

# Financial Section



# A Message from the Chief Financial Officer


Fiscal year (FY) 2003 has been a momentous year for SSA in the area of financial management. For the tenth consecutive year, SSA received an unqualified (clean) opinion on the Agency's consolidated financial statements. The clean audit opinions SSA has received over the past decade provide continued assurance that our financial statements report reliable information about the administration of the Social Security programs. In June 2003, SSA became one of only three Federal agencies to achieve a "green" score in status for the Improved Financial Performance category of the five part President's Management Agenda (PMA) for improving the Federal Government. Finally, for the fifth consecutive year, receipt of the Association of Government Accountants "Certificate of Excellence in Accountability Reporting" award for our FY 2002 Performance and Accountability Report emphasizes the quality of our financial statements and that of the full Performance and Accountability Report.



During FY 2003, SSA continued to support the governmentwide effort to accelerate financial reporting. For the second year in a row, we issued audited financial statements only 45 days after the close of the FY, meeting the Office of Management and Budget (OMB) FY 2004 requirement. Also, during 2003, we met the requirement for submitting quarterly unaudited financial statements to OMB 21 days after the end of the quarter, one year ahead of OMB's schedule. In addition, SSA did not declare any new material weaknesses under the Federal Manager's Financial Integrity Act and has no material weaknesses.

The unqualified opinion on our financial statements attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The auditor stated, however, that SSA had a reportable condition that required the Agency to further strengthen controls to protect its information. They also indicated that SSA had made notable progress in strengthening those controls by implementing a comprehensive security framework. During the next year, SSA will continue to monitor those security improvements to ensure compliance throughout the Agency. SSA's plans to correct this reportable condition and a description of the Agency's FMFIA program are addressed in the "Systems and Controls" section of this report.

Our goals in the coming year will include continuing this same high level of quality financial services that resulted in the successes mentioned above and to improve those services. To this end, on October 1, 2003, we implemented a new accounting system. While our old accounting system served us well over the past decade, our new web-based accounting system will provide better control of Agency funds and provide more timely information to SSA managers. We will continue to focus on the initiatives outlined in the PMA in the financial area and will continue to work toward developing a modernized cost accounting system. Our goal remains to produce timely, reliable and useful data to Congress and to the American public.

  
Dale W. Sopper  
Chief Financial Officer

# Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2003 and 2002 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2003 and 2002, amounts of economic benefits owned or managed by SSA (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of SSA operations for the years ended September 30, 2003 and 2002. SSA's net cost of operations includes the gross costs incurred by SSA less any exchange revenue earned from SSA activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of SSA's programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2003 and 2002. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by SSA's major programs as additional information.
- The **Combined Statements of Budgetary Resources (SBR)** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2003 and 2002. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by SSA's major programs.
- The **Consolidated Statements of Financing** reconciles the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2003 and 2002. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.

One significant change in the FY 2003 reporting relates to the supplementary schedules, which present information by major program. In prior years, LAE activity was allocated among the various programs. This year it is reported as a separate entity.

Consolidated Balance Sheets as of  
September 30, 2003 and September 30, 2002

Assets	(Dollars in Millions)	
	2003	2002
Intragovernmental:		Reclassified
Fund Balance with Treasury (Note 4)	\$ 2,310	\$ 2,098
Investments (Note 5)	1,484,219	1,329,045
Interest Receivable, Net (Note 6)	20,933	20,262
Accounts Receivable, Net (Note 6)	872	751
<b>Total Intragovernmental</b>	<b>1,508,334</b>	<b>1,352,156</b>
Accounts Receivable, Net (Notes 3 and 6)	5,830	5,692
Property, Plant and Equipment, Net (Note 7)	909	690
Other	6	4
<b>Total Assets</b>	<b>\$ 1,515,079</b>	<b>\$ 1,358,542</b>
<b>Liabilities (Note 8)</b>		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,767	\$ 3,713
Accounts Payable	6,410	7,024
Other	110	124
<b>Total Intragovernmental</b>	<b>10,287</b>	<b>10,861</b>
Benefits Due and Payable	49,487	47,684
Accounts Payable	387	494
Other	1,133	1,142
<b>Total</b>	<b>61,294</b>	<b>60,181</b>
<b>Net Position</b>		
Unexpended Appropriations	705	794
Cumulative Results of Operations	1,453,080	1,297,567
<b>Total Net Position</b>	<b>1,453,785</b>	<b>1,298,361</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,515,079</b>	<b>\$ 1,358,542</b>

Consolidated Statements of Net Cost for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>OASI Program</b>		
Benefit Payments	\$ 397,654	\$ 385,777
Operating Expenses (Note 9)	2,481	2,299
Total Cost of OASI Program	400,135	388,076
Less: Exchange Revenues (Notes 10 and 11)	7	8
<b>Net Cost of OASI Program</b>	<b>400,128</b>	<b>388,068</b>
<b>DI Program</b>		
Benefit Payments	69,800	66,964
Operating Expenses (Note 9)	2,045	1,953
Total Cost of DI Program	71,845	68,917
Less: Exchange Revenues (Notes 10 and 11)	7	7
<b>Net Cost of DI Program</b>	<b>71,838</b>	<b>68,910</b>
<b>SSI Program</b>		
Benefit Payments	33,217	30,239
Operating Expenses (Note 9)	2,789	2,788
Total Cost of SSI Program	36,006	33,027
Less: Exchange Revenues (Notes 10 and 11)	265	278
<b>Net Cost of SSI Program</b>	<b>35,741</b>	<b>32,749</b>
<b>Other</b>		
Benefit Payments	429	458
Operating Expenses (Note 9)	1,292	1,251
Total Cost of Other	1,721	1,709
Less: Exchange Revenues (Notes 10 and 11)	9	10
<b>Net Cost of Other</b>	<b>1,712</b>	<b>1,699</b>
<b>Total Net Cost</b>		
Benefit Payments	501,100	483,438
Operating Expenses (Note 9)	8,607	8,291
Total Cost	509,707	491,729
Less: Exchange Revenues (Notes 10 and 11)	288	303
<b>Total Net Cost</b>	<b>\$ 509,419</b>	<b>\$ 491,426</b>

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

Consolidated Statements of Changes in Net Position for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)			
	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Net Position, Beginning Balance</b>	\$ 1,297,567	\$ 794	\$ 1,140,966	\$ 3,528
<b>Budgetary Financing Sources (other than Exchange Revenues)</b>				
Appropriations Received		48,822		46,400
Other Adjustments	0	(128)	(8)	(12)
Appropriations Used	48,783	(48,783)	49,122	(49,122)
Tax Revenues (Note 12)	546,808		537,733	
Interest Revenues	84,220		78,614	
Transfers-In/Out (Note 13)				
Trust Fund Draws and Other - In	1,244		1,138	
Trust Fund Draws and Other - Out	(12,814)		(15,323)	
Railroad Retirement Interchange	<u>(3,802)</u>		<u>(3,686)</u>	
Net Transfers-In/Out	(15,372)		(17,871)	
Other Budgetary Financing Sources	87		81	
<b>Other Financing Sources</b>				
Other Revenue	9		5	
Imputed Financing Sources (Note 14)	<u>397</u>		<u>351</u>	
<b>Total Financing Sources</b>	<b>664,932</b>	<b>(89)</b>	<b>648,027</b>	<b>(2,734)</b>
<b>Net Cost of Operations</b>	<b>509,419</b>		<b>491,426</b>	
<b>Ending Balances</b>	<b>\$ 1,453,080</b>	<b>\$ 705</b>	<b>\$ 1,297,567</b>	<b>\$ 794</b>

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

Combined Statements of Budgetary Resources for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>Budgetary Resources Made Available (Note 15)</b>		Reclassified
<b>Budget Authority</b>		
Appropriations Received	\$ 679,191	\$ 661,470
<b>Unobligated Balances</b>		
Beginning of Period	1,021	2,842
<b>Spending Authority from Offsetting Collections</b>		
Earned		
Collected	3,902	3,866
Change in Receivable	85	1
Change in Unfilled Customer Orders		
Without Advance	1	0
Transfers from Trust Funds		
Collected	7,907	7,581
Anticipated	28	139
Subtotal	11,923	11,587
<b>Recoveries of Prior Year Obligations</b>	360	229
<b>Temporarily Not Available Pursuant to Public Law</b>	(153,686)	(154,054)
<b>Permanently Not Available</b>	(180)	(11)
<b>Total Budgetary Resources</b>	\$ 538,629	\$ 522,063
<b>Status of Budgetary Resources: (Note 15)</b>		
<b>Obligations Incurred:</b>		
Direct	\$ 525,561	\$ 508,552
Reimbursable	3,951	3,758
Exempt from Apportionment	8,187	8,732
Subtotal	537,699	521,042
<b>Unobligated Balances</b>		
Apportioned	709	846
<b>Unobligated Balances - Not Available</b>	221	175
<b>Total Status of Budgetary Resources</b>	\$ 538,629	\$ 522,063
<b>Relationship of Obligations to Outlays:</b>		
<b>Obligated Balances - Beginning of the Period</b>	\$ 56,299	\$ 51,442
<b>Obligated Balance - End of the Period</b>		
Accounts Receivable	(1,820)	(1,707)
Unfilled Customer Orders	(1)	0
Undelivered Orders	1,150	1,031
Accounts Payable	58,739	56,975
<b>Outlays:</b>		
Disbursements	535,456	515,815
Collections	(11,809)	(11,446)
Subtotal	523,647	504,369
<b>Less: Offsetting Receipts</b>	15,626	15,761
<b>Net Outlays</b>	\$ 508,021	\$ 488,608

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

## Consolidated Statements of Financing for the Years Ended September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 537,699	\$ 521,042
Less: Offsetting Collections	(12,283)	(11,816)
Obligations Net of Offsetting Collections	525,416	509,226
Less: Offsetting Receipts	(15,626)	(15,761)
Net Obligations	509,790	493,465
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	9	0
Imputed Financing	397	351
Other	(256)	(267)
Net Other Resources Used to Finance Activities	150	84
Total Resources Used to Finance Activities	509,940	493,549
<b>Resources Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated, Not Yet Provided	(117)	445
Resources that Fund Capitalized Costs	(387)	(120)
Resources that Fund Expenses Recognized in Prior Periods	(337)	(1,649)
Budgetary Offsetting Collections and Receipts that Do Not affect Net Cost of Operations	15,627	15,761
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(15,631)	(16,444)
Total Resources Not Part of the Net Cost of Operations	(845)	(2,007)
Total Resources Used to Finance the Net Cost of Operations	509,095	491,542
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods (Note 16)		
Increase in Annual Leave	13	18
Other	162	71
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	175	89
Components Not Requiring or Generating Resources		
Depreciation and Amortization	158	141
Other	(9)	(346)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	149	(205)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	324	(116)
<b>Net Cost of Operations</b>	\$ 509,419	\$ 491,426

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



**Notes to the Principal Financial Statements**  
**For the Years Ended September 30, 2003 and 2002**  
**(Presented in Millions)**

**1. *Summary of Significant Accounting Policies***

**Reporting Entity**

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance programs (OASDI), the Supplemental Security Income (SSI) program, and Black Lung (BL). SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources as required by the Chief Financial Officers Act of 1990.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). These statements are different from the financial reports, also prepared by SSA, pursuant to OMB directives that are used to monitor and control SSA's use of budgetary resources. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting of three trust funds, three deposit funds, and four general fund appropriations. The trust funds are the Old-Age and Survivors Insurance (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund and the Limitations on Administrative Expenses (LAE). The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by the Social Security Administration. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds, SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of Payments to the Trust Fund (PTF) appropriations but also contains non-material activities including BL. The fund balance with the Department of the Treasury, shown on the Balance Sheet, represents the total of all SSA's account balances with the Department of the Treasury.

**Investments**

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issues and bonds. Special issues are special public debt obligations for purchase exclusively by the trust funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Balance Sheet. U.S. Treasury bonds are carried at amortized cost.

## **Property, Plant and Equipment**

SSA's property, plant and equipment (PP&E) are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of trust fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. SSA capitalizes new property, plant and equipment costing over \$100,000.

The change in PP&E from one reporting period to the next is presented on the Statement of Financing's Resources that Fund Capitalized Costs. This line item presents the effect on budgetary obligations for capital assets purchased by the OASI, DI and Health Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' (CMS) financial statements.

## **Benefits Due and Payable**

Liabilities are accrued for OASI, DI and BL benefits due 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 by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases (See Note 8, Liabilities).

## **Administrative Expenses and Obligations**

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the Social Security Act requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate trust or general fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate trust fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate trust or general funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the SBR and the SBR is a combined statement that does not allow eliminations, LAE's obligations are recorded twice on the SBR. This is in compliance with OMB's directive to have the SBR in agreement with the required Budget Execution Reports (SF-133's).

## **Recognition of Financing Sources**

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations used includes payments and accruals for the SSI and BL programs and for the OIG and PTF appropriations, which are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), credits for military service, income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See Note 12, Tax Revenues).

Exchange revenue from sales of goods and services primarily include payments SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Reimbursements are recognized as the services are performed (See Note 10, Exchange Revenues). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment as specified by law.

Capitalized expenditures are recognized in the Statement of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

## **Reclassifications**

SSI Overpayments from beneficiaries are collected by SSA but are deposited to a general fund account. An accounts payable to the general fund is established in the amount of the receivable from the beneficiary. Previously, this liability was reported on the Balance Sheet as Other Liabilities. In FY 2003, SSA has reclassified this payable from Other Liabilities to Accounts Payable.

Certain other FY 2002 balances have been reclassified to conform to FY 2003 financial statement presentations, the effect of which is immaterial.

## **2. *Centralized Federal Financing Activities***

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance and health benefit programs. Accordingly, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statement of Changes in Net Position may be from tax revenue, public borrowing or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were \$130 and \$160 million for the years ended September 30, 2003 and 2002. SSA contributions to the basic FERS plan were \$171 and \$158 million for the years ended September 30, 2003 and 2002. In addition, SSA contributions to the FERS savings plan were \$65 and \$59 million for the years ended September 30, 2003 and 2002. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

### 3. *Non-Entity Assets*

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are \$1,686 and \$2,553 million for the years ended September 30, 2003 and 2002. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable and (2) fees collected to administer SSI State Supplementation that are returned to the General Fund.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are \$1,537 and \$2,401 million as of September 30, 2003 and 2002. The SSI accounts receivable, net has been reduced by \$4,936 and \$4,679 million for FY 2003 and 2002 respectively as intra-agency elimination. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the General Fund of the Treasury. These funds, upon deposit, are assets of the General Fund of the Treasury and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable is recognized as a non-entity asset.

The amounts of fees collected to administer SSI State Supplementation are \$149 and \$152 million for the years ended September 30, 2003 and 2002. The amounts reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets, represent fee collections deposited directly to a Treasury General Fund. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. A corresponding accounts payable to the General Fund is presented so that net position is not affected by this activity. Refer to Note 10. Exchange Revenue, for a description of the SSI State Supplementation fees.

### 4. *Fund Balance with Treasury*

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes BL, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources.

Chart 4a - Fund Balances as of September 30:			Chart 4b - Status of Fund Balances as of September 30:		
	2003	2002 (Reclassified)		2003	2002
Trust Funds			Unobligated Balance		
OASI	\$ (24)	\$ (19)	Available	\$ 465	\$ 667
DI	359	(137)	Unavailable	71	75
LAE	(132)	(46)	Obligated Balance not yet		
Appropriated Funds			Disbursed	988	956
SSI	1,999	2,187	Expended/Unexpended	203	(179)
Other	108	113	Deposit & Receipt Accounts	583	579
Total	\$ 2,310	\$ 2,098	Total	\$ 2,310	\$ 2,098

In FY 2003 and 2002, the negative fund balances reported for the trust funds are the result of the policy to protect the trust fund investments by not liquidating the investments until the cash is needed. Transfers between the trust funds and Treasury are managed to favor the financial position of the trust funds. Therefore, investments held by the trust funds are liquidated only as needed by Treasury to cover benefit payment checks. To maintain consistency with Treasury year-end reporting requirements, the negative balances were not reclassified as liabilities on the Balance Sheet.

## 5. *Investments*

Chart 5 displays SSA's investments in U.S. par-value Treasury special securities and U.S. Treasury bonds at amortized cost. Treasury specials are Treasury securities that are issued directly by the Treasury Secretary to a government investment account that are non-negotiable and non-transferable in the secondary market. Par-value Treasury specials are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 8 3/4 percent and are payable on September 30, December 31, and at maturity or redemption. Investments held for the trust funds mature at various dates ranging from the present to the year 2017.

	2003	2002
Special Issue U.S. Treasury Securities	\$ 1,484,189	\$ 1,329,015
U.S. Treasury Bonds - Carrying value	30	30
Total Investments	\$ 1,484,219	\$ 1,329,045

## 6. *Interest and Accounts Receivable*

### Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on trust fund investments with the U.S. Treasury. Interest amounts are \$20,933 million and \$20,262 million for the years ended September 30, 2003 and 2002.

### Accounts Receivable

#### Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6a. OASI and DI amounts consist of military service wage credits (MSWC) that should have been transferred to the OASI and DI Trust Funds from the Department of Defense (DoD). The LAE amount represents receivables to be paid from the HI/SMI Trust Funds.

	2003	2002 (Reclassified)
	Gross/Net Receivable	Gross/Net Receivable
OASI	\$ 531	\$ 443
DI	90	74
SSI	0	0
Other	0	0
LAE	1,735	1,712
Sub-Total	2,356	2,229
Less:		
Elimination*	(1,484)	(1,478)
Total	\$ 872	\$ 751

\* Intra-agency Eliminations

Members of the uniformed services contribute to Social Security, and their potential benefits are based on taxable wages. Congress determined that these individuals are disadvantaged because their basic pay is augmented by various allowances; that is, allowances in forms other than taxable wages that were not used in determining Social Security benefits. To remedy this situation, section 229 of the Social Security Act provides that members of the uniformed services will be “deemed” wage credits for these allowances, thus, increasing their eligibility for benefits.

