates: Actuarial estimates of the long-range financial condition of the railroad retirement program are presented here. Throughout this section, the following terms will generally be used as indicated:

- Income: sources of income are payroll taxes, income taxes, interest income, and financial interchange transfers.

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- Income excluding interest<sup>a</sup>: income, as defined above, excluding the interest income from assets of the trust fund.
- Expenditures: benefit payments and administrative expenses.
- Cashflow: either (1) income excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.
- Net Cashflow: income excluding interest less expenditures, expressed in nominal dollars.

The Statement of Social Insurance and the required supplementary information below are based on actuarial and economic assumptions used in the 23<sup>rd</sup> actuarial valuation extended through calendar year 2080, the RRA, and the Railroad Retirement Tax Act. This information includes:

- (1) actuarial present values of future estimated expenditures for and estimated income from, or on behalf of, current and future program participants;
- (2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;
- (3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions, which is included in recognition of the inherent uncertainty of those assumptions.

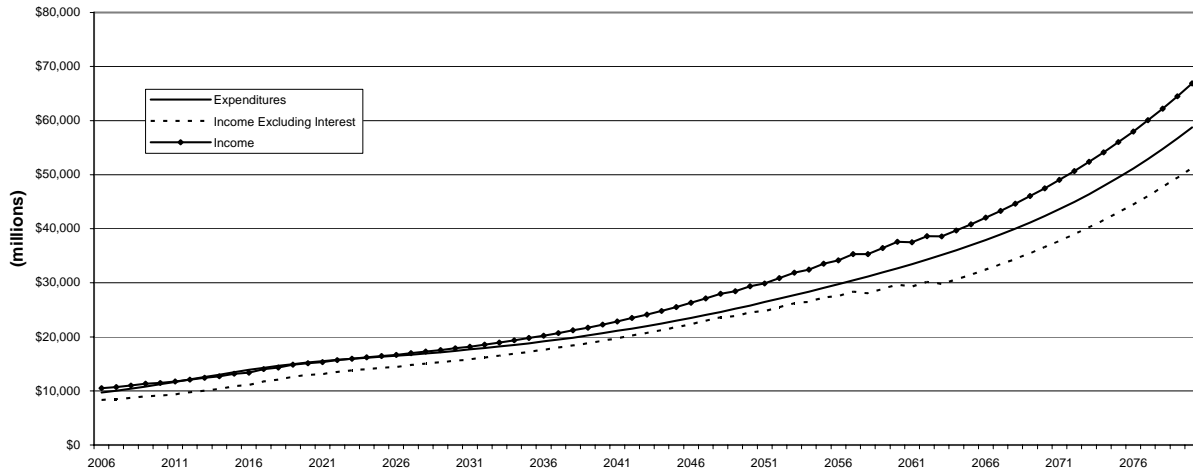
Estimates are generally based on a 75-year projection period. Estimates extending far into the future are inherently uncertain, with uncertainty greater for the more distant years.

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<sup>a</sup> References to interest income in this section may be considered as referring to total investment income including dividends and capital gains.

# UNAUDITED

Chart 1: Estimated Income and Expenditures



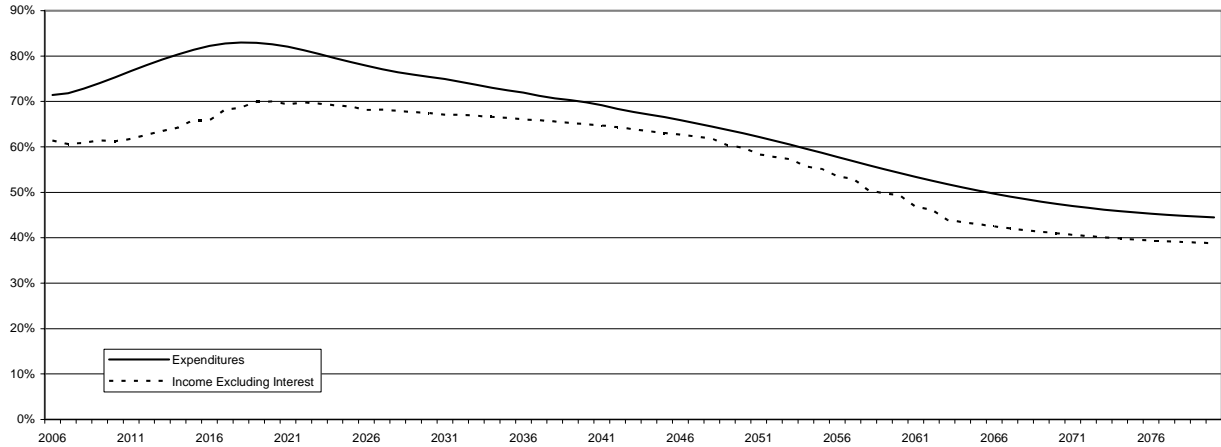
Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2006-2080 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures begin to exceed annual income in 2012. This continues for slightly more than a decade, but by 2023 income is once again greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are always greater than annual income. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Benefits and administrative expenses as a percentage of payroll increase through 2018 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.

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Chart 2: Estimated Railroad Retirement Income Excluding Interest and Expenditures as a Percent of Taxable Tier 2 Payroll



**Sensitivity Analysis** – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2006, and are based on estimates of income and expenditures during the projection period 2006-2080.

**Employment:** Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2005 is equal to 233,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 43,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (1.0 percent for assumption I and 2.5 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 4.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under all three employment assumptions, no cashflow problems occur throughout the entire period. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

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**Table 1**  
**Excess of Assets and Present Value of Income over Present Value of Expenditures for**  
**Three Employment Assumptions, 2006-2080**  
 (in millions)

Employment Assumption	I	II	III
Present Value	\$1,210	\$ 979	\$ 684
Average Tier 2 tax rate <sup>a</sup>	14.2%	16.2%	18.7%

<sup>a</sup>Average combined employer/employee tier 2 tax rate is calculated by dividing the present value of tier 2 taxes by the present value of tier 2 payroll.

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

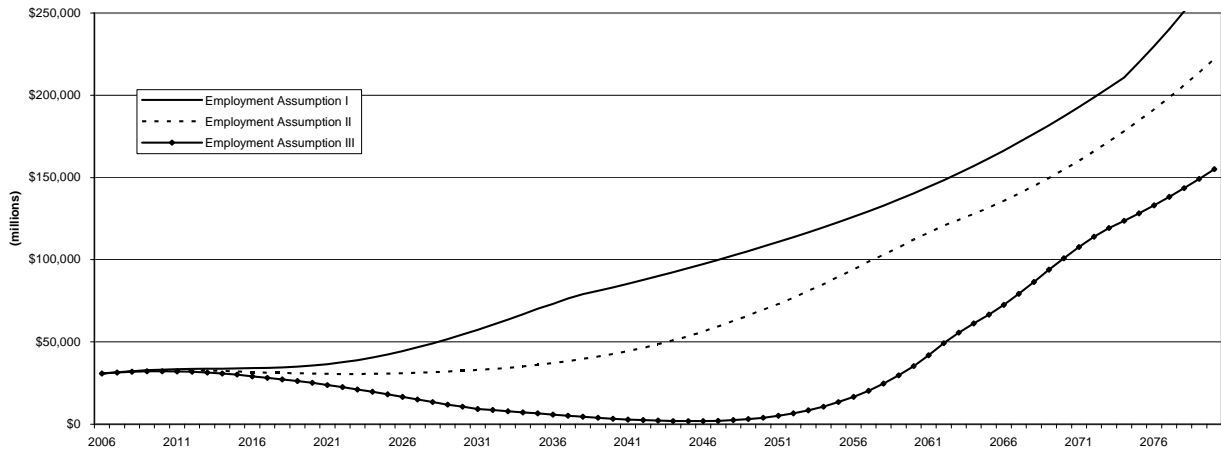


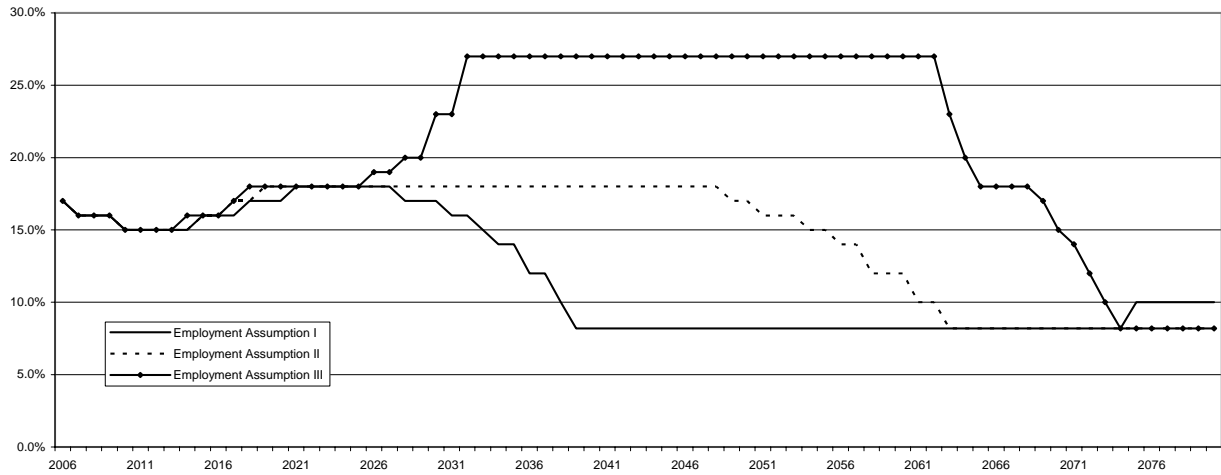
Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for all three assumptions.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches the minimum in 2039 under employment assumption I but then increases again slightly starting in 2075. The tax rate does not reach the minimum until 2063 under employment assumption II. Under employment assumption III, the tax rate reaches the maximum in 2032, remaining at that level through 2062, and then decreases until it reaches the minimum in 2074.



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Chart 3b: Tier 2 Tax Rate under Three Employment Assumptions



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

*Interest rates:* Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the interest rate of 7.5 percent used for our projections, we show the effect on the combined accounts of an interest rate of 4 percent and an interest rate of 11 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three interest rate assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 11 percent scenario. Under the 7.5 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 11 percent scenario, the tax rate is limited to a minimum value, resulting in a higher surplus. Under the 4 percent scenario, the tax rate reaches a maximum value and then remains at that value longer than is needed, resulting in the highest actuarial surplus.

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**Table 2**  
**Excess of Assets and Present Value of Income over Present Value of Expenditures for**  
**Three Interest Rate Assumptions, 2006-2080**  
 (in millions)

Interest Rate Assumption	<u>4%</u>	<u>7.5%</u>	<u>11%</u>
Present Value	\$9,155	\$ 979	\$3,496
Average Tier 2 tax rate	20.0%	16.2%	12.8%