The law requires that DoD reimburse the Trust Funds for this activity each July 1; and, until FY 2000, DoD made the payments in a timely manner. As of September 30, 2003, and 2002, \$621 and \$517 million, respectively, remain unpaid largely from fiscal years 2000 and 2001. DoD asserts that its Military Personnel appropriation is not large enough to make all of the payments required by the DoD Appropriation Act and, therefore, it cannot make the payment required by Section 229. However, SSA believes that the appropriations are, in fact, budgeted for MSWC reimbursements and accordingly has retained the accounts receivable and not written off the receivable as uncollectible.

The Administration’s 2004 budget reflects a legislative proposal to make the trust funds whole for unpaid FICA tax equivalents for MSWC, including interest lost due to late payment. Since the budget was submitted to Congress, the actual proposal was written to also include adjustments for prior years with related interest, as well as a provision to end any future adjustments that would otherwise continue to be necessary. SSA intends to maintain accounts receivable of \$621 million in its accounting records until payment is made, or such legislation fails to pass and OMB indicates a debt no longer exists based on Congressional actions.

An allowance for doubtful accounts was not applied to determine the net value of Intragovernmental accounts receivable. According to SFFAS No. 1, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

Chart 6a also shows that in FY 2003 and FY 2002, gross accounts receivable was reduced by \$1,484 and \$1,478 million as an intra-agency elimination. This elimination is to offset SSA’s LAE receivable to be paid from the appropriate trust or general fund with corresponding trust or general fund payables set up for anticipated LAE disbursements.

### With the Public

Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6b. Amounts in the OASI, DI, and BL (included in Other) programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents overpaid SSI Federal and State SSI supplementation payments to be recovered from SSI recipients who are no longer eligible to receive supplemental income or receive benefits in excess of their eligibility. See Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments.

	2003			2002 (Reclassified)		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,088	\$ (96)	\$ 1,992	\$ 1,274	\$ (92)	\$ 1,182
DI	3,011	(1,027)	1,984	2,735	(887)	1,848
SSI*	8,315	(1,702)	6,613	8,519	(1,393)	7,126
Other	7	0	7	4	0	4
LAE	170	0	170	211	0	211
Sub-Total	13,591	(2,825)	10,766	12,743	(2,372)	10,371
Less:						
Eliminations**	(4,936)	0	(4,936)	(4,679)	0	(4,679)
Total	\$ 8,655	\$ (2,825)	\$ 5,830	\$ 8,064	\$ (2,372)	\$ 5,692

\*See Discussion in Note 3, Non-Entity Assets      \*\* Intra-Agency Eliminations

In FY 2001, SSA detected an error which affected about 228,000 SSI recipients who were eligible to receive DI benefits, but were paid either SSI or OASI benefits. At that time, OASI and SSI receivables were established for \$56 and \$3,770 million. In FY 2002, the domain for this Special Disability Workload (SDW) increased to about 251,000 cases, and the receivable amounts were netted with payables and reported as net accrued liabilities. SDW estimated receivables grew due to the cases not yet adjudicated, and decreased by the amount of adjudicated cases. In FY 2003, estimates have been further reduced due to refinements in the actual counting of cases potentially affected, and further downward revisions to the assumptions about the fraction of cases which will eventually result in claims being taken. In addition, receivables have increased due to refinements in the analysis of the impact on Federal SSI payments. The net affect of these refinements is an increase in OASI SDW receivables and a decrease in DI and SSI SDW receivables.

Current estimates indicate that there are about 179,704 SDW cases remaining. For FY 2003, SDW receivables are included in Chart 6b. OASI SDW receivables are \$851 and \$830 million for the years ended September 30, 2003 and 2002. DI SDW receivables are \$11 and \$29 million for the years ended September 30, 2003 and 2002. SSI SDW receivables are \$3,902 and \$4,401 million for the years ended September 30, 2003 and September 30, 2002.

Chart 6b shows that in FY 2003 and FY 2002, gross accounts receivable was reduced by \$4,936 and \$4,679 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Since payment of the retroactive OASI and DI benefits results in an overpayment of SSI benefits, the overpaid SSI amounts are offset from the OASI and DI retroactive payments. Therefore, these offsets are presented as intra-agency elimination.

A ratio of the estimated allowance for doubtful accounts is redetermined annually using a moving 5-year average of write-offs divided by clearances comprised of write-offs, waivers and collections. The ratio is then applied to outstanding receivables to compute the amount of allowance for doubtful accounts.

## 7. *Property, Plant and Equipment*

Property, Plant and Equipment, Net as reported on the Consolidated Balance Sheets is reflected by major class in chart 7.

Chart 7 - Property, Plant and Equipment as of September 30:

Major Classes:	2003			2002 (Reclassified)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5
Buildings	383	(180)	203	362	(171)	191
Equipment (incl. ADP Hardware)	327	(241)	86	282	(180)	102
Internal Use Software	740	(158)	582	459	(94)	365
Leasehold Improvements	185	(152)	33	130	(103)	27
Total	\$ 1,640	\$ (731)	\$ 909	\$ 1,238	\$ (548)	\$ 690

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	over 20 years	Straight Line
Equipment (incl. ADP Hardware)	7 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	over 20 years	Straight Line

## 8. *Liabilities*

Liabilities of Federal agencies are classified as liabilities covered or not covered by budgetary resources and are recognized when they are incurred. Chart 8a discloses SSA's liabilities covered by budgetary resources and not covered by budgetary resources.

Chart 8a - Liabilities as of September 30:

	2003			2002 (Reclassified)		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RR Retirement Interchange	\$ 3,767	\$ 0	\$ 3,767	\$ 3,713	\$ 0	\$ 3,713
Accounts Payable	0	6,410	6,410	0	7,024	7,024
Other	59	51	110	76	48	124
Total Intragovernmental	3,826	6,461	10,287	3,789	7,072	10,861
Benefits Due and Payable	48,391	1,096	49,487	46,320	1,364	47,684
Accounts Payable	120	267	387	216	278	494
Other	176	957	1,133	592	550	1,142
Total	\$ 52,513	\$ 8,781	\$ 61,294	\$ 50,917	\$ 9,264	\$ 60,181

### Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. Refer to Note 13, Intra-Governmental Financing Sources, for a description of the RRB transfer.

### Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable not covered by budgetary resources is SSI Receivables Owed to Treasury. This custodial liability is recorded for the collection of SSI benefit overpayments that are payable from SSA to the General Fund of the Treasury when overpayments are identified. It directly relates to the accounts receivable established in the asset portion of the Balance Sheet. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

### Intragovernmental Other Liabilities

Intragovernmental Other Liabilities covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. Intragovernmental Other Liabilities not covered by budgetary resources includes amounts for the Federal Employees' Compensation Act (FECA), administered by Department of Labor (DoL). FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability was \$51 and \$47 million as of September 30, 2003 and 2002.



## Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs for the years ended September 30, 2003 and 2002. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b include estimated payables related to SDW (See Note 6, Interest and Accounts Receivable). OASI payables are \$773 and \$1,077 million for the years ended September 30, 2003 and 2002. DI payables are \$6,652 and \$7,629 million for the years ended September 30, 2003 and 2002. In FY 2003, the OASI and DI payables have decreased due to downward revisions to the assumptions and refinements in counting potential SDW cases.

Chart 8b also shows that as of FY 2003 and FY 2002, gross Benefits Due and Payable was reduced by \$4,936 and \$4,679 million as intra-agency elimination. This intra-agency activity results primarily from SDW cases (See Note 6, Interest and Accounts Receivable). Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

	2003	2002 (Reclassified)
OASI	\$ 35,878	\$ 34,140
DI	16,967	16,821
SSI	1,541	1,364
Other	37	38
Sub-Total	54,423	52,363
Less: Intra-agency eliminations	(4,936)	(4,679)
Total	\$ 49,487	\$ 47,684

## Accounts Payable

Accounts Payable not covered by budgetary resources consists of payments due to the states for their portion of SSI benefit payments made by SSA, underpayments due to SSI recipients, and the state portion of SSI windfall amounts. Since SSA receives payments from the states for their portion of SSI benefits, any excess payments are returned to the states and recognized as accounts payable.

## Other Liabilities

SSA's Other Liabilities covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities not covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of \$305 and \$281 million for the years ended September 30, 2003 and 2002 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities not covered by budgetary resources is leave earned but not taken.

## Contingent Liabilities

SSA is a party to various class action lawsuits related to benefits paid or payable. These suits may be lost, in whole or in part, in lower courts and/or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

## 9. Operating Expenses

### Classification of Operating Expenses by Major Program

Chart 9a displays SSA's operating expenses for each major program. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statement of Net Cost. Trust Fund Operations include expenses of the Department of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries. BL includes SSA's operational costs to administer the BL, Part B program, which is performed for SSA on a reimbursable basis by the DOL.

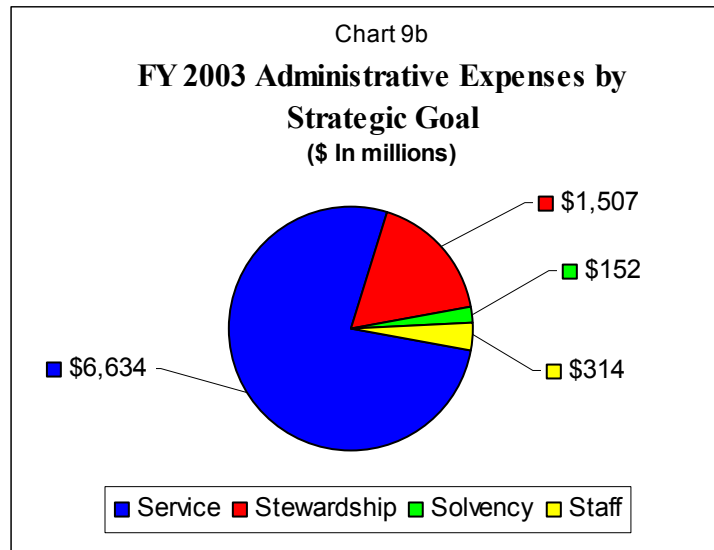
Chart 9a - SSA's Operating Expenses by Major Program as of September 30:						
2003						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	\$ 2,162	\$ 30	\$ 289	\$ 0	\$ 0	\$ 2,481
DI	1,917	26	54	48	0	2,045
SSI	2,747	0	0	42	0	2,789
Other	1,265	19	0	0	8	1,292
	<u>\$ 8,091</u>	<u>\$ 75</u>	<u>\$ 343</u>	<u>\$ 90</u>	<u>\$ 8</u>	<u>\$ 8,607</u>
Chart 9a - SSA's Operating Expenses by Major Program as of September 30:						
2002 (Reclassified)						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	\$ 2,043	\$ 28	\$ 228	\$ 0	\$ 0	\$ 2,299
DI	1,829	26	43	55	0	1,953
SSI	2,700	0	0	88	0	2,788
Other	1,228	15	0	0	8	1,251
	<u>\$ 7,800</u>	<u>\$ 69</u>	<u>\$ 271</u>	<u>\$ 143</u>	<u>\$ 8</u>	<u>\$ 8,291</u>

### Classification of Operating Expenses by Strategic Goal

In FY 2003, SSA developed a new Agency Strategic Plan (ASP), a FY 2004 Annual Performance Plan (APP), and its budget submission at the same time by completing a full review of strategic goals, objectives, and performance indicators. Changes, additions, and deletions were made in order to help improve performance and improve the way progress is measured. The strategic goals have remained broad and cover the full scope of SSA's work. The four new goals are:

- Service -- To deliver high quality citizen-centered service;
- Stewardship -- To ensure superior stewardship of Social Security programs and resources;
- Solvency -- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations; and
- Staff -- To strategically manage and align staff to support SSA's mission.

Chart 9b exhibits distribution of the FY 2003 administrative expenses to new APP Strategic goals. A corresponding chart for FY 2002 administrative expenses is not displayed because APP strategic goals for FY 2002 and FY 2003 are not comparable.



## ***10. Exchange Revenues***

Revenue from exchange transactions is recognized when goods and services are provided. Total exchange revenue was \$288 and \$303 million for the years ended September 30, 2003 and 2002. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 25 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA earned administration fee revenue in the amount of \$256 and \$267 million for the years ended September 30, 2003 and 2002. A portion of the fees, \$149 and \$152 million for the years ended September 30, 2003 and 2002, is transferred to the Department of Treasury General Fund while the remainder is maintained in the SSA trust funds. In addition, SSA earned \$32 and \$36 million for the years ended September 30, 2003 and 2002 in other exchange revenue. The goods and services provided in these transactions are priced so that charges do not exceed the Agency's cost.

## **11. Gross Cost and Earned Revenue by Budget Functional Classification**

Chart 11a displays gross cost and earned revenue by budget functional classification. General Retirement and Disability Insurance includes the costs and revenues associated with the BL program. Income Security for Veterans includes the costs and revenues to administer the Title VIII, Special Benefits for Certain World War II Veterans program. Other Income Security includes primarily the costs and revenues associated with the SSI program. The Other program reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

	2003			2002 (Reclassified)		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	\$ 421	\$ 0	\$ 421	\$ 449	\$ 0	\$ 449
Income Security for Veterans	9	0	9	14	(5)	9
Other Income Security	33,259	(256)	33,003	30,328	(267)	30,061
Social Security						
OASI	397,943	0	397,943	386,005	0	386,005
DI	69,902	0	69,902	67,062	0	67,062
Other	7	(5)	2	3	0	3
LAE	8,166	(27)	8,139	7,868	(31)	7,837
Subtotal	476,018	(32)	475,986	460,938	(31)	460,907
<b>Total</b>	<b>\$ 509,707</b>	<b>\$ (288)</b>	<b>\$ 509,419</b>	<b>\$ 491,729</b>	<b>\$ (303)</b>	<b>\$ 491,426</b>

Chart 11b displays Intragovernmental gross cost and earned revenue by budget functional classification.

	2003			2002 (Reclassified)		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	\$ 0	\$ 0	\$ 0	\$ 4	\$ 0	\$ 4
Other Income Security	7	0	7	7	0	7
Social Security						
OASI	286	0	286	228	0	228
DI	54	0	54	43	0	43
Other	0	0	0	3	0	3
LAE	2,097	(14)	2,083	1,928	(20)	1,908
Subtotal	2,437	(14)	2,423	2,202	(20)	2,182
<b>Total</b>	<b>\$ 2,444</b>	<b>\$ (14)</b>	<b>\$ 2,430</b>	<b>\$ 2,213</b>	<b>\$ (20)</b>	<b>\$ 2,193</b>

## **12. Tax Revenues**

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security trust funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the trust funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service or SSA. Revenues to the trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes.

Other tax revenues include certain military service wage credits, Taxation of Social Security Benefits and FICA/SECA tax credits. Chart 12 reflects the amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues.

	2003	2002
Estimated Employment Taxes Credited to SSA	\$ 541,183	\$ 529,538
Adjustments	(5,952)	(4,248)
Refunds	(1,787)	(1,091)
Employment Tax Revenues	533,444	524,199
Other Tax Revenues	13,364	13,534
Total Tax Revenues	\$ 546,808	\$ 537,733

## **13. Intra-Governmental Financing Sources**

SSA receives other intra-governmental financing sources that increase net results of operations during the reporting period. The most significant financing source received from another Federal entity is the drawdown of funds from the HI/SMI Trust Funds for the Medicare program, in the amounts of \$1,214 and \$1,182 million for the years ended September 30, 2003 and 2002. They reimburse SSA's operating expenses to administer a portion of the Medicare program. These amounts represent the majority of the Trust Fund Draws and Other-In line item as presented on the Statement of Changes in Net Position.

Financing outflows may result from transfers of the reporting entity's assets to other government entities. SSA financing outflows mainly consist of PTF transfers for taxation on benefits of \$13,276 and \$13,966 million for the years ended September 30, 2003 and 2002. It also includes a RRB transfer for the annual interchange required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in September. The accrued liability of \$3,767 and \$3,713 million for the years ended September 30, 2003 and 2002, on the Balance Sheet represents amounts due the RRB. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses on the Statement of Net Cost. However, the RRB makes the payments to the qualifying railroad workers on behalf of SSA. SSA compensated RRB in the amount of \$1,163 and \$1,182 million for the years ended September 30, 2003 and 2002.

In addition, a portion of the administrative fees charged to the States to administer the Supplemental SSI benefits program is returned to the U.S. Treasury and amounted to \$149 and \$152 million for the years ended September 30, 2003 and 2002. The Supplemental SSI benefits paid by SSA on behalf of the States were \$3,925 and \$3,736 million for the years ended September 30, 2003 and 2002. These transfers, which negate each other, are received from the States and issued to SSI recipients.

## ***14. Imputed Financing***

The Statement of Net Cost recognizes post-employment benefit expenses of \$706 and \$662 million for the years ended September 30, 2003 and 2002 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance.

The Statement of Changes in Net Position recognizes an imputed financing source of \$397 and \$351 million for the years ended September 30, 2003 and 2002 that represents annual service cost not paid by SSA. The imputed financing source includes \$1 and \$4 million of Judgment fund payments as of September 30, 2003 and 2002. The Judgment Fund is available for most court judgments and Justice Department compromise settlements of actual or imminent lawsuits against the government. When the judgment fund makes a payment on behalf of SSA except for contract disputes, SSA records judgment fund to recognize expenses paid by another entity whether or not a previous contingent liability has been recognized.

## ***15. Budgetary Resources***

### **Appropriations Received**

The Combined Statements of Budgetary Resources (SBR) discloses Appropriations Received of \$679,191 and \$661,470 million for the years ended September 30, 2003 and 2002. Appropriations Received on the Consolidated Statements of Changes in Net Position (SCNP) is \$48,822 and \$46,400 million for the same years. The differences of \$630,369 and \$615,070 million represent appropriated trust fund receipts in OASI and DI, and Rescissions that must be recognized on the SBR. The SCNP reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Fund, or Rescissions.

### **Apportionment Categories of Obligations Incurred**

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as category A. Other apportionments such as activities, projects, objects, or a combination of these categories are classified as category B. For FY 2003, SSA has not received any category A apportionments. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B and Exempt from Apportionment.