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

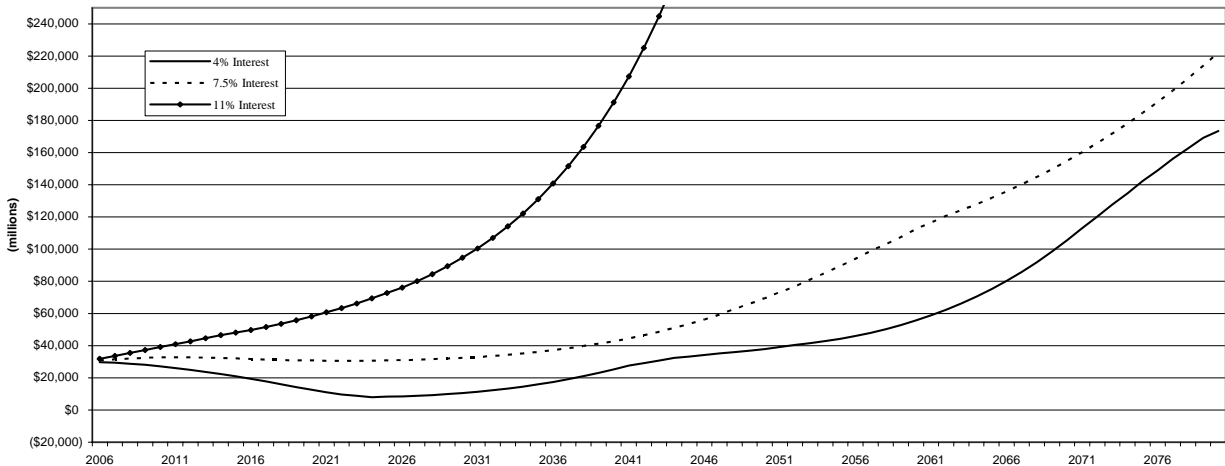
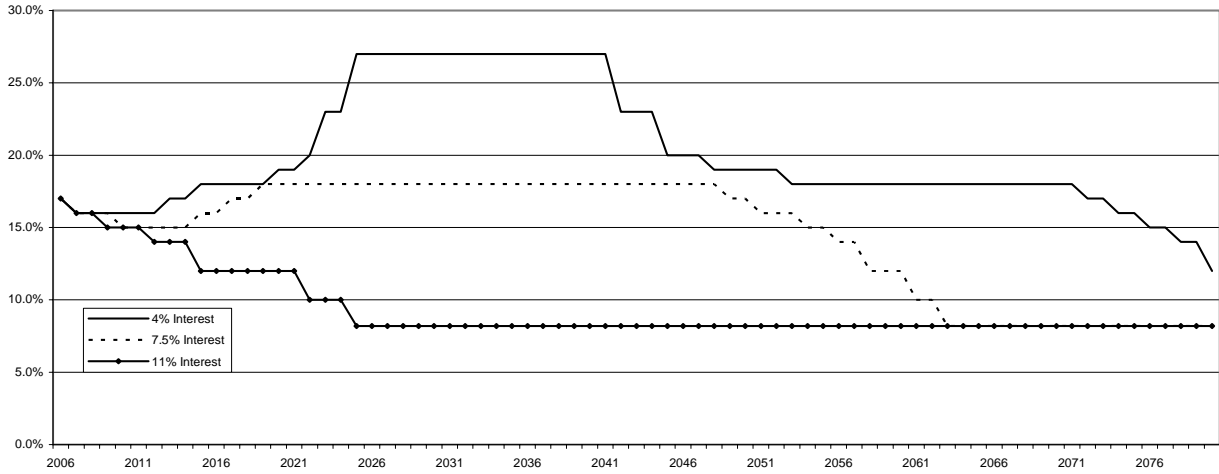


Chart 4a shows the combined account balance under the three interest rate assumptions for the projection period. At a 4 percent interest rate, the account balance reaches its lowest value in 2024, although it never becomes negative. After that it continues to increase. With a 7.5 percent interest rate, the account balance increases through 2011, decreases from 2012 to 2022, and increases thereafter. An 11 percent interest rate results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2006.

Chart 4b shows the tier 2 tax rate under the same three interest assumptions. With a 4 percent interest rate, the maximum tier 2 tax rate applies from 2025 until 2041. With the 7.5 percent interest rate, the maximum tax rate will never be paid, and the minimum tax rate is paid starting in 2063. With an 11 percent interest rate, the maximum tax rate is never applicable, and the minimum tax rate is paid beginning in 2025. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

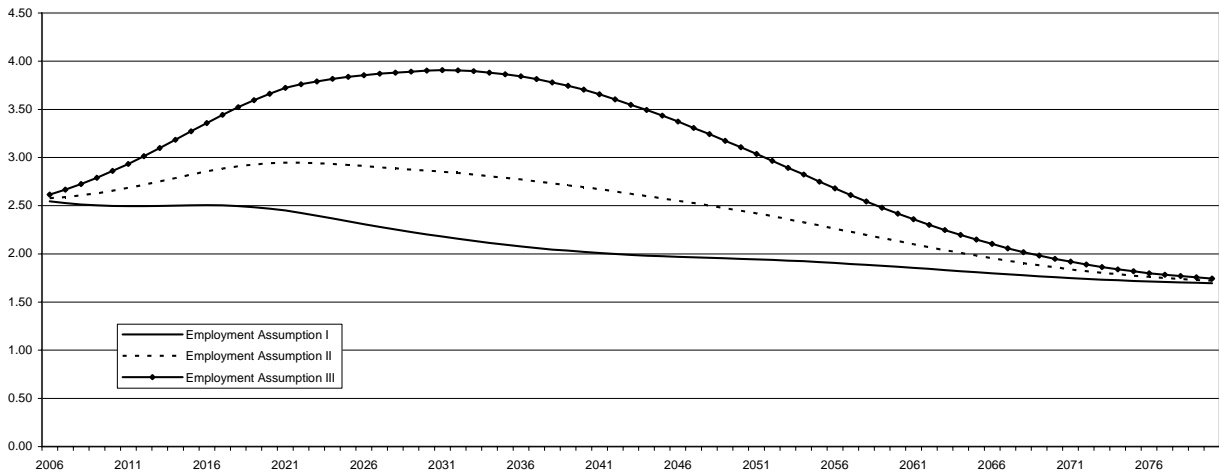
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Chart 4b: Tier 2 Tax Rate under Three Interest Assumptions



*Ratio of Beneficiaries to Workers:* Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2006. For assumptions II and III, the ratio is highest in 2021 and 2031, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

Chart 5: Average Number of Annuitants per Full-Time Employee



RAILROAD RETIREMENT BOARD  
DISAGGREGATE OF BUDGETARY RESOURCES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006  
(in dollars)

BUDGETARY RESOURCES	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS	INTER-FUND ELIMINATIONS	CONSOLIDATED TOTALS
Unobligated balance, brought forward, October 1	\$15,117,850	\$0	\$205,866	\$15,323,716		\$15,323,716
Adjustment to beginning balance	(118,324)			(118,324)		(118,324)
Adjusted unobligated balance, brought forward, October 1	\$14,999,526	\$0	\$205,866	\$15,205,392		\$15,205,392
Recoveries of prior year unpaid obligations	894,529		39,408	933,937		933,937
Budget authority:						
Appropriation	10,536,985,595	193,714,590		10,730,700,185	(466,000,000)	10,264,700,185
Spending authority from offsetting collections:						
Earned:						
Collected	9,174,589	28,585,668	677	37,760,934	(507,235)	37,253,699
Change in receivables from Federal sources	97,565			97,565		97,565
Nonexpenditure transfers, net, anticipated and actual:	(1,049,798)	(14,959,297)	7,047,821	(8,961,274)		(8,961,274)
Temporarily not available pursuant to Public Law	(334,670,831)	(106,454,513)		(441,125,344)		(441,125,344)
Permanently Not Available	(4,936,444)			(4,936,444)		(4,936,444)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$10,221,494,731</b>	<b>\$100,886,448</b>	<b>\$7,293,772</b>	<b>\$10,329,674,951</b>	<b>(\$466,507,235)</b>	<b>\$9,863,167,716</b>
<b>STATUS OF BUDGETARY RESOURCES</b>						
Obligations incurred:						
Direct	\$10,201,818,283	\$100,886,448	\$7,099,533	\$10,309,804,264	(\$466,507,235)	\$9,843,297,029
Reimbursable	7,822,479			7,822,479		7,822,479
Unobligated balance	1,284,883		24,507	1,309,390		1,309,390
Unobligated balance not available	10,569,086		169,732	10,738,818		10,738,818
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$10,221,494,731</b>	<b>\$100,886,448</b>	<b>\$7,293,772</b>	<b>\$10,329,674,951</b>	<b>(\$466,507,235)</b>	<b>\$9,863,167,716</b>
<b>CHANGE IN OBLIGATED BALANCES</b>						
Obligated balance, net						
Unpaid obligations, brought forward, October 1	\$845,337,067	\$3,449,555	\$732,135	\$849,518,757		\$849,518,757
Adjustment to beginning balance	149,662			149,662		149,662
Adjusted unpaid obligations, brought forward, October 1	\$845,486,729	\$3,449,555	\$732,135	\$849,668,419		\$849,668,419
Uncollected customer payments from Federal sources, brought forward, October 1	96,809			96,809		96,809
<b>Total unpaid obligated balance, net</b>	<b>\$845,583,538</b>	<b>\$3,449,555</b>	<b>\$732,135</b>	<b>\$849,765,228</b>		<b>\$849,765,228</b>
Obligations incurred net (+/-)	10,209,640,762	100,886,448	7,099,533	10,317,626,743	(466,507,235)	9,851,119,508
Less: Gross outlays	(10,183,640,166)	(101,775,231)	(7,258,036)	(10,292,673,433)	466,507,235	(9,826,166,198)
Less: Recoveries of prior year unpaid obligations, actual	(894,529)		(39,408)	(933,937)		(933,937)
Change in uncollected customer payments from Federal sources	(97,565)		(97,565)	(97,565)		(97,565)
Obligated balance, net, end of period:						
Unpaid Obligations	\$870,592,797	\$2,560,772	\$534,224	\$873,687,793		\$873,687,793
Uncollected customer payments from Federal sources	(757)			(757)		(757)
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$870,592,040</b>	<b>\$2,560,772</b>	<b>\$534,224</b>	<b>\$873,687,036</b>	<b>\$0</b>	<b>\$873,687,036</b>
<b>NET OUTLAYS</b>						
Gross outlays	\$10,183,640,166	\$101,775,231	\$7,258,036	\$10,292,673,433	(\$466,507,235)	\$9,826,166,198
Less: Offsetting collections	(9,174,589)	(28,585,668)	(677)	(37,760,934)	507,235	(37,253,699)
Less: Distributed offsetting receipts	(3,933,814,000)			(3,933,814,000)		(3,933,814,000)
<b>Net Outlays</b>	<b>\$6,240,651,577</b>	<b>\$73,189,563</b>	<b>\$7,257,359</b>	<b>\$6,321,098,499</b>	<b>(\$466,000,000)</b>	<b>\$5,855,098,499</b>



## UNITED STATES RAILROAD RETIREMENT BOARD

### OFFICE OF INSPECTOR GENERAL

To the Board Members:

The following report presents the results of the Office of Inspector General's (OIG) audits of the financial statements of the Railroad Retirement Board (RRB) as of and for the fiscal years ended September 30, 2006 and 2005.

### **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying balance sheet of the RRB as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, financing, and budgetary resources for the years then ended; and the statement of social insurance as of January 1, 2006.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 85% and 84% of the total assets reported by the RRB for fiscal years 2006 and 2005, respectively; and 96% of the reported railroad retirement program fund balance as of January 1, 2006. Related changes in the net value of investments held by the NRRIT represent approximately 15% and 22% of the financing sources reported by the RRB for fiscal years 2006 and 2005, respectively.

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT retains the services of an independent auditor to opine on its financial statements. With respect to the assets of the NRRIT as of September 30, 2005, September 30, 2006, and January 1, 2006, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors.

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, combined budgetary resources, and reconciliation of net cost to budgetary resources as of and for the fiscal years ended September 30, 2006 and 2005; and the financial condition of the railroad retirement program as of January 1, 2006.

As described in the statement and related notes, the statement of social insurance presents the actuarial present value of the future income to be received, and expenditures to be paid to or on behalf of participants in the railroad retirement

program during a period sufficient to illustrate the program's long-term sustainability. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that effect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

### Emphasis of Matters

Transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represented approximately \$3.3 billion (net), or approximately 28%, of the nearly \$11.5 billion in total financing sources reported on the statement of changes in net position for FY 2006.

The RRB's FY 2005 balance sheet has been restated to include the net value of railroad retirement program assets held and invested by the NRRIT which amount to approximately \$27.7 billion dollars. These investments were previously excluded from the RRB's financial statements. The statement of changes in net position has been restated to include the \$2.6 billion change in the value of NRRIT net assets as a financing source which also increased "Resources that Finance the Acquisition of Assets" on the statement of financing by the same amount.

The RRB's FY 2005 statement of changes in net position has been restated to report approximately \$97.2 million in contributions collected for the railroad unemployment insurance program as non-exchange revenue. Previously, this financing source had been reported as transfers-in without reimbursement.

RRB management discloses the aforementioned restatements in Note 18 to the financial statements.

The OIG rendered an unqualified opinion on the RRB's FY 2005 financial statements. The aforementioned restatements would not have altered that opinion except to the extent that the previous opinion included an emphasis of matters alerting readers that assets held by the NRRIT and related income had not been reported in the RRB's financial statements.