	2003			2002 (Reclassified)		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	\$ 525,561	\$ 3,951	\$ 529,512	\$ 508,552	\$ 3,758	\$ 512,310
Exempt	8,187	0	8,187	8,732	0	8,732
Total	\$ 533,748	\$ 3,951	\$ 537,699	\$ 517,284	\$ 3,758	\$ 521,042

## Legal Arrangements Affecting Use of Unobligated Balances

All trust fund receipts collected in the FY are reported as new budget authority in the SBR. As beneficiaries pass the various entitlement tests prescribed by the Social Security Act, benefit payments and other outlays are obligated in the trust funds. The portion of trust fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY, is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the trust funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays trust fund activities and balances. The entire trust fund balances, ending are included in Investments on the Balance Sheet.

	2003	2002 (Reclassified)
Trust Fund Balance, Beginning	\$ 1,273,227	\$ 1,119,173
Receipts	630,322	615,091
Less Obligations	476,636	461,037
Excess of Receipts Over Obligations	153,686	154,054
Trust Fund Balance, Ending	\$ 1,426,913	\$ 1,273,227

## Explanation of Material Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Chart 15c presents a reconciliation of budgetary resources, obligations incurred, and outlays as presented in the SBR, to amounts included in the Budget of the United States Government for the year ended September 30, 2002. Budgetary resources and obligations incurred reconcile to Program and Financing (P & F) Schedules while outlays reconcile to the Analytical Perspectives of the Budget. A reconciliation is not presented for the period ended September 30, 2003, since SSA's FY 2003 Performance and Accountability Report is published in November 2003 and Treasury's MAX system will not have actual budget data until mid-December 2003.

SSA's LAE is funded from the OASI, DI, and HI/SMI Trust Funds and from various General Funds. In FY 2002 a methodology was implemented to establish a payable from these funding sources and an offsetting receivable in LAE. These payables and receivables are reduced as funds are transferred. SSA's financial statements for FY 2001 were restated to show the results of this new methodology. The beginning balance for these payables for FY 2002 from the restated FY 2001 statements is not included on the FY 2002 P & F Schedules. LAE activity reported on the P & F is for unexpired years only. Expired activity is included on the SBR but not on the P & F. Offsetting receipts reported in the budget as outlays mainly consist of Payments to the Trust Fund activity captured as trust fund receipts on the SBR, but removed from budgetary resources as part of unobligated balances. (See discussion above in Legal Arrangements Affecting Use of Unobligated Balances) Offsetting Receipts is the total amount of distributed offsetting receipts that affect outlays.

Chart 15c - Explanation of Material Differences Between Statement of Budgetary Resources and the Budget of the United States Government for FY 2002:

	Budgetary Resources	Status of Resources	Outlays
<b>Combined Statement of Budgetary Resources</b>	\$ 522,063	\$ 522,063	\$ 488,608
Funding Source Payables not on P & F	1,261	1,261	0
Expired activity not on P & F	(301)	(301)	0
Offsetting receipts reported as outlays in the budget	0	0	15,761
BL activity on DOL Budget for FY 2002	(462)	(462)	(452)
Other	27	27	0
<b>Budget of the United States Government</b>	522,588	522,588	503,917

## ***16. Statement of Financing Disclosures***

### **Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods**

Liabilities Not Covered by Budgetary Resources of \$8,781 and \$8,833 million as of September 30, 2003 and 2002, represent SSI Receivables Owed to Treasury, non-current portion of FECA liability to DoL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Statement of Financing, as Total Components of Net Cost of Operations, that will Require or Generate Resources in Future Periods of \$175 and \$89 million for the years ended September 30, 2003 and 2002, represent the change in SSA expenses for unfunded liabilities for FECA, adjudicated and unadjudicated SSI benefits due and payable, and leave earned but not taken.

## ***17. Incidental Custodial Collections***

SSA's custodial collections primarily consist of recoveries for SSI Federal benefit overpayments. The FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI benefit overpayments be deposited in the General Fund of the Treasury. In addition, other negligible custodial collections occur for interest, fines and penalties. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. In accordance with SFFAS Number 7, non-exchange custodial collections should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue; therefore, SSA's custodial collections are not recognized as revenue or presented in the financial statements. SSA's total custodial collections are \$1,985 and \$1,883 million for the years ended September 30, 2003 and 2002.



## ***18. Recovery of Medicare Premiums***

SSA has identified a systematic and reoccurring error in the processing of transfers to the CMS of Medicare Part B premiums. Beneficiaries of OASI and DI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premium transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, did not have procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately \$800 million of premiums were transferred erroneously to CMS since the inception of the Medicare program. SSA and the Department of Health and Human Services are currently negotiating the resolution of this matter, and accordingly no accounts receivable have been recorded in the accompanying financial statements. However, SSA will continue to pursue the recovery of these premiums.

## Balance Sheet by Major Program as of September 30, 2003

Assets	Dollars in Millions						
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	\$ (24)	\$ 359	\$ 1,999	\$ 108	\$ (132)	\$ 0	\$ 2,310
Investments	1,313,427	170,792	0	0	0	0	1,484,219
Interest Receivable, Net	18,551	2,382	0	0	0	0	20,933
Accounts Receivable, Net	531	90	0	0	1,735	(1,484)	872
Total Intragovernmental	1,332,485	173,623	1,999	108	1,603	(1,484)	1,508,334
Accounts Receivable, Net	1,992	1,984	6,613	7	170	(4,936)	5,830
Property, Plant and Equip., Net	0	0	0	0	909	0	909
Other	0	0	0	0	6	0	6
<b>Total Assets</b>	<b>\$ 1,334,477</b>	<b>\$ 175,607</b>	<b>\$ 8,612</b>	<b>\$ 115</b>	<b>\$ 2,688</b>	<b>\$ (6,420)</b>	<b>\$ 1,515,079</b>
<b>Liabilities</b>							
Intragovernmental:							
Accrued RRI	\$ 3,545	\$ 222	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,767
Accounts Payable	523	407	6,964	0	0	(1,484)	6,410
Other	0	0	0	0	110	0	110
Total Intragovernmental	4,068	629	6,964	0	110	(1,484)	10,287
Benefits Due and Payable	35,878	16,967	1,541	37	0	(4,936)	49,487
Accounts Payable	1	4	263	0	119	0	387
Other	2	2	353	18	758	0	1,133
Total	39,949	17,602	9,121	55	987	(6,420)	61,294
<b>Net Position</b>							
Unexpended Appropriations	0	0	633	60	12	0	705
Cumulative Results of Operations	1,294,528	158,005	(1,142)	0	1,689	0	1,453,080
Total Net Position	1,294,528	158,005	(509)	60	1,701	0	1,453,785
<b>Total Liabilities and Net Position</b>	<b>\$ 1,334,477</b>	<b>\$ 175,607</b>	<b>\$ 8,612</b>	<b>\$ 115</b>	<b>\$ 2,688</b>	<b>\$ (6,420)</b>	<b>\$ 1,515,079</b>

Schedule of Net Cost for the Year Ended  
September 30, 2003

	Program	LAE	Total
<b>OASI Program</b>			
Benefit Payments	\$ 397,654	\$ 0	\$ 397,654
Operating Expenses (Note 9)	289	2,192	2,481
Total Cost of OASI Program	397,943	2,192	400,135
Less: Exchange Revenues (Notes 10 and 11)	0	7	7
<b>Net Cost of OASI Program</b>	<b>397,943</b>	<b>2,185</b>	<b>400,128</b>
<b>DI Program</b>			
Benefit Payments	69,800	0	69,800
Operating Expenses (Note 9)	102	1,943	2,045
Total Cost of DI Program	69,902	1,943	71,845
Less: Exchange Revenues (Notes 10 and 11)	0	7	7
<b>Net Cost of DI Program</b>	<b>69,902</b>	<b>1,936</b>	<b>71,838</b>
<b>SSI Program</b>			
Benefit Payments	33,217	0	33,217
Operating Expenses (Note 9)	42	2,747	2,789
Total Cost of SSI Program	33,259	2,747	36,006
Less: Exchange Revenues (Notes 10 and 11)	256	9	265
<b>Net Cost of SSI Program</b>	<b>33,003</b>	<b>2,738</b>	<b>35,741</b>
<b>Other</b>			
Benefit Payments	429	0	429
Operating Expenses (Note 9)	8	1,284	1,292
Total Cost of Other	437	1,284	1,721
Less: Exchange Revenues (Notes 10 and 11)	5	4	9
<b>Net Cost of Other</b>	<b>432</b>	<b>1,280</b>	<b>1,712</b>
<b>Total Net Cost</b>			
Benefit Payments	501,100	0	501,100
Operating Expenses (Note 9)	441	8,166	8,607
Total Cost	501,541	8,166	509,707
Less: Exchange Revenues (Notes 10 and 11)	261	27	288
<b>Total Net Cost</b>	<b>\$ 501,280</b>	<b>\$ 8,139</b>	<b>\$ 509,419</b>

Schedule of Changes in Net Position for the Year Ended September 30, 2003

(Dollars in Millions)									
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated		
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations
	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations	Unexpended Appropriations
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Net Position, Beginning Balance</b>	1,155,165	141,939	(1,004)	62	1,467	0	1,297,567	794	
<b>Budgetary Financing Sources (than Exchange Revenues)</b>									
Appropriations Received			35,077	13,723	22			48,822	
Other Adjustments	0	0	(111)	(17)	0	0	0	(128)	
Appropriations Used	0	0	(35,055)	(13,708)	20	0	48,783	(48,783)	
Tax Revenues	468,442	78,366	0	0	0	0	546,808		
Interest Revenues	74,599	9,621	0	0	0	0	84,220		
Transfers-In/Out									
Trust Fund Draws and Other - In	4	3	0	0	7,935	(6,698)	1,244		
Trust Fund Draws and Other - Out	(2,143)	(1,903)	(2,190)	(13,276)	0	6,698	(12,814)		
Railroad Retirement Interchange	(3,611)	(191)	0	0	0	0	(3,802)		
Total Transfers-In/Out	(5,750)	(2,091)	(2,190)	(13,276)	7,935	0	(15,372)		
Other Budgetary Financing Sources	15	72	0	0	0	0	87		
<b>Other Financing Sources</b>									
Other Revenue	0	0	0	0	9	0	9		
Imputed Financing Sources	0	0	0	0	397	0	397		
<b>Total Financing Sources</b>	537,306	85,968	32,865	(89)	8,361	0	664,932	(89)	
<b>Net Cost of Operations</b>	397,943	69,902	33,003	432	8,139	0	509,419		
<b>Ending Balances</b>	1,294,528	158,005	(1,142)	60	1,689	0	1,453,080	705	

## Schedule of Financing for the Year Ended September 30, 2003

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Consolidated
<b>Resources Used to Finance Activities:</b>						
<b>Budgetary Resources Obligated</b>						
Obligations Incurred	\$ 404,506	\$ 72,130	\$ 39,142	\$ 13,715	\$ 8,206	\$ 537,699
Less: Offsetting Collections	0	0	(4,095)	(7)	(8,181)	(12,283)
Obligations Net of Offsetting Collections	404,506	72,130	35,047	13,708	25	525,416
Less: Offsetting Receipts	(12,368)	(990)	(256)	(1,984)	(28)	(15,626)
Net Obligations	392,138	71,140	34,791	11,724	(3)	509,790
<b>Other Resources</b>						
Transfers In/Out Without Reimbursement (+/-)	0	0	0	0	9	9
Imputed Financing	0	0	0	0	397	397
Other	0	0	(256)	0	0	(256)
Net Other Resources Used to Finance Activities	0	0	(256)	0	406	150
Total Resources Used to Finance Activities	392,138	71,140	34,535	11,724	403	509,940
<b>Resources Not Part of the Net Cost of Operations:</b>						
Change in Budgetary Resources Obligated, Not Yet Provided	0	2	11	0	(130)	(117)
Resources That Fund Capitalized Costs	0	0	0	0	(387)	(387)
Resources That Fund Expenses Recognized In Prior Periods	(810)	(136)	610	0	(1)	(337)
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations	12,369	990	256	1,984	28	15,627
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(5,754)	(2,094)	(2,543)	(13,276)	8,036	(15,631)
Total Resources Not Part of the Net Cost of Operations	5,805	(1,238)	(1,666)	(11,292)	7,546	(845)
Total Resources Used to Finance the Net Cost of Operations	397,943	69,902	32,869	432	7,949	509,095
<b>Components of the Net Cost of Operations That Will Not Require of Generate Resources in the Current Period</b>						
<b>Components Requiring or Generating Resources in Future Periods</b>						
Increase in Annual Leave	0	0	0	0	13	13
Other	0	0	134	0	28	162
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	0	0	134	0	41	175
<b>Components Not Requiring or Generating Resources</b>						
Depreciation and Amortization	0	0	0	0	158	158
Other	0	0	0	0	(9)	(9)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	0	0	0	0	149	149
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	0	0	134	0	190	324
<b>Net Cost of Operations</b>	<b>\$ 397,943</b>	<b>\$ 69,902</b>	<b>\$ 33,003</b>	<b>\$ 432</b>	<b>\$ 8,139</b>	<b>\$ 509,419</b>

Required Supplementary Information: Schedule of Budgetary Resources  
as of September 30, 2003

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Combined
<b>Budgetary Resources Made Available</b>						
<b>Budget Authority</b>						
Appropriations Received	\$ 542,348	\$ 87,974	\$ 35,077	\$ 13,720	\$ 72	\$ 679,191
<b>Unobligated Balances</b>						
Beginning of Period	0	0	613	59	349	1,021
<b>Spending Authority from Offsetting Collections</b>						
<b>Earned</b>						
Collected	0	0	3,836	4	62	3,902
Change in Receivable	0	0	90	0	(5)	85
Change in Unfilled Customer Orders						
Without Advance	0	0	0	0	1	1
Transfers from Trust Funds						
Collected	0	0	0	0	7,907	7,907
Anticipated	0	0	0	0	28	28
Subtotal	0	0	3,926	4	7,993	11,923
<b>Recoveries of Prior Year Obligations</b>	0	0	169	3	188	360
<b>Temporarily Not Available Pursuant to Public Law</b>	(137,842)	(15,844)	0	0	0	(153,686)
<b>Permanently Not Available</b>	0	0	(111)	(16)	(53)	(180)
<b>Total Budgetary Resources</b>	<b>\$ 404,506</b>	<b>\$ 72,130</b>	<b>\$ 39,674</b>	<b>\$ 13,770</b>	<b>\$ 8,549</b>	<b>\$ 538,629</b>
<b>Status of Budgetary Resources:</b>						
<b>Obligations Incurred:</b>						
Direct	\$ 398,467	\$ 69,982	\$ 35,217	\$ 13,715	\$ 8,180	\$ 525,561
Reimbursable	0	0	3,925	0	26	3,951
Exempt from Apportionment	6,039	2,148	0	0	0	8,187
Subtotal	404,506	72,130	39,142	13,715	8,206	537,699
<b>Unobligated Balances</b>						
Apportioned	0	0	465	20	224	709
<b>Unobligated Balances - Not Available</b>	0	0	67	35	119	221
<b>Total Status of Budgetary Resources</b>	<b>\$ 404,506</b>	<b>\$ 72,130</b>	<b>\$ 39,674</b>	<b>\$ 13,770</b>	<b>\$ 8,549</b>	<b>\$ 538,629</b>
<b>Relationship of Obligations to Outlays:</b>						
<b>Obligated Balances - Beginning of the Period</b>	\$ 38,141	\$ 17,458	\$ 1,053	\$ 42	\$ (395)	\$ 56,299
<b>Obligated Balance - End of the Period</b>						
Accounts Receivable	0	0	(86)	0	(1,734)	(1,820)
Unfilled Customer Orders	0	0	0	0	(1)	(1)
Undelivered Orders	0	4	41	0	1,105	1,150
Accounts Payable	39,949	17,602	999	35	154	58,739
<b>Outlays:</b>						
Disbursements	402,698	71,982	38,981	13,719	8,076	535,456
Collections	0	0	(3,836)	(4)	(7,969)	(11,809)
Subtotal	402,698	71,982	35,145	13,715	107	523,647
<b>Less: Offsetting Receipts</b>	12,368	990	256	1,984	28	15,626
<b>Net Outlays</b>	<b>\$ 390,330</b>	<b>\$ 70,992</b>	<b>\$ 34,889</b>	<b>\$ 11,731</b>	<b>\$ 79</b>	<b>\$ 508,021</b>

Required Supplementary Information: Intragovernmental Amounts  
as of September 30, 2003

	(Dollars in Millions)			
	Fund Balance with Treasury	Investments	Interest Receivable, Net	Accounts Receivable, Net
<b>Intragovernmental Assets</b>				
Department of the Air Force				\$163
Department of the Army				214
Department of Health and Human Services				248
Department of the Navy				244
Department of the Treasury	\$2,310	\$1,484,219	\$20,933	
Other				3
<b>Total Intragovernmental Assets</b>	<b>\$2,310</b>	<b>\$1,484,219</b>	<b>\$20,933</b>	<b>\$872</b>
<b>Intragovernmental Liabilities</b>				
	Accrued Railroad Retirement Interchange	Accounts Payable	Other Liabilities	
Department of the Treasury, General Fund		\$6,410		
Railroad Retirement Board	\$3,767			
Other			\$110	
<b>Total Intragovernmental Liabilities</b>	<b>\$3,767</b>	<b>\$6,410</b>	<b>\$110</b>	
<b>Intragovernmental Revenues:</b>				
	Non-Exchange Revenue			
	Transfers-In	Transfers-Out		
Department of the Treasury	(\$3)			
Department of the Treasury, General Fund	(4)	\$13,276		
Railroad Retirement Board		3,802		
Department of Health and Human Services	(1,236)			
<b>Total Intragovernmental Revenues:</b>	<b>(\$1,243)</b>	<b>\$17,078</b>		

Required Supplementary Stewardship Information: Social Insurance

<b>Statement of Social Insurance</b>					
<b>Old-Age, Survivors and Disability Insurance</b>					
<b>75-Year Projection as of January 1, 2003</b>					
(In billions)					
		Estimates from Prior Years			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future income (excluding interest)<sup>2</sup> received from or on behalf of:</i>					
Current participants <sup>3</sup> who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$13,576	\$13,048	\$12,349	\$11,335	\$10,325
Have attained retirement eligibility age (Age 62 and over)	359	348	309	266	235
Those expected to become participants (Under Age 15) <sup>4</sup>	12,213	11,893	11,035	10,088	9,033
All participants	26,147	25,289	23,693	21,688	19,593
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future cost<sup>5</sup> for or on behalf of:</i>					
Current participants <sup>3</sup> who, at the start of projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	21,015	20,210	18,944	17,217	15,676
Have attained retirement eligibility age (Age 62 and over)	4,662	4,402	4,255	4,020	3,856
Those expected to become participants (Under Age 15) <sup>4</sup>	5,398	5,240	4,700	4,297	3,758
All participants	31,075	29,851	27,899	25,534	23,291
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future excess of income (excluding interest) over cost</i>	-\$4,927	-\$4,562	-\$4,207	-\$3,845	-\$3,698
<i>Trust fund assets<sup>6</sup> at start of period</i>	1,378	1,213	1,049	896	763
<i>Actuarial present value<sup>1</sup> for the 75-year projection period of estimated future excess<sup>7</sup> of income (excluding interest) and Trust fund assets at start of period over cost</i>	-\$3,550	-\$3,350	-\$3,157	-\$2,949	-\$2,935



## Footnotes to the Statement of Social Insurance

<sup>1</sup>Present values are computed on the basis of the intermediate economic and demographic assumptions specified in the Report of the Board of Trustees for the year shown and over the 75-year projection period beginning January 1 of that year. Totals do not necessarily equal the sum of the rounded components.