## REPORT ON INTERNAL CONTROL

Our evaluation of internal controls disclosed three material weaknesses and two reportable conditions.<sup>1</sup> The details of our findings follow. However, the objective of our audit was not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Although not considered to be material weaknesses or reportable conditions, we will report other matters involving internal control and its operation to RRB management in a separate letter.

### Material Weaknesses

#### Information Security

During FY 2006, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act.<sup>2</sup> Our review disclosed continued weaknesses in many areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control.

The RRB has undertaken the job of strengthening information security and has implemented many corrective actions recommended by the OIG and other technical specialists. During FY 2006, the agency completed corrective action to eliminate the previously reported significant deficiency in training. Previously identified significant deficiencies in access controls, risk assessments, and periodic testing and evaluation continue to exist, as well as other observed weaknesses in the agency's implementation of requirements for risk based policies and procedures, a remedial action process, continuity of operations, and inventory of systems.

The agency is addressing their significant deficiencies in the previously reported areas of access controls, risk assessments, and periodic testing and evaluation; however, much work remains to be completed.

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<sup>1</sup> Material weaknesses in internal control are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the Basic Statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable Conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the objectives of internal control.

<sup>2</sup> "Fiscal Year 2006 Evaluation of Information Security at the Railroad Retirement Board," OIG Report #06-11, September 27, 2006

### Performance Measures

During FY 2005, the OIG identified a material weakness in internal control over the preparation and reporting of performance information due to inadequacies in the review and validation of data. Although management has made progress in addressing this weakness, the agency has not yet fully implemented planned corrective action.

During FY 2006, the Office of Programs, the organizational unit responsible for reporting on the largest number of complex statistically based indicators, implemented new controls over the preparation, review and approval of performance data originating in that organization. In October 2006, the three-member Board approved an administrative circular establishing standards and assigning responsibility for collecting, documenting, validating, certifying, reporting and retaining performance information.

Although procedural changes have been formally approved, those changes have not been fully implemented and agency management has not yet operated under these procedures during a period sufficient to evaluate their effectiveness.

### Actuarial Projection Process

The RRB needs to strengthen controls over the actuarial projection process that supports the projections and estimates presented in the statement of social insurance, in the notes to the financial statements and as required supplementary information.

During FY 2005, the OIG performed a detailed evaluation of controls over the actuarial projection process that disclosed inadequacies in internal control over the projection process and related reports.<sup>3</sup> Although responsible management and staff had described extensive controls over the preparation of projections, estimates and reports, they had not formalized their policies and procedures, did not capture evidence of the operation of controls and did not perform periodic evaluations of compliance with internal requirements.

During FY 2006, the Bureau of the Actuary responded to the OIG's findings by documenting their internal control structure through the RRB's management control review process. This process included development of an updated chart of controls and a bureau-level assessment of the operation of those controls.

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<sup>3</sup> "Review of Internal Control Over the Actuarial Projection Process," OIG Report #05-04, May 5, 2005



Corrective action taken during FY 2006 represents significant progress but management has not yet published formal policies and procedures, developed documentation to support the actuarial model or implemented a formal quality assurance process. These deficiencies were cited in the OIG's FY 2005 evaluation.

## **Reportable Conditions**

### Prompt Payment Act

As a result of an FY 2005 evaluation of controls over compliance with the Prompt Payment Act, the OIG reported that existing systems and procedures had not been effective in ensuring that interest is paid to vendors in accordance with the requirements of the law.<sup>4</sup> At that time, we observed that the RRB did not identify all invoices on which interest should be paid, did not pay the correct amount of interest when a late payment was recognized, and that controls were not adequate to ensure that required restrictions on early payment had been properly implemented.

During FY 2006, the Bureau of Fiscal Operations made substantial progress in correcting the deficiencies in both controls and compliance. However, most changes were implemented more than six months into the fiscal year and have not been tested by the full range of payment experience. In addition, we have observed that management has not yet ensured the level of uniform processing accuracy that would permit the OIG to conclude that the action taken has been fully effective.

### Financial Reporting

Over the years agency responsibility for financial reporting has grown from preparation of financial statements within six months of fiscal year-end, to publication of an annual performance and accountability report within 45 days of fiscal year-end. Publication of that report is an exercise in public accountability of which preparation of accurate, reliable financial statements is but a single part.

The Bureau of Fiscal Operations is responsible for publishing the RRB's annual performance and accountability report. That organization has documented procedures and controls over its financial reporting process. During our audit we observed that existing procedures and controls need to be updated to fully ensure the quality of the RRB's response to the expanding responsibilities and short timeframes that are inherent to the reporting process. We also observed that the existing control framework is over-reliant on the OIG's annual audit of the financial statements to ensure the completeness and accuracy of the performance and accountability report.

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<sup>4</sup> "Review of Compliance with the Prompt Payment Act," OIG Report #05-06, June 15, 2005

The OIG and the Bureau of Fiscal Operations have already begun discussing ways to strengthen the existing control framework.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

Our tests of compliance with selected provisions of laws and regulations disclosed one instance of non-compliance that is reportable under U.S. generally accepted government auditing standards or Office of Management and Budget (OMB) guidance as described below.

The RRB has not fully complied with the Prompt Payment Act. During FY 2006, the RRB made substantial progress in correcting the previously identified deficiencies in both controls and compliance; however, most changes were implemented more than six months into the fiscal year and have not been tested by the full range of payment experience. In addition, we have observed that management has not yet ensured the level of uniform processing accuracy that would permit the OIG to conclude that the action taken to date is sufficient to ensure substantial compliance with the Act.

The results of our tests of compliance disclosed no other instances of noncompliance with laws and regulations that are required to be reported under government auditing standards or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## **CONSISTENCY OF OTHER INFORMATION**

The RRB's Management's Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with RRB officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance except for the weakness in internal control over performance measurement that limits the reliability of the agency's reporting under the Government Performance and Results Act (GPRA) which is discussed in the internal control section of this report.

**OBJECTIVES, SCOPE, AND METHODOLOGY**

RRB management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal control that provides reasonable, but not absolute, assurance that the following objectives were met.