<sup>2</sup>Income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury.

<sup>3</sup>Current participants are the “closed group” of individuals age 15 and over at the start of the period. To calculate the actuarial present value of the excess of future income (excluding interest) from or on behalf of these individuals over future cost for them or on their behalf, subtract the actuarial present value of future cost for them or on their behalf from the actuarial present value of future income (excluding interest) from them or on their behalf. The projection period for the closed group would theoretically include all future working and retirement years, a period which may exceed 75 years in some instances. While the estimates are limited to the 75-year projection period, the net present value of future income and cost for the closed group participants beyond 75 years is not material.

<sup>4</sup>Includes births during the period.

<sup>5</sup>Cost includes scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

<sup>6</sup>Trust fund assets represent the accumulated excess of all past income, including interest on trust fund assets, over all past expenditures for the social insurance program. The assets are invested only in securities backed by the full faith and credit of the Federal Government.

<sup>7</sup>The negative value represents the magnitude of the unfunded obligation of the program over the 75-year projection period. The calculation of the actuarial balance used for analysis by the Social Security trustees differs from the calculation of the amount presented on this line. The trustees’ actuarial balance is expressed as a percentage of the taxable payroll and includes the cost of attaining a target fund balance equal to the estimated next year’s cost at the end of the period.

## Program Description

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2002, OASDI benefits were paid to approximately 46 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

## Program Finances and Sustainability

As discussed in Note 8 to the consolidated financial statements, a liability of \$48 billion as of September 30, 2003 is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date (\$46 billion as of September 30, 2002). Virtually all of this amount was paid in October 2003. Also, an asset of \$1,484 billion is recognized for the “investments in Treasury securities” as of September 30, 2003 (\$1,329 billion as of September 30, 2002). These investments are referred to as “trust fund assets” or “balance” throughout the remainder of this disclosure. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government.

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2003. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

***Supplementary Stewardship Information*** - While no liability has been recognized on the balance sheet for future payments beyond those due at the reporting date, actuarial estimates are made of the long-range financial condition of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

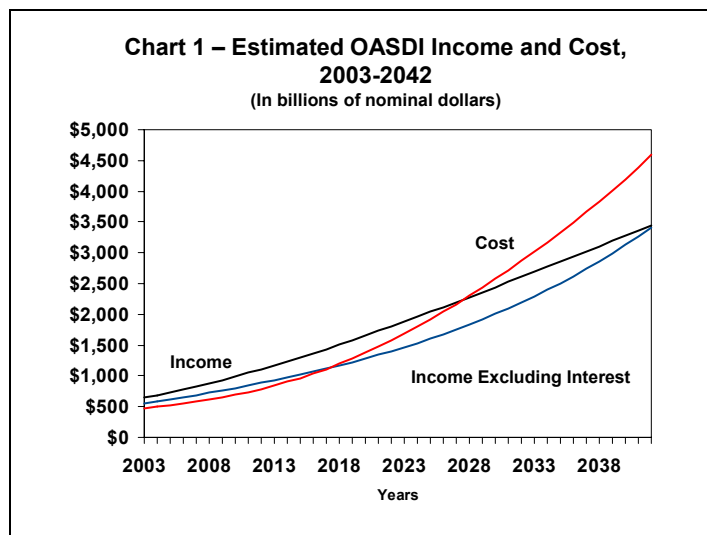
- **income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of OASDI benefits; interest income from Treasury securities held as assets of the trust funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the trust funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;
- **present value:** the equivalent value, as of a specified point in time, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested as of the specified point in time, together with interest earnings would be just enough to meet each of the payments as they fell due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2003 Trustees Report) (see Table 7). The statement presented on page 146 and the supplementary stewardship information below are derived from estimates of future income and cost based on these assumptions and on the current Social Security Act, including future changes previously enacted. This information includes:

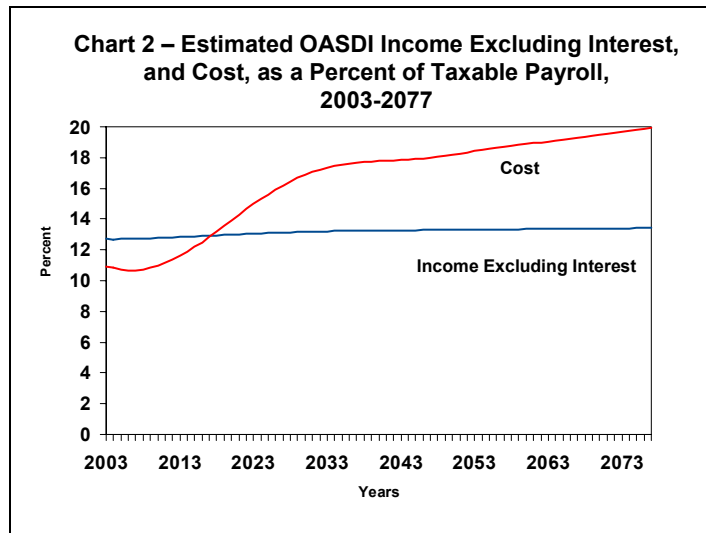
- (1) actuarial present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income excluding interest and cost in nominal dollars and as percentages of taxable payroll and GDP;
- (3) the ratio of estimated covered workers to estimated beneficiaries; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions.

**Cashflow Projections** - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2003-2042 in nominal dollars. These estimates are only displayed through 2042, the year that the OASDI trust funds are projected to become exhausted. The estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost on behalf of such workers during that period.

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2028. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated cost starts to exceed income excluding interest even earlier, in 2018. At that time, to meet all OASDI cost on a timely basis, the trust funds would begin to redeem assets (Treasury securities). To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.



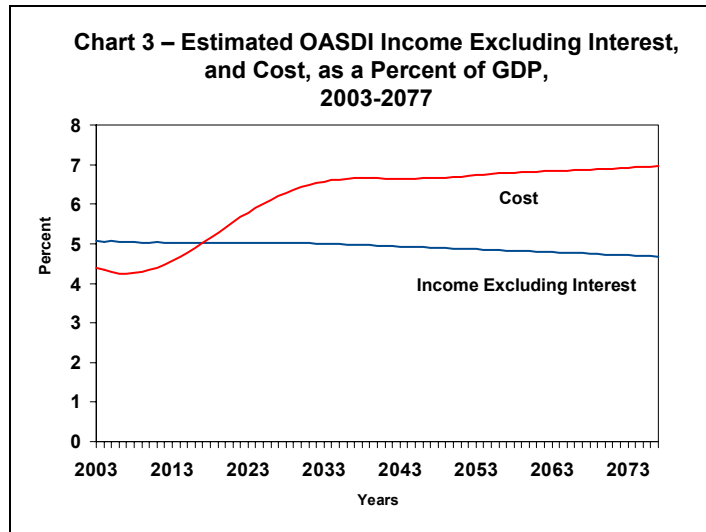
**Percentage of Taxable Payroll** - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2018, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2018, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. Estimated cost at the end of the 75-year period is about 50 percent higher than estimated income.



**Actuarial Balance** - The statement of social insurance on page 146 shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$4,927 billion. If augmented by the trust fund assets at the start of the period (January 1, 2003), it is -\$3,550 billion. This excess does not equate to the actuarial balance in the Trustees Report of -1.92 percent of taxable payroll because the actuarial balance includes the cost of attaining a target Trust Fund balance by the end of the period.

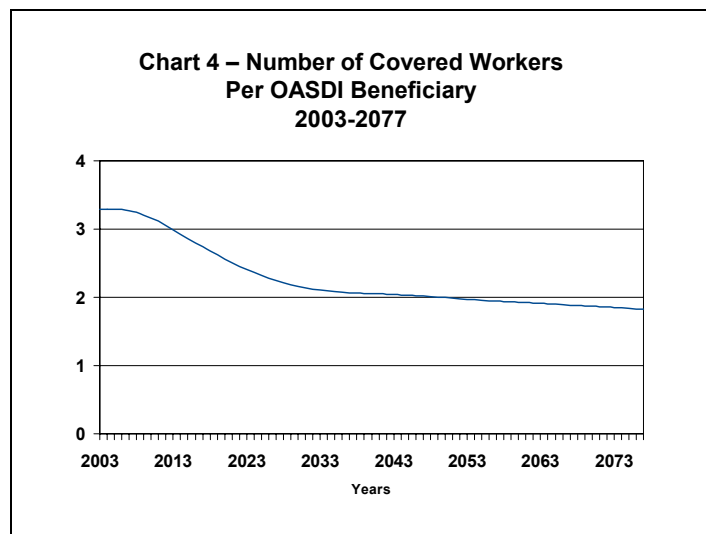
One interpretation of this negative actuarial balance (-1.92 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain at that level. An increase of 1.92 percentage points in this rate in each year of the 75-year projection period--about 0.96 percentage points for employees and employers each, resulting in a total rate for each of 7.16 percent--is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all current and future benefits could be reduced by about 13 percent (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

**Percentage of Gross Domestic Product (GDP)** - Chart 3 shows estimated annual income, excluding interest, and cost, expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the GDP, which represents the total value of goods and services produced in the United States, provides a measure of the size of the OASDI program in relation to the capacity of the national economy to sustain it.



In 2002, OASDI cost was about \$462 billion, which was about 4.4 percent of GDP. The cost of the program (based on current law) in 2077 is estimated to be about 7.0 percent of GDP. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

**Ratio of Workers to Beneficiaries** - Chart 4 below shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2002 to 1.8 in 2077.



**Sensitivity Analysis** - Projections of the future financial status of the OASDI program depend on many economic and demographic assumptions, including GDP, labor force, unemployment, average wages and self-employment earnings, interest rates on Treasury securities, productivity, inflation, fertility, mortality, net immigration, marriage, divorce, retirement patterns and disability incidence and termination. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are

impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, death rate, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is not intended to represent any particular probability based around the intermediate assumptions. An analysis of the probability distribution of the cost of the OASDI program is available in the 2003 Trustees Report.

For this analysis, the intermediate assumptions in the 2003 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2003 and are based on estimates of income and cost during the 75-year projection period 2003-2077. In this section, for brevity, “income” means “income excluding interest.”

For each assumption analyzed, one table and two charts are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The first chart shows estimated annual OASDI net cashflow based on each of those values. The second chart, labeled with the suffix “A,” shows the present value of each net cashflow amount shown in the first chart and is included to facilitate interpreting net cashflow in terms of today’s dollar. Because the calculation of present values is a discounting process, the magnitude of the present value for each year in the second chart is lower than the corresponding net cashflow amount in the first chart--positive values are less positive and negative values are less negative.

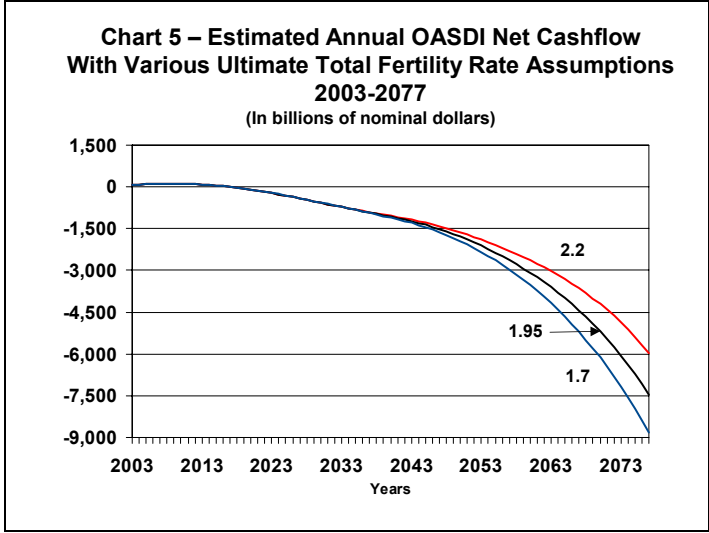
**Total Fertility Rate** - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate<sup>1</sup>. These assumptions are 1.7, 1.95 and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2003 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2027.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees’ intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$5,397 billion, from \$4,927 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to \$4,457 billion.

<b>Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2003-2077</b>			
Ultimate Total Fertility Rate	1.7	1.95	2.2
Present Value of Estimated Excess (In billions)	-\$5,397	-\$4,927	-\$4,457

Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 1. Chart 5 shows the estimated annual OASDI net cashflow.

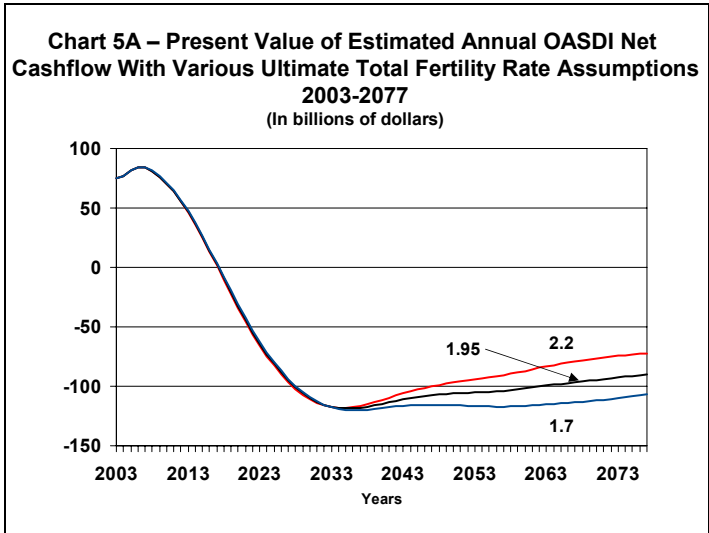
<sup>1</sup>The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first five years, the net cashflow estimates decrease steadily through 2077. They remain positive through 2017 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 39 years before the OASDI trust funds are depleted.

In the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2034 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from that year on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 5A shows the present value of the estimated annual OASDI net cashflow.



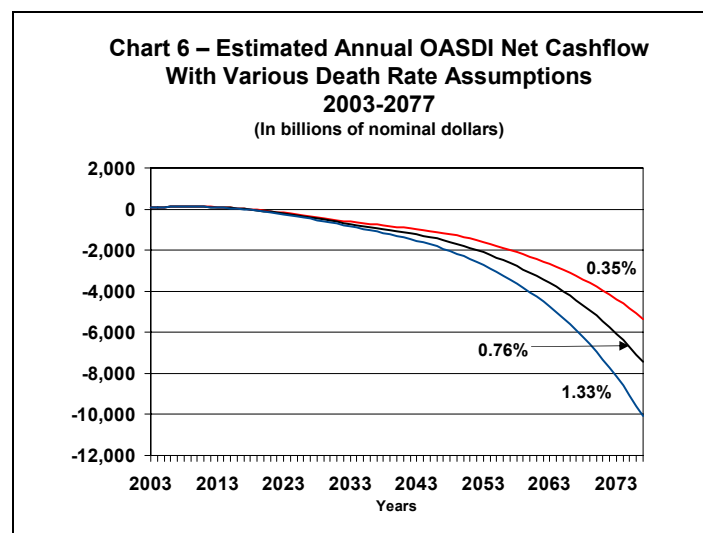
The three patterns of the present values shown in Chart 5A are similar. After increasing for four years, the present values decrease steadily through the early 2030's. They remain positive through 2017 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2036 for 1.95 and 2.2, 2037 for 1.7). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2037 than it would to cover the annual deficit in 2036.

**Death Rates** - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2002-2077 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.35, 0.76 and 1.33 percent per year, where 0.76 percent is the intermediate assumption in the 2003 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 21, 43 and 63 percent, respectively.)

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.76 percent, the Trustees' intermediate assumption, to 0.35 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$3,635 billion, from \$4,927 billion; if the annual reduction were changed to 1.33 percent, meaning that people live longer, the shortfall would increase to \$6,478 billion.

<b>Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2003-2077</b>			
Average Annual Reduction in Death Rates (from 2002 to 2077)	0.35 Percent	0.76 Percent	1.33 Percent
Present Value of Estimated Excess (In billions)	-\$3,635	-\$4,927	-\$6,478

Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.

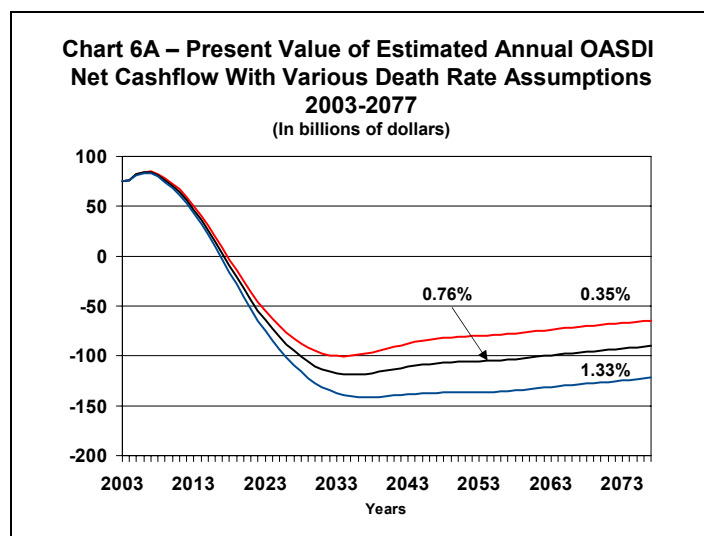




The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first several years, the net cashflow estimates decrease steadily through 2077. They remain positive through 2016 for an assumed average annual reduction of 1.33 percent and through 2017 for the other assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). Although reductions at ages 50 to 62 add significantly to the number of covered workers, the increased payroll tax income is not large enough to offset the additional retirement and disability benefits resulting from the increased number of people surviving to age 50 and over. At ages under 50, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 6A shows the present value of the estimated annual OASDI net cashflow.



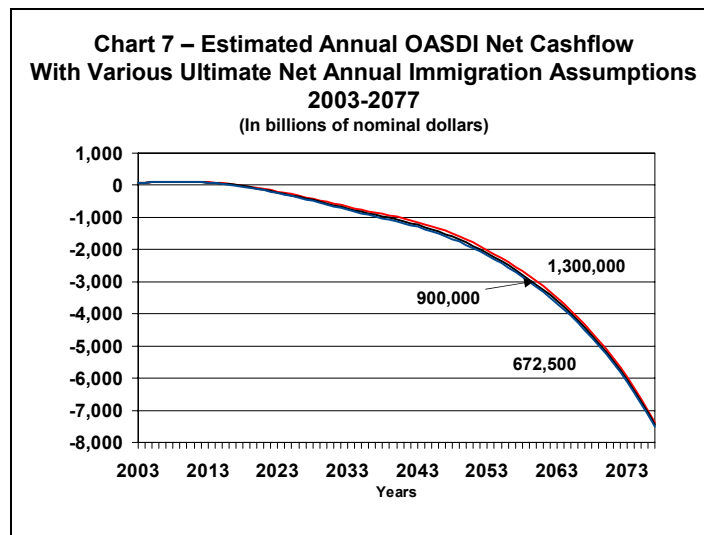
The three patterns of the present values shown in Chart 6A are similar. After increasing for four years, the present values decrease steadily through the early 2030's. They remain positive through 2016 for an assumed average annual reduction of 1.33 percent and through 2017 for the other assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2038 for assumptions of reductions of 0.35, 0.76 and 1.33 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

**Net Annual Immigration** - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other-than-legal) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2003 Trustees Report.

Table 3 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$5,217 billion, from \$4,927 billion. If the net annual immigration were changed to 1,300,000 persons, the present value of the shortfall would decrease to \$4,526 billion.

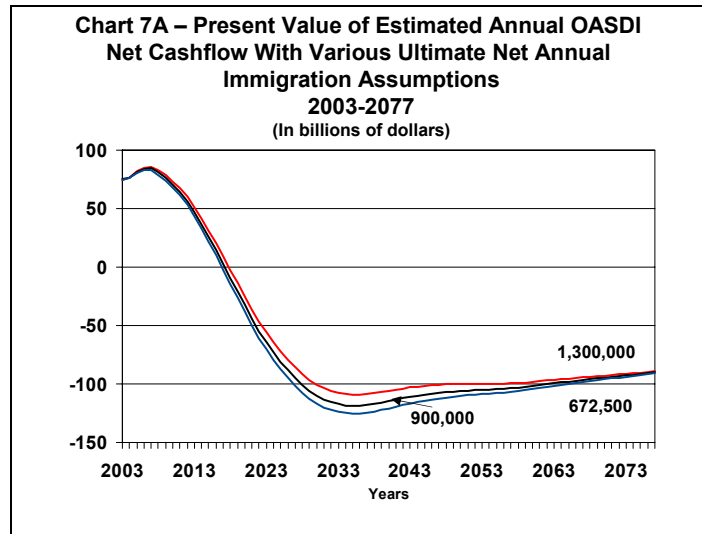
<b>Table 3: Present Value of Estimated Excess of OASDI Income over Cost                      With Various Ultimate Net Annual Immigration Assumptions                      Valuation Period: 2003-2077</b>			
Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-\$5,217	-\$4,927	-\$4,526

Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 3. Chart 7 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing slightly in the first few years, the net cashflow estimates decrease steadily through 2077. They remain positive through 2016 for an annual immigration of 672,500 and through 2017 for the other assumptions. Very little difference is discernible among the estimates of net cashflow based on the three assumptions about net annual immigration.

Chart 7A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7A are similar. After increasing for three to four years, the present values decrease steadily through 2035. They remain positive through 2016 for assumed ultimate net annual immigration of 672,500 persons and through 2017 for the other assumptions, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in 2036.

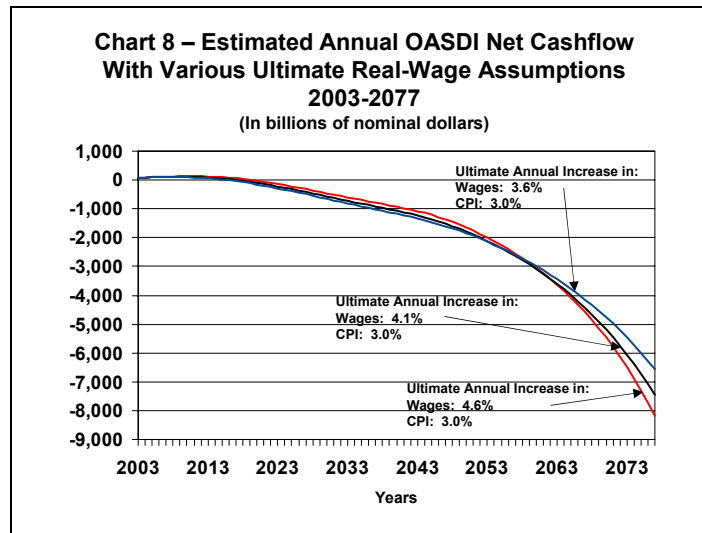
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are higher (less negative in later years) for higher net annual immigration. Because a constant number of net immigrants is assumed each year, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

***Real-Wage Differential*** - The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2003 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 3.0 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.6, 4.1 and 4.6 percent, respectively.

Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$5,418 billion from \$4,927 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to \$4,219 billion.

<b>Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2003-2077</b>			
Ultimate Annual Increase in: Wages , CPI	3.6% , 3.0%	4.1% , 3.0%	4.6% , 3.0%
Present Value of Estimated Excess (In billions)	-\$5,418	-\$4,927	-\$4,219

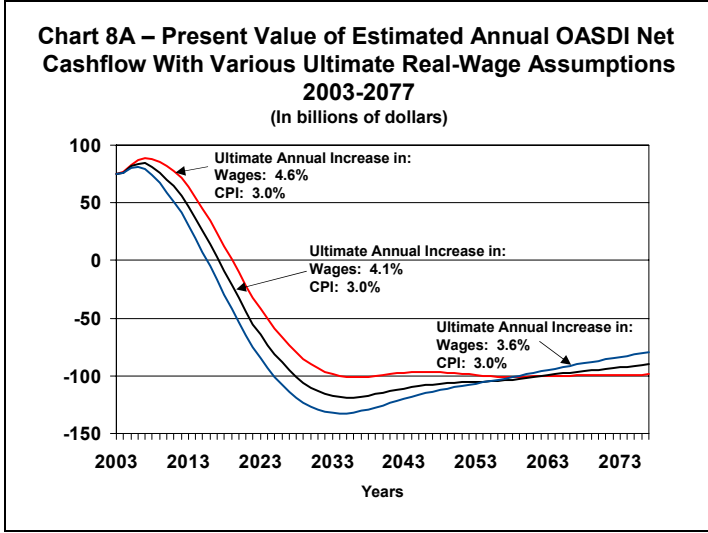
Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4. Chart 8 shows the estimated annual OASDI net cashflow.



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2017 and 2019 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and is negative thereafter.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, around 2060, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceed income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

Chart 8A shows the present value of the estimated annual OASDI net cashflow.



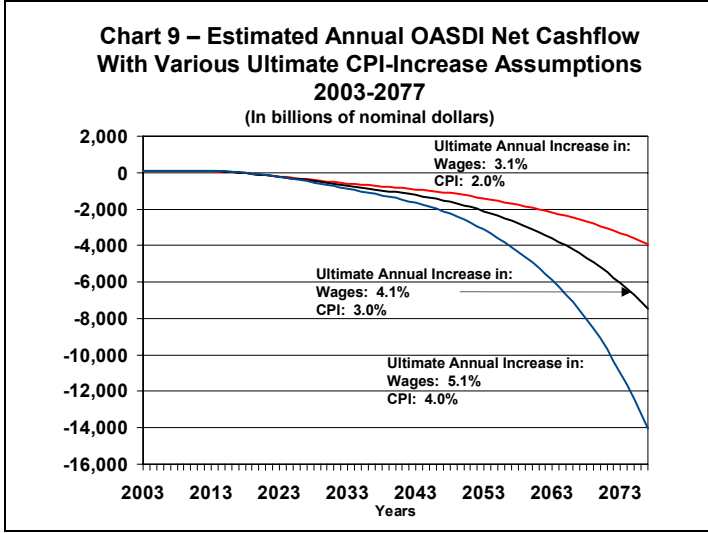
The three patterns of the present values shown in Chart 8A increase for several years, and then, decrease steadily through the early 2030's. They remain positive through 2015, 2017 and 2019 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2059 when decreases begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

**Consumer Price Index** - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.0, 3.0 and 4.0 percent, where 3.0 percent is the intermediate assumption in the 2003 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.1, 4.1 and 5.1 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.0 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$5,290 billion, from \$4,927 billion; if the ultimate annual increase in the CPI were changed to 4.0 percent, the shortfall would decrease to \$4,552 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

<b>Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions</b>			
<b>Valuation Period: 2003-2077</b>			
Ultimate Annual Increase in: Wages , CPI	3.1% , 2.0%	4.1% , 3.0%	5.1% , 4.0%
Present Value of Estimated Excess (In billions)	-\$5,290	-\$4,927	-\$4,552

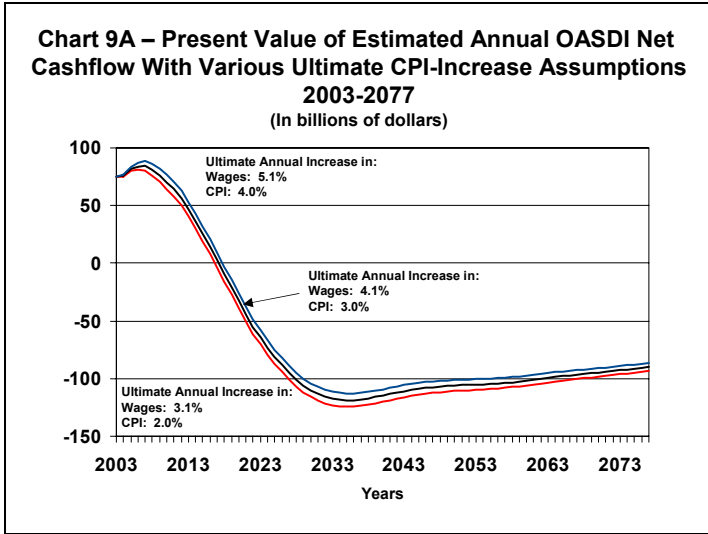
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2077. Annual net cashflow remains positive through 2016 for an assumed ultimate annual increase in the CPI of 2.0 percent and 2017 for the other two assumptions, and is negative thereafter. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher initial benefits. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost.

Larger increases in the CPI cause income to increase sooner, and thus by more in each year, than cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. However, shortly after 2020, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because the effect of benefits becomes more fully realized.

Chart 9A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 9A are similar. After increasing for three to four years, present values decrease steadily through 2035 before beginning to increase once again. They remain positive through 2017 (2016 for assumed ultimate annual increase in the CPI of 2.0 percent) and are negative thereafter.

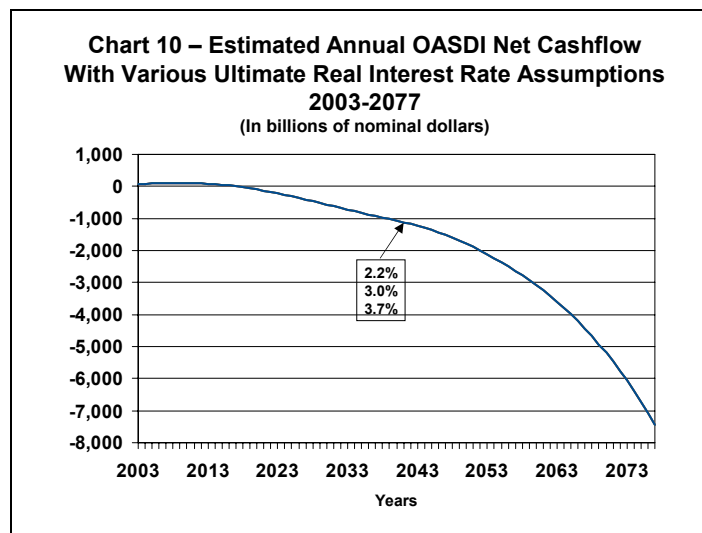
Present values begin to increase (become less negative) in 2036 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all three patterns of annual net cashflow. For this analysis, however, larger increases in the CPI are combined with the same assumed real interest rates, thereby producing higher nominal interest rates. The effect of these higher interest rates is to reduce the magnitudes of the present values of annual net cashflow even more--the present values of positive annual net cashflow become less positive, and the present values of negative annual net cashflow become less negative. The compounding effect of the higher interest rates is strong enough, relative to the factors increasing benefits, to reduce the magnitudes of the present values of the negative annual net cashflow of the later years sufficiently to eliminate the crossover of the patterns that occurred in Chart 9.

**Real Interest Rate** - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold only to the trust funds. These assumptions are that the ultimate annual real interest rate will be 2.2, 3.0 and 3.7 percent, where 3.0 percent is the intermediate assumption in the 2003 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change. Table 6 demonstrates that, if the ultimate real interest rate is changed from 3.0 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$7,180 billion, from \$4,927 billion; if the ultimate annual real interest rate were changed to 3.7 percent, the present-value shortfall would decrease to \$3,548 billion.

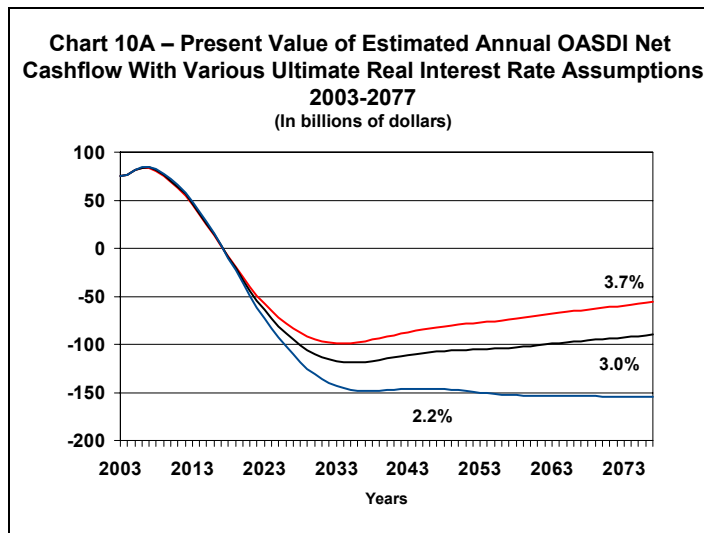
<b>Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2003-2077</b>			
Ultimate Annual Real Interest Rate	2.2	3.0	3.7
Present Value of Estimated Excess (In billions)	-\$7,180	-\$4,927	-\$3,548

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6. Chart 10 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2008, the net cashflow estimates decrease steadily through 2077. They remain positive through 2017 and are negative thereafter.

Chart 10A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 10A are similar. After increasing for four years, the present values decrease steadily through the early 2030's. They remain positive through 2017 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2039, 2036 and 2035 for assumed ultimate real interest rates of 2.2, 3.0 and 3.7 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.2 percent, the present values continue increasing temporarily, through 2045, and then decrease thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Chart 10A shows a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 2018. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.



## Social Security Assumptions

The estimates used in this presentation are based on the assumption that the programs will continue as presently constructed. They are also based on various economic and demographic assumptions, including those in the following table:

	Total Fertility Rate <sup>1</sup>	Age-Sex-Adjusted Death Rate <sup>2</sup> (per 100,000)	Period Life Expectancy At Birth <sup>3</sup>		Net Annual Immigration (persons per year)	Real-Wage Differential <sup>4</sup> (percentage points)	Average Annual Percentage Change In:				Average Annual Interest Rate <sup>8</sup>
			Male	Female			Average Annual Wage in Covered Employment	CPI <sup>5</sup>	Total Employment <sup>6</sup>	Real GDP <sup>7</sup>	
2003	2.04	796.0	74.3	79.5	1,200,000	1.5	3.9	2.4	1.1	2.9	5.1%
2005	2.03	786.6	74.6	79.6	1,150,000	1.6	4.3	2.7	1.4	3.5	6.3%
2010	2.01	758.1	75.2	80.0	1,025,000	1.2	4.2	3.0	0.8	2.5	6.0%
2020	1.98	697.1	76.3	80.9	950,000	1.1	4.1	3.0	0.3	1.9	6.0%
2030	1.95	641.5	77.3	81.8	900,000	1.1	4.1	3.0	0.3	1.9	6.0%
2040	1.95	592.6	78.3	82.6	900,000	1.1	4.1	3.0	0.3	1.9	6.0%
2050	1.95	549.6	79.2	83.4	900,000	1.1	4.1	3.0	0.2	1.8	6.0%
2060	1.95	511.7	80.0	84.2	900,000	1.1	4.1	3.0	0.2	1.8	6.0%
2070	1.95	478.0	80.8	84.9	900,000	1.1	4.1	3.0	0.2	1.8	6.0%

1. The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2027.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1990, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index.
5. The Consumer Price Index (CPI) is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
6. Total employment represents total of civilian and military employment in the U.S. economy.
7. The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 1996 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
8. The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

These assumptions and the other values on which these displays are based reflect the intermediate assumptions of the 2003 Trustees Report. Estimates made in certain prior years have changed substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.