- Financial reporting: transactions are properly recorded, processed and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use or disposition.
- Compliance with laws and regulations: transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (2) performing limited procedures with respect to certain other information appearing in these annual financial statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal controls related to financial reporting and compliance with laws and regulations;
- obtained an understanding of the recording, processing, and summarizing of performance measures as reported in Management's Discussion and Analysis;

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- considered the process for evaluating internal controls and financial management systems under the FMFIA;
- tested compliance with selected provisions of the following laws and regulations:
  - Anti-Deficiency Act, as amended,
  - Prompt Payment Act,
  - Pay and Allowance System for Civilian Employees,
  - Provisions Governing Claims of the United States Government including provisions of the Debt Collection Improvement Act,
  - laws providing for the appropriation of funds for the administration of the programs mandated by the Railroad Retirement and the Railroad Unemployment Insurance Acts, including the payment of benefits, and
  - Railroad Retirement and Railroad Unemployment Insurance Acts.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to those laws and regulations that had a direct and material effect on the RRB's financial statements or that were required to be tested by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2006, and 2005. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The NRRIT was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT is not a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage

an independent qualified public accountant to audit the financial statements of the Trust. Accordingly, the OIG has not audited the books and records of the NRRIT nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. Our opinion on the RRB's financial statements, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the auditor retained by the NRRIT and our assessments of internal control and compliance do not extend to the operations of the NRRIT.

Except to the extent that the foregoing arrangement may have affected the planning and execution of our audit, we performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

### **RRB MANAGEMENT'S COMMENTS**

The Chief Financial Officer and the Board Members have reviewed the draft report. In their reply, they thank OIG management and staff for working closely and cooperatively with agency personnel to ensure that the agency would be able to meet the November 15<sup>th</sup> reporting deadline.

Management did not comment directly on the three material weaknesses reported by the OIG noting that their comments on these issues were included in their published response to the serious management challenges identified by the OIG which are presented separately in the "Other Accompanying Information" section of the RRB's Performance and Accountability Report. In response to the reportable conditions cited in the audit report, management states that they are taking corrective action to ensure compliance with the Prompt Payment Act and will continue to refine their procedures to meet the expanded responsibilities and shortened timeframes for financial reporting.

The full text of management's response follows as an attachment to this report.



Martin J. Dickman  
Inspector General

November 3, 2006, except for matters relating to the fair market value of the net assets of the NRRIT as of September 30, 2006, (see Note 5 to the financial statements), as to which the date is November 15, 2006.





UNITED STATES GOVERNMENT  
**MEMORANDUM**

Page 10  
FORM G-1151 (1-92)  
RAILROAD RETIREMENT BOARD

NOV 09 2006

**TO :** Henrietta B. Shaw  
Assistant Inspector General, Audit

**FROM :** Kenneth P. Boehne  
Chief Financial Officer *Kenneth P. Boehne*

**SUBJECT:** FY 2006 Financial Statement Audit – Auditor’s Report;  
Re: Your memorandum dated November 7, 2006

My office, and those of the Board Members, have reviewed your draft report and have the following comments.

You reported material weaknesses in the Railroad Retirement Board’s information security program, performance measurement program and actuarial projection process. Our comments on these areas of concern are included on page 100 of the fiscal year 2006 Performance and Accountability Report as part of our response to your report on the serious management challenges you believe face the RRB. Regarding other matters presented in your draft audit report, we are taking action to ensure compliance with the Prompt Payment Act and will continue to refine our procedures to meet the expanded responsibilities and shortened timeframes for financial reporting.

We again thank you and your staff for working closely and cooperatively with us these past few months to ensure that the RRB was able to meet this year’s reporting deadline of November 15.

cc: The Board  
Executive Committee

***OTHER ACCOMPANYING INFORMATION***

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**SERIOUS MANAGEMENT CHALLENGES  
IDENTIFIED BY THE RAILROAD RETIREMENT BOARD'S  
OFFICE OF INSPECTOR GENERAL**

The Railroad Retirement Board (RRB), as a Federal agency in the 21<sup>st</sup> century, faces many challenges. These challenges may arise through internal management processes or be the result of external influences.

The most readily identifiable challenges are those that management has set for themselves through internal processes. The RRB has identified its organizational objectives in its annual performance report. Meeting and sustaining these goals is a challenge that management has set for itself. Less obvious, are the challenges posed by changes in the environment in which management must operate to meet its organizational objectives. These challenges may arise from legislative and regulatory mandates as well as advances in technology and the economic environment.

The RRB faces the greatest challenge from this latter category. The U.S. Government, through the standards and guidance of the Office of Management and Budget (OMB), Government Accountability Office (GAO) and the National Institute of Standards and Technology (NIST) have set high goals for Federal managers in performance reporting, financial accountability and in the way that we use information technology to accomplish organizational goals. The OIG has identified areas in which the RRB's control structure needs to be strengthened in order to respond to these external challenges.

Statement of Social Insurance

During FY 2006 the first-time audit of the statement of social insurance has put the RRB's actuarial projection and reporting process in the spotlight of government accountability.

The RRB's FY 2006 basic financial statements must include a statement of social insurance. Unique to the four Federal reporting entities with responsibility for social insurance programs, statements of social insurance have never been included in the auditor's opinion although the statement has been presented as supplementary information since FY 2000.

The OIG's FY 2005 assessment of controls over the actuarial projection process that serves as the basis for the statement of social insurance disclosed that the agency had not implemented a comprehensive system of internal control for actuarial services, and that its management control review program had not been effective in disclosing the system's deficiencies.

During FY 2006, agency management began the process of addressing the OIG's recommendations to strengthen internal control by preparing a more fully developed assessment of risk and more detailed description of controls. In addition, process improvements implemented this year now provide for the capture and retention of evidence of the operation controls.

However, much remains to be accomplished. Corrective action to date has not addressed key parts of the OIG's original finding which included development of formal policies and procedures, documentation to support the actuarial model and a quality assurance program. The RRB's management control review committee expects to work with responsible managers to strengthen controls in this area.

### Performance Measures

As emphasis is placed on implementation of a performance based budget, increasing emphasis will be directed to the quality of performance reporting. We have noted before that the RRB needs to be proactive in ensuring the credibility of its performance measures. This can only be accomplished through a strong system of management controls within an agencywide framework.

During FY 2005, the OIG recommended corrective action to strengthen controls over the preparation of performance data. During FY 2006, the most affected organizational unit took action to improve the quality of its performance data while the agency developed a strategy designed to strengthen the internal control process for performance indicators throughout the agency.