# Auditor's Reports



## SOCIAL SECURITY

Inspector General

November 10, 2003

To: The Honorable Jo Anne B. Barnhart  
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2003 and 2002 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements*, *Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance with Laws and Regulations*.

### **Objective of a Financial Statement Audit**

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

PwC's examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income (SSI) program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

### **Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations**

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2003 financial statements. PwC also audited the FY 2002 financial statements, presented in SSA's Performance and Accountability Report for FY 2003 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2003 and 2002 financial statements. PwC also reported that SSA's assertion that its systems of accounting and internal control are in compliance with the internal control objective in OMB Bulletin 01-02 is fairly stated in all material respects. However, the audit identified one reportable condition in SSA's internal control:

### **SSA Needs to Further Strengthen Controls to Protect Its Information**

This is a repeat finding from prior years. It is PwC's opinion that SSA has made notable progress in addressing the information protection issues raised in prior years. Despite these accomplishments, SSA's systems environment remains threatened by security and integrity exposures to SSA operations.

#### **OIG Evaluation of PwC Audit Performance**

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2003 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin 01-02;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2003, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.

Sincerely,



James G. Huse, Jr.

## REPORT OF INDEPENDENT AUDITORS

To the Honorable Jo Anne B. Barnhart  
Commissioner  
Social Security Administration

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2003 and 2002, and the related consolidated statements of net cost, of changes in net position, of financing and the combined statements of budgetary resources for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's systems of accounting and internal control in place as of September 30, 2003, are in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requiring that (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02;
- No reportable instances of noncompliance with the laws and regulations we tested.

The following sections outline each of these conclusions in more detail.

### OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2003 and 2002, and the related consolidated statements of net cost, of changes in net position, of financing and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above and appearing on pages 118 through 139 of this performance and accountability report, present fairly, in all material respects, the financial

position of SSA at September 30, 2003 and 2002, and its net cost, changes in net position, reconciliation of net cost to budgetary resources, and budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

## **REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL**

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02. SSA's management is responsible for maintaining effective internal controls. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 2003.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2003.

However, we noted certain matters involving the internal control and its operation, set forth below, that we consider to be a reportable condition under standards established by the AICPA and by OMB Bulletin No. 01-02. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Agency's ability to meet the internal control objectives described above.

A material weakness, as defined by the AICPA and OMB Bulletin No. 01-02, is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the consolidated and combined financial statements being audited or 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 duties. We believe that the reportable condition that follows is not a material weakness as defined by the AICPA and OMB Bulletin No. 01-02.

**SSA Needs to Further Strengthen Controls to Protect Its Information:**

Over the past year, SSA has made significant progress in addressing the information protection issues raised in prior years. Specifically, during fiscal year 2003 SSA has:

- Implemented “risk models” to standardize platform security configuration settings for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Enhanced the risk models to further strengthen the security settings for new security weaknesses;
- Implemented new tools and procedures to monitor adherence to platform security configuration standards for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Reduced the number of Windows NT, Windows 2000, AS 400, Unix, and servers with known high risk security weaknesses;
- Maintained strong access-based rule settings and standardized monitoring and logging procedures for firewalls;
- Continued progress on the Standard Security Profile Project (SSPP - the project consists of a full scale comparison of system user access assignments to job responsibilities to ensure accuracy) and expanded the SSPP to include non-IT employees;
- Continued progress on the Dataset Naming Standards project, including setting naming conventions, determining tools for compliance and enforcement, and establishing data ownership;
- Improved and implemented new reports and procedures for enhanced review of security violations on the mainframe; and,
- Continued progress in the area of continuity of operations planning for the Regional Offices (RO)/Program Service Centers (PSC) and state Disability Determination Services (DDS) sites.

Although significant progress has been made regarding logical security controls, we note the need for further progress regarding (a) the review of security access assignments, including vetting of assignments for access to transactions and data, (b) the establishment and full use of dataset naming conventions, (c) the establishment of a dataset dictionary for existing datasets and transactions, and (d) the enforcement of the new dataset naming rules and standards for sensitive systems. We also note the need to test the newly drafted high level procedures to move workloads between RO/PSC and DDS sites to maintain continuity of operations by testing the processes and procedures up to the actual transfer of the workloads. Disclosure of more detailed information about these exposures might further compromise controls and is therefore not provided in this report. Rather, the specific details of weaknesses noted are presented in a separate, limited-distribution management letter.

Management has made concerted efforts to address these issues; however, the completion of the SSPP is a time consuming task that will require substantial resources to complete. Further, the physical controls over the state DDS sites continue to be a challenge because many of the sites are co-located with state agencies, or are housed in buildings with inherent physical security issues.

The need for a strong security program to address threats to the security and integrity of SSA operations continues to grow as the Agency continues to progress with plans to increase dependence on the Internet and Web-based applications to serve the American public. Clear progress has been made towards the implementation of a strong overall security program. However, to more fully protect SSA from risks associated with the loss of data, loss of other resources and/or compromised privacy of information associated with SSA’s enumeration, earnings, retirement, and disability processes and programs, SSA must complete the strengthening of its security program in the areas of assigning access to transactions and data and physical security over DDS sites.

## Recommendations

We recommend that SSA implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- Continue the SSPP program to ensure that sensitive systems, as defined by the SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, and inclusion in the dataset dictionary;
- Continue to improve physical security controls for the DDS sites; and
- Continue to enhance continuity of operations activities, including testing of newly developed procedures for RO/PSC and DDS sites.

More specific recommendations addressing the individual exposures we identified are included in a separate, limited-distribution management letter.

We noted other matters involving the internal control and its operation that we will communicate in a separate letter.

## REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02.

The management of SSA is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of SSA's compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which SSA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

The objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions of laws and regulations and, accordingly, we do not express such an opinion.



## INTERNAL CONTROL RELATED TO KEY PERFORMANCE MEASURES

With respect to internal control related to those performance measures determined by management to be key and included on pages 29 to 54 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on the internal control over reported performance measures, and accordingly, we do not express an opinion on such control.

## OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 144 of this performance and accountability report, is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. This information, and the consolidating and combining information included on pages 140 to 143 of this performance and accountability report are presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position, changes in net position, reconciliation of net cost to budgetary resources, and budgetary resources of the individual SSA programs. Such information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

The required supplementary information included on pages 1 and 2, 6 to 64, 115 to 117 and 145 of this performance and accountability report and the required supplementary stewardship information included on pages 146 to 163 of this performance and accountability report, are not required parts of the financial statements but are supplementary information required by OMB Bulletin No. 01-09 and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The other accompanying information included on pages 3 to 5, 65 to 114, 164 to 166 and 172 to the end of this performance and accountability report, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

\* \* \* \* \*

This report is intended solely for the information and use of the management and Inspector General of SSA, OMB, the General Accounting Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

PriceWaterhouse Coopers LLP

November 7, 2003



## SOCIAL SECURITY

The Commissioner

October 31, 2003

PricewaterhouseCoopers LLP  
1301 K Street, NW  
Washington, D.C. 20005

Ladies and Gentlemen:

We have reviewed the draft combined report containing the Fiscal Year (FY) 2003 Report of Independent Accountants, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations. We agree with all of the findings and recommendations contained in the report, and our response and comments are enclosed.

We are pleased that the report indicates that the Social Security Administration (SSA) has made significant progress in addressing the information protection issues raised in prior years as part of a reportable condition and that no new reportable condition or material weakness was found. We are also pleased that you believe that SSA has made progress to the extent that five of the eight elements of the reportable condition from FY 2002 were removed. This confirms that we continue to greatly improve the security over SSA's systems security environment. Although significant progress has been made, we agree that further improvements are needed. As you recommended, we will continue to strengthen the Agency's security controls and will plan to meet with you soon to work toward a commonly understood goal.

Please direct any questions on our comments to Jeffrey C. Hild, Associate Commissioner for Financial Policy and Operations at (410) 965-0613.

Sincerely,

Anne B. Barnhart

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

**Comments of the Social Security Administration (SSA) on PricewaterhouseCoopers’  
Draft Combined Report Containing the Fiscal Year (FY) 2003  
Report of Independent Accountants, the Report on Management’s Assertion  
About the Effectiveness of Internal Control and the Report on Compliance with Laws and  
Regulations**

**General Comments**

Thank you for the opportunity to comment on your combined draft report containing the Report of Independent Accountants, the Report on Management’s Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations.

We welcome your opinion that management’s assertion that SSA’s systems of accounting and internal control are in compliance with the internal control objectives in Office of Management and Budget Bulletin No. 01-02 is fairly stated, in all material respects as of September 30, 2003 and your report that SSA has no reportable instances of noncompliance with the laws and regulations tested.

We are pleased that the report indicated that SSA has made significant progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new reportable condition was found. We are also pleased that you believe that SSA has made sufficient progress to support the removal of five of the eight elements of the reportable condition from FY 2002. We worked very hard during the year to improve security controls.

As you recognized in the report, SSA implemented and enhanced the risk models to standardize platform security configurations of its systems platforms, implemented new tools and procedures to monitor adherence to platform security configurations and reduced the number of servers with known high-risk security weaknesses. We also maintained strong access-based rule settings and standardized monitoring and logging procedures for firewalls. You acknowledged that SSA continued progress on the Standardized Security Profile Project (SSPP) to ensure proper access assignments to our systems and improved and implemented new reports for enhanced review of security violations of the mainframe and continued progress in the area of continuity of operations for field activities. Concerning dataset naming standards, we believe we have completed improvements in that area. We implemented dataset naming standards for mainframe datasets in February 2003 and automated enforcement of these standards in August 2003. Supporting the standard and its enforcement, a dataset naming dictionary was created, housing not only the new standards, but the existing dataset names, as well.

The report confirms that SSA continues to greatly improve the security over SSA's systems security environment. Over the last year SSA addressed the highest risk elements of our sensitive systems, or will do so in the near term. We agree that work remains, but we also believe that our highest risks have been mitigated, thereby lessening the degree of significance of this finding. As you recommended, we will continue to strengthen the Agency's security controls. We appreciate your evaluation of our controls and will continue to work with you to improve their effectiveness.

SSA agrees with all of the recommendations, but plans a different approach from that recommended in one case. The following comments are provided.

#### **Recommendations**

**We recommend that SSA explore methods to accelerate and continue to build on its progress to enhance information protection by continuing to implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:**

- **Continue the acceleration of the SSPP program to ensure that sensitive systems, as defined by the SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards and inclusion in the dataset dictionary.**

#### **SSA Comment**

SSA will continue with its SSPP program to ensure proper access assignments. The objective is to ensure that users have only been granted access to transactions and data necessary to fulfill their job responsibilities and nothing more. As noted earlier, SSA established and enforced dataset naming standards for mainframe application production datasets created after January 2003. The dataset name dictionary with enforcement capability was implemented in August 2003. The Agency's Executive Internal Control Committee will continue to monitor the status of corrective actions for this finding to ensure completion as fast as resources permit.

- **Continue to improve physical security controls for the Disability Determination Services (DDS) sites.**

#### **SSA Comment**

SSA will continue to improve physical security controls for the DDS sites. In September 2003, SSA updated the DDS Security Document addressing most of the findings and recommendations contained in the FY 2003 management letters and will continue to look for ways to improve that security control guidance to the DDSs. SSA is addressing the recommendations for improving physical security at the specific sites visited and is also looking for possible nationwide

improvements in physical security. The capabilities for addressing physical security weaknesses identified by the auditor depend on many factors, such as fund availability, State requirements, lease requirements, etc. Therefore, in many cases SSA is forced to deal with physical security weaknesses on a site by site basis.

- **Continue to enhance continuity of operations activities, including testing of newly developed procedures for regional office/program service center and DDS sites.**

**SSA Comment**

In August 2003 SSA released an appendix to SSA's Continuity of Operations Plan (COOP) that documented who is responsible for reconstitution of each type of office within the Agency's field structure and who is responsible for determining if workloads would need to be redistributed and how. This document reflects the procedures followed by the Agency in the past.

Although you recommended that these newly documented procedures be tested, we believe that they have been exercised through SSA's reaction to real life emergencies. In the past, we have continued to operate effectively and serve the public in all situations, whether it is a local event that shuts down a single office or a major event such as the recent Northeast power blackout that affected three regions. We have been able to meet these challenges by the appropriate executives following the documented procedures, assessing the situation and taking the necessary corrective action. After such major events, we also conducted post-mortems, shared the lessons learned and made appropriate changes to regional COOPs. Our real-world experiences afford us ample opportunity for review and practical application of the COOP.

SSA also continued developing and updating contingency and recovery plans for individual Agency activities and organizations. These plans currently exist and are being improved over time. SSA will continue to work to improve its contingency plans.

# Inspector General Statement on SSA's Major Management Challenges



## SOCIAL SECURITY

Inspector General

November 6, 2003

The Honorable Jo Anne B. Barnhart  
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this statement in the Fiscal Year (FY) 2003 *Social Security Administration's Performance and Accountability Report*.

In February 2003, we identified 10 significant management issues facing the Social Security Administration for FY 2003. Since that time, we have recategorized some issue areas. Our assessment will focus on the following six challenges.

- **Social Security Number Integrity and Protection**
- **Management of the Disability Process**
- **Improper Payments**
- **Budget and Performance Integration**
- **Critical Infrastructure Protection and Systems Security**
- **Service Delivery**

The areas formerly entitled Homeland Security, Social Security Number Integrity and Misuse and Integrity of the Earnings Reporting Process have been combined under Social Security Number Integrity and Protection. The Human Capital, E-Government, and Representative Payee issue areas are now combined under the Service Delivery issue area. The Fraud Risk issue area has been removed, and we have noted that each challenge contains elements of fraud risk.

I congratulate you on the progress you have made during FY 2003 in addressing these challenges. I look forward to working with you in continuing to improve the Agency's ability to meet its mission in an efficient and effective manner. Our assessment of the status of these six management challenges is enclosed.

Sincerely,

A handwritten signature in blue ink, appearing to read 'James G. Huse, Jr.', written in a cursive style.

James G. Huse, Jr.

# **Inspector General Statement on the Social Security Administration's Major Management Challenges**

**A-02-04-14034**



**NOVEMBER 2003**

## Social Security Number Integrity and Protection

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In Fiscal Year (FY) 2003, the Social Security Administration (SSA) issued over 17 million original and replacement Social Security number (SSN) cards. In FY 2003 SSA received over \$533 billion in employment taxes. Protecting the SSN and properly posting the wages are critical to ensuring eligible individuals receive the full retirement, survivors and/or disability benefits due them.

The SSN is the single most widely used identifier for Federal and State governments and the private sector. It has become the de facto national identifier. Given its importance, the possession of an SSN may allow criminals to steal identities and commit other criminal acts. In fact, the lack of protection of the SSN has often led to identity theft and SSN misuse. Being the immediate victim of SSN misuse and/or identity theft may cause an individual years of difficulty and cost financial and commercial institutions a great deal of money. SSN misuse may disguise a dangerous felon or a terrorist as a law-abiding citizen. The possession of an SSN provides a criminal the identification and seeming legitimacy he or she needs to go about nefarious business, perhaps putting dozens, hundreds, or even thousands of lives in jeopardy.

The risks associated with SSN misuse and identity theft have led the Office of the Inspector General (OIG) to develop plans for a SSN Integrity Protection Team (Team). The Team, which will be created pending funding, combines the skills of auditors, investigators, computer specialists, analysts and attorneys. In addition to supporting homeland security initiatives, the Team will focus its efforts on identifying patterns of SSN misuse; locating systemic weaknesses that contribute to SSN misuse; recommending legislative or other corrective actions to ensure the SSN's integrity; and pursuing criminal and civil enforcement provisions for individuals misusing SSNs.

We believe that SSA can take some steps to better protect the integrity of the SSN. Outstanding audit recommendations include the need to establish a reasonable threshold for the number of replacement SSN cards an individual may obtain during a year and over a lifetime and expedite systems controls that would interrupt SSN assignment when SSA mails multiple cards to common addresses or when parents claim an improbably large number of children. Additionally, SSA needs to continue to address identified weaknesses within its information security environment to better safeguard SSNs and educate SSA staff about counterfeit documents.

Another important part of ensuring the integrity of the SSN is the proper posting of earnings reported under SSNs. If earnings information is reported incorrectly or not reported at all, SSA cannot ensure all eligible individuals are receiving the correct payment amounts. In addition, the Disability Insurance (DI) and Supplemental Security Income (SSI) programs depend on this earnings information to determine (1) whether an individual is eligible for benefits and (2) the amount of the disability payment. SSA spends scarce resources trying to correct earnings data when incorrect information is reported.

While SSA has limited control over factors causing the volume of erroneous wage reports submitted each year, there are still areas where SSA can improve its processes. Prior accomplishments may be enhanced by continuing to educate employers on reporting criteria, identify and correct employer reporting problems, and encourage greater use of the Agency's SSN verification programs. SSA also needs to improve coordination with other Federal agencies with separate, yet related, mandates. For example, SSA's ability to improve wage reporting is related to the Internal Revenue Service's sanctioning of employers for submitting invalid wage data and the Bureau of Citizenship and Immigration Services' procedures used by employers to verify eligible employees.

Another issue of concern is SSA's Earnings Suspense File (ESF). The ESF is the Agency's record of annual wage reports that include wage earners' names and SSNs that fail to match SSA's records. Between 1937 and 2000, the ESF grew to represent about \$374 billion in wages, which included about 236 million wage items with an invalid name and SSN combination. As of July 2002, SSA had posted 9.6 million wage items to the ESF for Tax Year (TY) 2000, representing about \$49 billion in wages. We requested updated information on the number and dollar amount of wage items posted to the ESF, but the Agency has not provided them.



## *SSA Has Taken Steps to Address this Challenge*

In our Management Advisory Report entitled *Social Security Number Integrity: An Important Link in Homeland Security*, we concluded that it was critical for SSA to independently verify the authenticity of documents presented by SSN applicants. SSA has taken steps to address this issue, including the establishment of a task force to address the integrity and protection of the SSN. One result of the task force's efforts includes SSA's decision to stop assigning SSNs to non-citizens without first verifying the authenticity of their documents. We are currently assessing the Agency's compliance with these new procedures. SSA also has tightened evidentiary requirements for SSN applicants. SSA requires mandatory interviews for all applicants over the age of 12 for original SSNs and requires evidence of identity for all children, regardless of age. SSA also established a pilot center in Brooklyn, New York that focuses exclusively on enumeration of citizens and non-citizens.