If the new strategy is adopted and implemented during FY 2007, the previously identified control weakness could be fully addressed during the next reporting cycle.

### Information Technology Security

Information security remains a major challenge to the RRB. The RRB continues to experience difficulty in achieving an effective security program that complies with requirements of the Federal Information Security Management Act (FISMA).

During FY 2006, the agency completed corrective action to eliminate the previously reported significant deficiency in training. Previously identified significant deficiencies in access controls, risk assessments, and periodic

testing and evaluation continue to exist, as well as other observed weaknesses in the agency's implementation of requirements for risk based policies and procedures, a remedial action process, continuity of operations, and inventory of systems.

The agency is addressing their significant deficiencies in the previously reported areas of access controls, risk assessments, and periodic testing and evaluation. However, much work remains to be completed.

The agency is also in the process of forming an agency-wide Security and Privacy Committee. The committee is expected to include employee representatives from each major application and general support system. They will be responsible for providing direction, issuing guidance, compiling certifications, and providing specific oversight for agency-wide implementation of FISMA requirements including risk assessments, annual evaluations, and testing of controls including certification and accreditation. The RRB's three-member Board has not yet formally approved this committee.

As we have observed in the past, the RRB's response to OMB and NIST requirements for certification and accreditation of information systems has been adversely impacted by the existence of deficiencies in the FISMA mandated security program. In general, responsible agency management have agreed with OIG recommendations for corrective action but are experiencing difficulties in developing timeframes for implementation.



Martin J. Dickman  
Inspector General

October 6, 2006

## **Management's Comments**

These are Management's comments on the Serious Management Challenges identified by the Railroad Retirement Board Inspector General. The three challenges identified by the Inspector General are: 1) Statement of Social Insurance, specifically, management controls over the actuarial projection process; 2) Performance Measures; and 3) Information Technology Security.

Management appreciates the Inspector General's recognition of the progress that has been made in addressing these areas. The Inspector General notes that deficiencies identified concerning the agency's Performance Measures will likely be resolved during the next reporting cycle. We have worked diligently to address this area and have put into place an improved methodology for collecting, documenting, validating, certifying, reporting on, and retaining information on the agency's performance in meeting the goals and objectives set out in the agency's Annual Performance Budget and Performance and Accountability Report.

In the Information Technology Security area, the Inspector General states that the agency has completed corrective action to eliminate deficiencies identified in the past in providing training for employees. The Inspector General notes, however, that although progress has been made in addressing deficiencies in access controls, risk assessment, and periodic testing and evaluation of our systems, additional effort is needed to resolve these issues, as well as a few other observed weaknesses. Resolving areas of deficiency in the Information Technology Security area has been, and continues to be, a high priority of the agency. We have a plan in place to address the deficiencies identified by the Office of Inspector General and we will continue to emphasize resolving these issues. One issue that needs to be clarified somewhat is the agency's plan to establish an Information Security and Privacy Committee. The Inspector General states that the three-member Board has not yet approved establishment of this committee. A proposal to establish an Information Security and Privacy Committee was submitted to the Board Members on October 13, 2006, and was approved by the Board Members on October 17.

Finally, the Inspector General identifies management control deficiencies in connection with the actuarial projection process as a serious management challenge. The identified deficiencies concern documentation of the projection process, including the need for formal policies and procedures documentation to support the actuarial model. The Chief Actuary has agreed to take necessary action to address this issue and has already submitted a revised set of management controls covering the actuarial projection process to the agency's Management Control Review Committee (MCRC) for review. In addition, the Chief Actuary is currently drafting policies and procedures to cover the projection process. Once these policies and procedures are completed, the management control documentation will be updated to reflect that these controls are in place. We are confident that the Chief Actuary's actions will completely resolve this issue.

## Improper Payments Information Act (IPIA) Reporting Details

**I. Describe the risk assessment(s), performed subsequent to completing your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.**

The RRB's Office of Programs reviewed each of the two benefit payment programs our agency administers and calculated the amount of improper payments made in fiscal year 2005. The two benefit payment programs are listed in the former Section 57 of OMB Circular A-11: Retirement and Survivor Benefits (referred to as RRA) and Railroad Unemployment Insurance Benefits (referred to as RUIA).

### **Results of Fiscal Year 2005 Improper Payment Review (OMB Guidance M-03-13)**

<b>Program</b>	<b>Improper Payment Amt. &gt;\$10 million</b>	<b>Improper Payment Rate &gt;2.5%</b>	<b>Action Plan or Targets Needed?</b>
RRA	Yes	No	No
RUIA	No	N/A	No

**II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.**

The agency has established and documented a methodology for identifying improper payments in the RRA and RUIA benefit payment programs. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards and unemployment and sickness insurance claims. We also included projections of improper payments from audits and special studies. This approach, although not based entirely on statistical sampling, is sufficient for making the determination that the improper payments in our programs do not exceed the OMB thresholds. The RRB's Office of General Counsel reviewed the methodology and concluded that overall, the approach used had merit. Furthermore, in May 2005, the RRB's General Counsel issued a legal opinion confirming that, since the levels of improper payments did not exceed the designated thresholds, the agency was not required to conduct statistical sampling.

**III. Describe the Corrective Action Plans for:**

**A. Reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.**

**B. Grant-making agencies with risk susceptible grant programs, discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.**

While we do not have a formal plan for targeting precise levels of improper payments, we do have several ongoing activities and projects aimed at improving the accuracy of our payments and reducing erroneous payments.

Improper payments in the RRA and RUIA programs typically fall into two categories: *adjudicative error* (i.e., benefit payment decisions that are inconsistent with the law or regulations) and *out-of-date information* that impacts benefit entitlement.

- To detect improper payments due to *adjudicative error*, we conduct our quality assurance programs and validation reviews, which identify activities that are susceptible to error and process improvements to prevent further errors.
- To detect improper payments due to *out-of-date information*, we conduct comprehensive monitoring and program integrity efforts which aim to validate continued entitlement to our benefits.

As outlined in the Management's Discussion and Analysis Section of this report, the RRB continues to improve its adjudication and payment systems and procedures to minimize specific types of improper payments in the RRA program. The RRB is also diligent in collecting its debts and is in full compliance with the Debt Collection Improvement Act of 1996.

Furthermore, the agency maintains an internal control review process for all benefit payment programs. Responsible officials identify and report weaknesses in annual certifications required under the Federal Managers' Financial Integrity Act.

Additionally, during fiscal years 1998 through 2005, the OIG presented RRB management with 99 recommendations for process improvement and corrective action pertaining to improper payments. Agency management has implemented or plans to implement 93 of the 99 recommendations. We will continue to work with the OIG to address the issue of improper payments in our benefit programs.

**IV. The table below is required for each reporting agency:**

**Improper Payment (IP) Reduction Outlook FY 2004 – FY 2009  
(\$ in millions)**

<i>Program</i>	FY 04 \$ Outlays	FY 04 IP %	FY 04 IP \$	FY 05 \$ Outlays (actual)	FY 05 IP %	FY 05 IP \$	FY 06 \$ Outlays (estimated)	FY 06 IP %	FY 06 IP \$
<i>RRA</i>	9,008.0	1.64	147.9	9,197.9	1.65	151.8	9,513.8	1.65	157.0
<i>RUIA</i>	123.3	2.1	2.6	111.2	2.3	2.6	115.7	2.3	2.7

<i>Program</i>	FY 07 \$ Outlays (estimated)	FY 07 IP %	FY 07 IP \$	FY 08 \$ Outlays (estimated)	FY 08 IP %	FY 08 IP \$	FY 09 \$ Outlays (estimated)	FY 09 IP %	FY 09 IP \$
<i>RRA</i>	9,803.7	1.65	161.8	10,111.3	1.65	166.8	10,399.8	1.65	171.6
<i>RUIA</i>	123.4	2.3	2.9	129.3	2.3	3.0	135.7	2.3	3.2

At the time we prepared this report, the latest actual data available was for fiscal year 2005. The estimates for fiscal years 2006 through 2009 are based on the December 2005 OMB budget review estimates. We have applied our fiscal year 2005 percentage rate to estimated outlays to estimate improper payment amounts for future years.

**V. Discuss recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.**

This does not apply to our benefit programs.

**VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.**

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are our two strategic goals. Agency managers have links to those goals in their performance plans.

- VII. A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**
- B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.**

The RRB's enterprise architecture addresses, among other performance goals, the accuracy of benefit payments.

We requested fiscal year 2007 funding for data optimization to reduce data redundancy and improve data efficiency. We also requested funding for:

- Support of our network operations,
- Replacement of a small portion of outdated information technology equipment,
- Expansion of our electronic services to the public, and
- Beginning OMB-mandated certification and accreditation of our major applications and general support systems.

These initiatives will contribute to the achievement of the agency's target architecture in order to meet its performance goals, including accuracy of benefit payments, and stewardship of the trust funds.

**VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.**

None have been identified.

**IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.**

As indicated in the Management's Discussion and Analysis Section, the RRB has made concerted efforts to reduce improper payments over the years. Our payment accuracy rates are at consistently high levels and our return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. We monitor our progress on implementing recommendations from the quality assurance process, and we are vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. We have also worked closely with our OIG in referring potential fraud cases for investigation and prosecution. We hope to be able to maintain adequate staffing so that we can continue this important effort.



***APPENDICES***

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## Appendices

### Glossary of Acronyms and Abbreviations

#### A

ACSI American Customer Satisfaction Index  
AMS American Management Systems, Inc.

#### B

BCP Business Continuity Plan  
BIA Business Impact Analysis  
BIPA Benefits Improvement and Protection Act of 2000  
BIS Bureau of Information Services  
BPD Bureau of the Public Debt  
BRM Business Reference Model

#### C

CHRIS Comprehensive Human Resources Integrated System  
CMS Centers for Medicare and Medicaid Services  
CNC Currently Not Collectible  
COA Change of Address  
COOP Continuity of Operations Plan  
CPI-W Consumer Price Index for Urban Wage Earners and Clerical Workers

#### D

DCIA Debt Collection Improvement Act of 1996  
DOJ Department of Justice  
DOL Department of Labor

#### E

ERS Employer Reporting System

#### F

FAIR Act Federal Activities Inventory Reform Act  
FASAB Federal Accounting Standards Advisory Board  
FBWT Fund Balance With Treasury  
FECA Federal Employees' Compensation Act  
FFS Federal Financial System  
FHI Federal Hospital Insurance  
FI Financial Interchange  
FICA Federal Insurance Contributions Act  
FMFIA Federal Managers' Financial Integrity Act  
FMS Financial Management Service  
FY Fiscal Year  
FOASI/DI Federal Old-Age and Survivors Insurance/Disability Insurance  
FTE Full-time Equivalent

**G**

GAO Government Accountability Office  
GISRA Government Information Security Reform Act  
GPRA Government Performance and Results Act  
GSA General Services Administration

**H**

HIPAA Health Insurance Portability and Accountability Act

**I**

IAE Integrated Acquisition Environment  
IPIA Improper Payments Information Act  
IRM Information Resources Management  
IRS Internal Revenue Service  
ISSO Information System Security Officer  
IT Information Technology

**M**

MAC Medicare Administrative Contractor  
MCR Medicare Contracting Reform  
MCRC Management Control Review Committee  
MEDCOR Medicare Correction System  
MMA Medicare Prescription Drug, Improvement and Modernization Act of 2003  
MOU Memorandum of Understanding

**N**

N/A Not Applicable  
NRRIT National Railroad Retirement Investment Trust

**O**

OIG Office of Inspector General  
OMB Office of Management and Budget  
OPM Office of Personnel Management

**P**

P&AR Performance and Accountability Report  
PBSC Performance-based Service Contracting  
PDP Prescription Drug Plan  
P&F Program and Financing  
PIN Personal Identification Number

**Q**

QRRB Qualified Railroad Retirement Beneficiary

**R**

RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRS Account	Railroad Retirement Supplemental Account
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RRTA	Railroad Retirement Tax Act
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUSI	Railroad Unemployment and Sickness Insurance

**S**

SBR	Statement of Budgetary Resources
SCHIP	State Children's Health Insurance Program
SFFAS	Statement of Federal Financial Accounting Standards
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit

**T**

TOP	Treasury Offset Program
Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust
TSP	Thrift Savings Plan

**U**

USPS	United States Postal Service
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**V**

VAN	Virtual Area Network
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