SSA has taken steps over the past year to reduce the size and growth of the ESF. SSA has expanded its Employee Verification Service to include an on-line service called the Social Security Number Verification Service, which allows an employer to verify the name and SSN of employees prior to reporting their wages to SSA. The Agency has also modified its systems to help identify the number holder related to suspended items. Whereas previous internal edits used only the name and SSN related to the suspended wage, SSA stated that the new processes would use information stored on the earnings and benefits records. Furthermore, SSA has established a performance goal to remove 30 million items from the ESF by 2005.

SSA also increased the number of "no-match" letters—or educational correspondence—sent to employers who submitted W-2s containing name and/or SSN information that did not agree with SSA's records. While we found this to be an encouraging step, SSA announced a new policy change effective for TY 2002 wage reporting that reduced the number of "no-match" letters sent to employers. As a result of this change, SSA estimates that it will send 129,000 letters to employers for TY 2002, or about 820,000 fewer letters than were sent for TY 2001.

## Management of the Disability Process

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SSA needs to improve critical parts of the disability process—determining disabilities, the accuracy of disability payments, and the integrity of the disability programs. In January 2003, the General Accounting Office (GAO) added the modernizing of Federal disability programs including SSA's to its 2003 high-risk list.

Fraud is an inherent risk in SSA's disability programs. Some unscrupulous people view SSA's disability benefits as money waiting to be taken. A key risk factor in the disability program is individuals who feign or exaggerate symptoms of illness to become eligible for disability benefit payments. Another key risk factor in SSA's disability programs is the monitoring of medical improvements for disabled beneficiaries to ensure that individuals who are no longer disabled are removed from the disability program.

Over the last several years, SSA has tested several improvements to the disability determination process as a result of concerns about the timeliness and quality of its service. The disability improvements combine initiatives that have been tested and piloted over the last few years and include all levels of eligibility determination—beginning with State Disability Determination Services (DDS) and going through the hearings and appeals processes. To date, SSA's initiatives have shown some progress in making improvements to the disability determination process. In FY 2003, average processing time was 97.1 days for initial disability claims, 344 days for hearings, and 294 days for decisions on appeals of hearings. In FY 2000, average processing time was 102 days for initial disability claims, 297 days for hearings, and 505 days for decisions on appeals of hearings.

SSA also needs to improve the accuracy of its benefit payments. During FY 2003, we informed SSA that a significant number of disabled DI beneficiaries continued to receive benefits despite having earnings that should have resulted in benefit suspension or termination. As a result of this weakness, we estimated that SSA did not assess overpayments totaling approximately \$791 million for 45,620 disabled beneficiaries.

### *SSA Has Taken Steps to Address this Challenge*

SSA continues to focus on improving the disability process. The Commissioner announced short-term decisions regarding the disability process which included: pursuing the expansion of the Single-Decision Maker authority nationwide, ending the requirements for the claimant conference in sites testing the prototype disability process, evaluating the elimination of the reconsideration level of the claims process nationwide, making additional improvements to the hearings process, and implementing an Electronic Disability System by 2004. According to SSA, the Electronic Disability System is expected to improve processing times, reduce costs, improve productivity, lower backlogs, and improve the Agency's capacity to better handle growing workloads. In September 2003, the Commissioner announced long-term initiatives to address the Agency's disability related challenges, which she stated are predicated on the successful implementation of the Electronic Disability System.

According to GAO, SSA's cost-benefit analysis of the Electronic Disability System may have underestimated the costs, while overstating the corresponding benefits. Specifically, GAO reported that the cost-benefit analysis did not fully consider the costs associated with certain critical information technology infrastructure such as scanning, imaging, telecommunications, disaster recovery, and on-site retention and destruction of source documents.

Another area in which SSA has taken an active role is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) units. The focus of the CDI process is to obtain evidence that may prevent fraud in SSA's disability programs. SSA's Office of Operations, Office of Disability Programs, and Office of Disability Determinations, along with the OIG, manage the CDI process. There are currently 18 CDI units operating in 17 States. In FY 2003, CDI units saved SSA approximately \$100 million by identifying fraud or similar fault in initial and continuing claims in SSA's disability programs.

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## Improper Payments

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Improper payments are defined as payments that should not have been made or were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, payments for services not rendered, or payments to ineligible beneficiaries. The risk of improper payments increases in programs with (1) a significant volume of transactions, (2) complex criteria for computing payments, and/or (3) an overemphasis on expediting payments. Since SSA is responsible for issuing over \$400 billion in benefit payments per year under the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs to over 50 million individuals, SSA is at-risk of making significant improper payments. Considering the volume and amount of payments SSA makes each month, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. Specifically, in August 2001, the Office of Management and Budget (OMB) published the FY 2002 President's Management Agenda, which included a Government-wide initiative for improving financial performance. In November 2002, the *Improper Payments Information Act of 2002* (Public Law No. 107-300) was enacted.

SSA and the OIG have had on-going discussions on improper payments—on such issues as detected versus undetected improper payments and avoidable overpayments versus unavoidable overpayments which are outside the Agency's control and a "cost of doing business." In August 2003, OMB issued specific guidance to SSA to only include avoidable overpayments in the Agency's improper payments estimate because these payments could be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate. In accordance with the Improper Payments Information Act and OMB's specific guidance, SSA is required to estimate its annual amount of improper payments and report this information in its Performance and Accountability Report for FYs ending on or after September 30, 2004. OMB will use this information while working with SSA to establish goals for reducing improper payments for each program.

One of the ways SSA measures payment accuracy is through its stewardship report. The stewardship review measures payment accuracy based on non-medical eligibility factors. SSA's stewardship report showed the OASDI accuracy rate was 99.87 percent for FY 2002. This accuracy rate translates to an expected \$588.6 million in OASDI overpayments. However, SSA reported actual OASDI overpayments that were newly discovered in FY 2002 to be \$1.6 billion, which included overpayments for benefits paid in FY 2002 as well as benefits paid before FY 2002 but that were discovered as overpayments in FY 2002. Further, over each of the last 5 years, SSA has identified and reported in its financial statements over \$700 million more in overpayments than what the Agency's payment accuracy rate would reflect.

In September 2003, the OIG prepared an issue paper on improper payments—where we analyzed overpayments from SSA, other Federal agencies, and private sector disability insurers. To continue our work in this area, we will initiate a comprehensive and statistically valid review in FY 2004 to quantify the amount of undetected overpayments in SSA's disability programs. Additionally, preliminary results from one of our audits at the end of FY 2003 show significant overpayments related to earnings by disabled beneficiaries went undetected by SSA.

### ***SSA Has Taken Steps to Address this Challenge***

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and/or using technology more effectively. In this regard, SSA has initiated new computer matching agreements, obtained on-line access to wage and income data, and implemented improvements in its debt recovery program. Additionally, working with SSA, we have helped the Agency reduce improper payments to prisoners and fugitive felons. These efforts continue.

## Budget and Performance Integration

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This area encompasses SSA's efforts to provide timely, useful, and reliable data to assist internal and external decisionmakers in effectively managing Agency programs, as well as both evaluating performance and ensuring the validity and reliability of performance, budgeting, and financial data.

To effectively meet its mission, manage its programs, and report on its performance, SSA needs sound performance and financial data. Congress, the general public, and other interested parties also need sound and credible data to monitor and evaluate SSA's performance. The President's Management Agenda has placed great emphasis on the management and performance integration of Federal agencies. SSA has demonstrated a strong commitment to the *Government Performance and Results Act of 1993* (Public Law No. 103-62) by developing strategic plans, annual performance plans and annual performance reports. However, we believe SSA can further strengthen its use of performance information by fully documenting the methods and data used to measure performance and by improving its data sources.

Our audits of 18 performance measures in FY 2003 found the data for 13 of the measures reviewed were reliable. We concluded that the data for five of the measures was found not reliable. Although the majority of performance measures were determined to be reliable, our audits found that SSA had inadequate documentation for 5 of its 18 performance measures regarding the methods used to measure its performance. Considering the critical role of the underlying data in all of SSA's performance, financial, and data-sharing activities, it is crucial that the Agency have clear processes in place to ensure the reliability and integrity of its data.

We have previously noted that SSA needs to better link costs with performance. In its FY 2003 Annual Performance Plan (APP), SSA acknowledged that costs are specifically aligned with outcome measures for only a few activities. SSA needs to further develop a cost accounting system to better link costs with performance. Since most goals are not aligned by budget account, the resource, human capital, and technology necessary to achieve many performance goals are not adequately described.

### ***SSA Has Taken Steps to Address this Challenge***

Our audits and reviews of SSA's financial statements, annual performance plans and reports, and individual performance measures disclosed that SSA has demonstrated commitment to the production and use of reliable performance and financial management data. For example, SSA has begun development of its new cost accounting system, Managerial Cost Accountability System, and expects development to be completed in FY 2005. SSA is the only Federal agency to receive the *Certificate of Excellence in Accountability Reporting* for its *Performance and Accountability Report* every year since the award program began for FY 1998. Additionally, OMB updated the President's Management Agenda scorecard in FY 2003, changing SSA's status in Financial Management from yellow to green—the highest rating.

SSA has continually refined its annual performance plans to develop performance measures that more accurately reflect performance and are more outcome-based. In FY 2002, SSA revamped its Tracking Report used by Agency executives to manage key workloads at the national level and made it available to all employees on-line. The revised report tracks key performance measures and provides alerts as to whether performance is significantly different from the goals established. In FY 2003, SSA released its FY 2004 APP and Revised Final FY 2003 APP to Congress. The plans reflect Commissioner Barnhart's priorities and describe performance levels the Agency is committed to reaching, along with strategies for achieving them. This includes an alignment of strategic goals, performance measures, and budget with major functional responsibilities.

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## Critical Infrastructure Protection and Systems Security

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The information that SSA needs to conduct its mission is one of its most valuable assets. The Agency is depending on technology to meet the challenges of increasing workloads with fewer resources. A physically and technologically secure Agency information infrastructure is a fundamental requirement. Growth in computer interconnectivity brings a heightened risk of disrupting or sabotaging critical operations, reading or copying sensitive data, and tampering with critical processes. Those who wish to disrupt or sabotage critical operations have more tools and opportunities than ever.

SSA has been given responsibility to protect sensitive information for virtually every American. This information includes earnings data the Agency uses to post earnings for 266 million wage items and medical information for millions of claimants filing for disability benefits. Strong systems security and controls are essential to protecting SSA's critical information infrastructure. Although no significant event has occurred to date, the level of risk is so great that should something occur, it could have national security implications.

Since 1997, SSA has had an internal controls reportable condition concerning its protection of information. The reportable condition came about because of weaknesses in the following areas:

- Technical Security Configuration Standards
- Physical Security and Security Policy for DDS Sites
- Security Monitoring Enforcement
- Suitability
- Access Control
- Continuity of Operations

The most important of the issues listed above is access control. As long as access control to SSA's systems is not fully resolved, the reportable condition will remain. The resolution of this reportable condition remains a priority for the Agency. To remedy this issue, SSA needs to perform periodic reviews of everyone who has access to production data and assign data ownership or responsibility.

### *SSA Has Taken Steps to Address this Challenge*

SSA addresses critical information infrastructure and systems security in a variety of ways. The Critical Infrastructure Protection work group, created in FY 2000, continually works toward compliance with Presidential Decision Directive 63. Presidential Decision Directive 63 and other significant legislation, requires Federal agencies to identify and effectively protect their critical systems and the information they hold. SSA has several other components throughout the organization that handle systems security including the newly created Office of Information Technology Security Policy within the Office of the Chief Information Officer. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA has taken some specific steps to address the information protection issues raised in prior years. Specifically SSA has:

- Issued final risk models to standardize platform security configuration settings for the Windows NT, Windows 2000, AS400, and Unix platforms;
- Established and implemented ongoing monitoring tools and procedures to ensure the consistency of platform security configuration standards for Windows NT, Windows 2000, AS400, and Unix platforms;
- Established procedures for shifting and handling Agency workloads;
- Improved the security policy and procedures for DDS sites;

- Continued progress on the Standard Security Profile Project—a full scale comparison of Information Technology user access assignments to job responsibilities;
- Continued progress on the Dataset Naming Standards project including setting naming conventions and determining tools for compliance and enforcement;
- Strengthened physical security controls over SSA offices; and
- Established and implemented procedures for enhanced review of security violations on SSA's mainframe computers.

SSA needs to take additional steps to address its access control weaknesses to remove the reportable condition. Data ownership and individual responsibility must be assigned for the different systems that control and monitor production data. Management must perform periodic reviews of those who have access to sensitive data and ensure that individuals only have access to the data necessary to complete their jobs. SSA is taking steps to address the access control weaknesses, but there is not a specific schedule or timeframe for when the weakness will be resolved.

## Service Delivery

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The Agency's goal of "service" encompasses traditional and electronic services provided to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations including financial institutions and medical providers. SSA's service related goal supports the delivery of "citizen-centered" services through the use of "E-Government," and therefore affords SSA opportunities to advance the level of its service. Given the complexity of the Agency's programs, the billions of dollars in payments at stake, and the millions of citizens who rely on SSA, the Agency is challenged to provide quality, timely, and appropriate services consistently to its clients and the public-at-large. E-Government, Human Capital, and the representative payee process pose significant challenges that impact service delivery.

By 2012, workloads are anticipated to increase to unprecedented volumes. Specifically, DI beneficiaries are expected to increase by 35 percent. Additionally, it is estimated that Old-Age and Survivors Insurance beneficiaries and SSI recipients will increase by 18 and 12 percent, respectively. Along with the workload increase, technological change will have a profound impact on the public's expectations, as well as SSA's ability to meet those expectations.

The President's Management Agenda calls for improved service delivery through the use of E-Government in creating more cost-effective and efficient ways to provide service to citizens. The increased use of E-Government will be vital as the Agency addresses rising workloads associated with the aging of the baby-boom generation.

Another challenge to service delivery is human capital. In January 2001, GAO added strategic human capital management to its list of Federal programs and operations identified as high-risk. The critical loss of institutional skills and knowledge, combined with greatly increased workloads at a time when the baby-boom generation will require its services, must be addressed by succession planning, strong recruitment efforts, and the effective use of technology, as previously discussed. SSA estimates that during this decade over 28,000 of its approximately 65,000 Federal employees will retire and another 10,000 will leave the Agency for other reasons. This is approximately 58 percent of the current workforce. SSA expects that this "retirement wave" will affect its ability to deliver service to the American public.

Another specific challenge in this area is the integrity of the representative payee process. When SSA determines a beneficiary cannot manage his or her benefits, SSA selects a representative payee who manages and solely uses the payments for the beneficiary's needs. There are about 5.3 million representative payees who manage about \$44 billion in benefits for approximately 6.7 million beneficiaries. SSA has experienced problems with the selection, monitoring and accountability of representative payees. While representative payees provide a valuable service for beneficiaries, SSA must continue to ensure representative payees meet their responsibilities to the beneficiaries they serve.

Our audits of representative payees have shown that continued SSA oversight and monitoring of representative payees are needed. Our audits identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in safeguarding of beneficiary payments; poor monitoring and reporting to SSA of changes in beneficiary circumstances; inappropriate handling of beneficiary-conserved funds; and improper charging of fees. In addition, SSA needs to improve its selection and monitoring of representative payees.

### ***SSA Has Taken Steps to Address this Challenge***

SSA has taken steps to address its E-Government, Human Capital, and representative payee challenges. By 2005, SSA is expected to have 60 percent of its customer-initiated services available through automated telephone services or the Internet. The Agency recently began allowing the public to file DI claims through the Internet to help achieve its service delivery goals. SSA expects to begin a nation-wide roll-out of its Electronic Disability System in 2004. By 2007, over 80 percent of wage reports will be submitted and processed electronically and employers will be able



to identify and correct wage report errors online. Further, SSA has increased the percentage of W-2s filed electronically from 42.5 percent in FY 2002 to 53.4 percent in FY 2003.

The Agency has taken additional steps to meet its future workforce needs. SSA has developed plans and taken other actions to address the expected increase in its workloads and the concurrent loss of staff due to retirement. Studies have been conducted to predict staff retirements and attritions by year for major job positions. SSA has also developed a document detailing how it envisions functioning in the future. Further, SSA planning documents comply with the President's Management Agenda and achieve expected near-term results related to the strategic management of human capital.

The Agency has taken steps to address its representative payee process challenge. SSA reports it has a number of initiatives underway to improve the selection of organizational representative payees. The Agency also conducts site reviews for approximately 1,800 representative payees, which include fee-for-service representative payees, volume representative payees (serving 100 or more beneficiaries) who are subject to expanded monitoring, and individual representative payees serving 20 or more beneficiaries. These reviews are performed on a triennial cycle.



# Other Information

## *Anti-Fraud Activities*

SSA is committed to improving financial management by preventing fraudulent and improper payments (see Agency Challenges section for more information). Section 206 (g) of the Social Security Independence and Program Improvements Act, Public Law 103-296 requires SSA to report annually on the extent to which cases of entitlement to monthly OASI, DI and SSI benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

### **Entitlement Reviews**

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. Listed below are major entitlement reviews conducted by the Agency:

#### *Disability Quality Assurance Reviews*

SSA performs quality assurance reviews to measure the level of decisional accuracy for the State DDSs against standards mandated by regulations. These reviews are conducted prior to effectuation of the DDS determinations and cover initial claims, reconsiderations and determinations of continuing eligibility. The following table shows that the State DDSs have consistently made the correct decision to allow benefits.

Quality Assurance Review				
	FY 2000	FY 2001	FY 2002	FY 2003
% of accurate decisions to allow or continue benefits by State DDSs	96.7%	96.8%	96.3%	96.2%
No. of cases reviewed	42,196	39,515	39,188	39,066
No. of cases returned to DDS due to error or inadequate documentation	1,381	1,281	1,455	1,499

SSA also performs preeffectuation reviews of DDS determinations of continuing eligibility using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. The table below shows that over 96% of the decisions made on preeffectuation reviews are accurate.

Preeffectuation Reviews				
	FY 2000	FY 2001	FY 2002	FY 2003
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.6%	96.8%	96.3%	96.2%
No. of cases reviewed	259,784	298,466	310,683	318,498
No. of cases returned to DDS due to error or inadequate documentation	8,567	9,438	11,186	12,257

Continuing Disability Reviews (CDRs)

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews through which SSA determines whether beneficiaries continue to be entitled to benefits because of their medical conditions. Once an individual becomes entitled to Social Security or SSI benefits, any changes in their circumstances may affect the amount or continuation of payment and thus must be reflected in SSA's records. The performance accuracy of these CDRs is displayed below.

CDR Performance Accuracy				
	FY 2000	FY 2001	FY 2002	FY 2003
Overall Average	96.1%	96.1%	95.2%	94.2%
Continuances	96.5%	96.4%	95.5%	94.4%
Cessations	93.6%	93.8%	93.5%	93.5%

OASI and SSI Quality Assurance Reviews

One of SSA's four GPRA strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the GRPA Performance Results section of this report on pages 78 through 81.

SSI Redeterminations

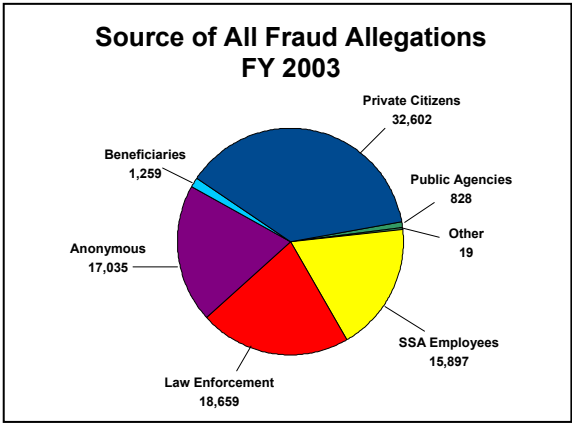
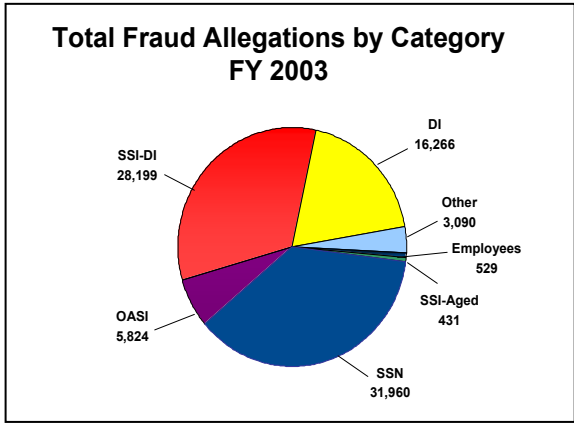
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA has set a goal for the number of SSI redeterminations to be processed in FY 2003. Detailed discussion on SSI redetermination performance can be found in the Performance Goals and Results section of this report on page 43.

Payment Safeguarding Activities

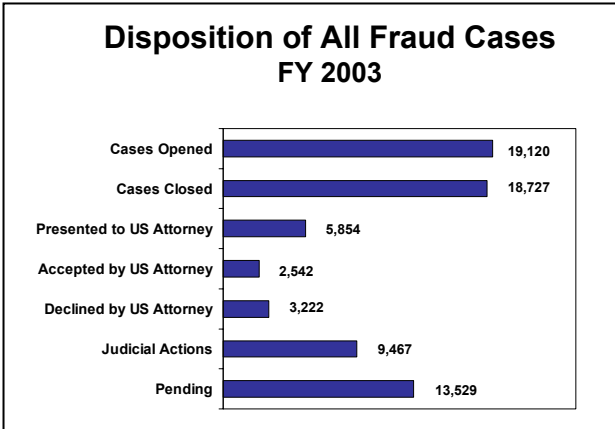
Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In FY 2002, SSA invested more than \$1.1 billion in processing over 10 million alerts that are estimated to have provided benefits to trust funds of \$7.2 billion in overpayments detected and/or prevented. The FY 2003 results of these payment safeguard activities were not available at the time of the PAR publication. These figures will be available sometime in early 2004.

**OIG's Anti-Fraud Activities**

In FY 2003, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts on the following page summarize OIG's involvement in fraud activities throughout the FY.



The integrity of SSA's records and payments is maintained through an overall security program which controls access to SSA databases and refers suspected fraud and abuse cases to OIG for investigation and, if indicated, prosecution by the Department of Justice. Protection against data security violations continues to remain excellent with 99.9 percent of business transactions occurring without incident.



## *Biennial Review of User Fee Charges*

### Summary of Fees

User fee revenues of \$269 and \$265 million in FY 2002 and FY 2003, respectively, accounted for less than .1 percent of SSA's total financing sources. Over 95 percent of user fee revenues are derived from agreements with 24 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2003, SSA charged a fee of \$8.59 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$8.77 for FY 2004. The user fee will be adjusted annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. SSA charges full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

### Biennial Review

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law and periodically adjust these fees to reflect current costs or market value. During FY 2002, SSA performed a review of user fees and did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. SSA is planning to perform a review of these fees during FY 2004.

# *Improper Payments Information*

## INFORMATION ON IMPROPER PAYMENTS FOR OLD AGE, SURVIVORS', DISABILITY INSURANCE AND SUPPLEMENTAL SECURITY INCOME PROGRAMS

### **Background**

The Social Security Administration (SSA) reports improper payments findings (both overpayments and underpayments) from its stewardship reviews of the nonmedical aspects of old age and survivors' insurance (OASI), disability insurance (DI), and supplemental security insurance (SSI) programs on an annual basis. In accordance with Office of Management and Budget (OMB) guidelines implementing the provisions of the Improper Payments Act of 2002, SSA reports as improper those payments that should not have been made or were made in an incorrect amount. The OMB guidance provides that payments resulting from legal or policy requirements are unavoidable and are not to be considered as improper. Stewardship review findings provide the basis for reports to Congress and other monitoring authorities. Data from these reviews are also used in corrective action planning and in monitoring performance as required by the Government Performance and Results Act of 1993.

OASDI payment outlay rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on SSA rolls. In addition to the combined payment outlay rates for OASDI, separate rates are calculated for OASI and DI. A statistically valid national sample is selected monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the recipient or representative payee is interviewed, collateral contacts are made, as needed, and all nonmedical factors of eligibility are redeveloped as of the current sample month. Findings are input to a national database for analysis and report preparation. Similarly, the SSI payment outlay rates are determined by an annual review of a statistically valid national sample of the SSI beneficiary rolls, selected monthly. Separate rates are determined for the accuracy of payments in terms of overpayment and underpayment dollars.

### **Improper payment rates and target goals**

The improper payment rates for the OASI, DI and SSI programs for fiscal years (FYs) 2001 and 2002 are presented in Tables 1 - 3, respectively. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid. Target goals for FYs 2003, 2004, 2005 and 2006 for the OASDI and SSI programs are presented in Tables 4 and 5, respectively. Estimated improper payment rates for FY 2003 will be available in June 2004. In the SSI program, SSA has established a 5-year goal to achieve 96 percent overpayment accuracy by FY 2008. In the OASDI program, SSA's goal is to maintain overpayment accuracy at 99.8 percent.

**Table 1. Improper payment rates for the OASI program**

OASI	FY 2001	FY 2002
Overpayment Rate	0.02%	0.11%
Underpayment Rate	0.22%	0.05%

**Table 2. Improper payment rates for the DI program**

DI	FY 2001	FY 2002
Overpayment Rate	1.06%	0.26%
Underpayment Rate	0.36%	0.27%

Table 3. Improper payment rates for the SSI program		
SSI	FY 2001	FY 2002
Overpayment Rate	6.74%	6.58%
Underpayment Rate	1.18%	1.35%

Table 4. Improper payment target goals for the OASDI program				
OASDI	FY 2003	FY 2004	FY 2005	FY 2006
Overpayment Goal	0.2%	0.2%	0.2%	0.2%
Underpayment Goal	0.2%	0.2%	0.2%	0.2%

Table 5. Improper payment target goals for the SSI program				
SSI	FY 2003	FY 2004	FY 2005	FY 2006
Overpayment Goal	4.6%	4.6%	4.6%	4.6%
Underpayment Goal	1.2%	1.2%	1.2%	1.2%

### **Improper Payment Information**

Section 1a. - Program-Wide Estimates Program: Old-Age and Survivors Insurance						
	2000		2001		2002	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments	\$348B	100%	\$368B	100%	\$384B	100%
Underpayments	\$0.39B	0.11%	\$0.79B	0.22%	\$0.17B	0.05%
Overpayments	\$0.13B	0.04%	\$0.08B	0.02%	\$0.43B	0.11%
Total Improper Payments	\$0.52B	0.15%	\$0.87B	0.24%	\$0.6B	0.16%

Notes:

1. Periods covered are fiscal years (FY).
2. Statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2000,  $\pm 0.37\%$  for underpayments and  $\pm 0.30\%$  for overpayments; for FY 2001,  $\pm 0.37\%$  for underpayments and  $\pm 0.30\%$  for overpayments; for FY 2002,  $+0.04\%$  and  $-0.03\%$  for underpayments and  $+0.10\%$  and  $-0.28\%$  for overpayments.

<b>Section 1a. – Program-Wide Estimates Program: Disability Insurance</b>						
	2000		2001		2002	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments	\$54B	100%	\$58B	100%	\$64B	100%
Underpayments	\$0.21B	0.39%	\$0.21B	0.36%	\$0.17B	0.27%
Overpayments	\$0.21B	0.38%	\$0.61B	1.06%	\$0.17B	0.26%
Total Improper Payments	\$0.42B	0.77%	\$0.82B	1.42%	\$0.34B	0.53%

Notes:

1. Periods covered are fiscal years (FY).
2. Statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2000,  $\pm 1.11\%$  for underpayments and  $\pm 0.41\%$  for overpayments; for FY 2001,  $\pm 0.13\%$  for underpayments and  $\pm 0.33\%$  for overpayments; for FY 2002,  $+0.26\%$  and  $-0.29\%$  for underpayments and  $+0.25\%$  and  $-0.37\%$  for overpayments.

<b>Section 1a. – Program-Wide Estimates Program: Old-Age, Survivors and Disability Insurance</b>								
	2003 target		2004 target		2005 target		2006 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments	\$467B	100%	\$488B	100%	\$507B	100%	\$526B	100%
Underpayments	\$0.93B	0.2%	\$0.98B	0.2%	\$1.01	0.2%	\$1.05B	0.2%
Overpayments	\$0.93B	0.2%	\$0.98B	0.2%	\$1.01	0.2%	\$1.05B	0.2%
Total Improper Payments	\$1.86B	0.4%	\$1.96B	0.4%	\$2.02	0.4%	\$2.10B	0.4%

Notes:

1. SSA does not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2003 total payments represent actual outlays while the FYs 2004 – 2006 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2004 Budget.

Section 1a. - Program-Wide Estimates Program: Supplemental Security Income						
	2000		2001		2002	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments	\$31B	100%	\$33B	100%	\$34B	100%
Underpayments	\$0.43B	1.4%	\$0.39B	1.2%	\$0.47B	1.4%
Overpayments	\$1.66B	5.3%	\$2.20B	6.7%	\$2.27B	6.6%
Total Improper Payments	\$2.09B	6.7%	\$2.59B	7.9%	\$2.74B	8.0%

Notes:

1. Periods covered are fiscal years (FY).
2. Statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2000,  $\pm 0.29\%$  for underpayments and  $\pm 0.48\%$  for overpayments; for FY 2001,  $\pm 0.25\%$  for underpayments and  $\pm 1.06\%$  for overpayments; for FY 2002,  $\pm 0.3\%$  for underpayments and  $\pm 1.1\%$  for overpayments.

Section 1a. - Program-Wide Estimates Program: Supplemental Security Income								
	2003 target		2004 target		2005 target		2006 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments	\$36B	100%	\$39B	100%	\$40B	100%	\$41B	100%
Underpayments	\$0.43B	1.2%	\$0.46B	1.2%	\$0.48	1.2%	\$0.50B	1.2%
Overpayments	\$1.66B	4.6%	\$1.77B	4.6%	\$1.84	4.6%	\$1.90B	4.6%
Total Improper Payments	\$2.09B	5.8%	\$2.24B	5.8%	\$2.32	5.8%	\$2.40B	5.8%

Notes:

1. FY 2003 data will not be available until June 2004; therefore, the rates shown are targets (goals).
2. FY 2003 total payments represent actual outlays while the FYs 2004 -2006 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2004 Budget.

### **Improper payment in the OASI program**

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years (FYs 1998-2002), a total of over \$1.75 trillion was paid to OASI beneficiaries, and over 99.82 percent of these dollars were paid accurately. Improper payments (overpayments and underpayments) over this 5-year span represented less than 0.18 percent of the total dollars paid or just over \$3 billion. Major causes of improper payments in the OASI program over this 5-year period are listed below and accounted for over 63 percent of the improper payments identified.

- Relationship/Dependency (e.g., unreported marriage, not having child-in-care, and students not in full-time school attendance)
- Computations
- Annual Earnings Test (AET)

- Wages/Self-Employment Income (SEI)

The major causes of improper underpayments in the OASI program have been:

- Computations
- Wages/SEI

While the improper payment rate in the OASI program is very low, SSA's annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments. In the relationship/dependency area, SSA has redesigned its student eligibility process. Starting in March 2001 for students born 6/2/83 or later, SSA now verifies a student's school attendance information by obtaining a school official's certification before awarding benefits. The student must leave a reporting form with the school, and then SSA requests the school, as well as the student, to advise SSA of changes in the student's school attendance that could affect the student's entitlement to benefits.

Over the last several years, SSA has undertaken a series of initiatives to correct computation errors in benefit payments that have accumulated over many years. The corrections affected more than one million beneficiaries and \$4 billion in past and future benefits. These initiatives resulted in SSA identifying and processing payment increases for: (1) beneficiaries who had not received benefit increases that were due, based on additional earnings after entitlement, yet these earnings were used for deductions (benefit losses) under the AET; (2) other beneficiaries who did not receive benefit increases that should have resulted from additional covered earnings posted to their earnings records; and (3) beneficiaries who were eligible for a different type of benefit that was higher than the benefit they were receiving, but were not converted to this higher benefit.

Beginning in FY 2000, the AET no longer applied to beneficiaries who are at the full retirement age or older. Annual earnings test improvements that reduce improper payments include:

- The reduction in the age at which the annual earnings test no longer applies (from age 70) eliminates the possibility of annual earnings test error for beneficiaries who have reached the full retirement age;
- Establishing an earnings estimate for the current year based on prior earnings when no estimate is given should substantially reduce overpayments; and
- Providing employers with a pamphlet about special wage payments will improve their understanding and thereby reduce incorrect withholdings due to failure to obtain special payment information.

Wages or self-employment error results when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. SSA added language to the improved Social Security Statement to remind the public to inform SSA of incorrect earnings postings. By FY 2000, all workers born before 1958 received their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits. SSA has also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled SSA to receive almost 126 million W-2s electronically for tax year 2002 (over 54 percent of all W-2s filed). By 2004, SSA expects to receive over 55 percent of all W-2s electronically. Earnings that remain in suspense after the annual posting cycle are wage or self-employment earnings that are not matched to an earnings record after all routine matching operations are complete. SSA is working to develop highly automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings;
- Match and move items from suspense to the beneficiaries earnings record; and
- Pay benefit increases.



SSA has initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. SSA also expects this re-examination process will produce information that will help the Agency to better manage the suspense file. SSA has established a goal to find the correct earnings record and post 30 million suspense items for years 2000 and earlier before 2005.

### **Improper payment in the DI program**

Over the last 5 years (FYs 1998-2002) \$271.2 billion was paid to DI beneficiaries and over 99.84 percent of these dollars were paid accurately. Improper payments (overpayments and underpayments) over this 5-year span represented 0.16 percent of the total dollars paid or \$4.2 billion. Major causes of improper overpayments in the DI program over this 5-year period are listed below and accounted for over 90 percent of the improper payments identified.

- Substantial Gainful Activity (SGA)
- Unreported Death
- Workers' Compensation (WC)

The major causes of improper underpayments in the DI program have been:

- WC
- Wages/SEI
- Computations

For FYs 1998 through 2001, the three error categories of SGA, unreported death and WC accounted for about 85 percent of the total overpayment deficiency dollars in the DI program. For FY 2002, these three categories accounted for only about 11 percent of total deficiency dollars. The "Other" category of deficiency dollars accounted for over 88.6 percent of total overpayment deficiency dollars for FY 2002, which were projected from a single case where a child had attained age 18 and was no longer entitled because the child was not a full-time student in a secondary school.

For FY 2002, SGA overpayment errors decreased dramatically from FY 2001. Most errors occurred because the beneficiaries failed to notify SSA that they had returned to work and were earning an amount above the SGA level, or SSA failed, in some cases, to act in a timely manner on those reports it did receive. A new software tool is now available to every SSA field office where reports of return to work by disabled beneficiaries can be monitored automatically to ensure proper handling of SGA in these cases. SSA currently has the authority to impose civil monetary penalties (CMP) against individuals who make false statements to SSA. However, in order to pursue a case under this provision, there must be an affirmative false statement made by the subject, preferably in writing. This means that cases where the person's failure to inform SSA of a reportable event, such as return to work, cannot currently be pursued under the CMP provision.

SSA is giving high priority to correcting workers' compensation (WC) errors. Some people who receive Social Security disability benefits also receive Federal or State workers' compensation payments. When a person is eligible to receive both types of payments, the law imposes a limit on the total amount the person can receive each month. When that occurs, SSA withholds a portion of the person's Social Security disability payments. SSA identified disability insurance beneficiaries whose workers' compensation payments changed. Some of these people had been paid incorrect amounts of Social Security disability benefits while others had been underpaid since their WC had stopped and their SSA benefit amount had not been increased accordingly. SSA is reviewing these cases, verifying the amount of workers' compensation payments, and correcting Social Security disability benefits as appropriate. Refresher training, new procedures requiring processing centers to verify WC payments every 3 years and systems' improvements that allow field offices to input WC changes for a more accurate benefit computation have served to markedly reduce the amount of WC errors, both overpayments and underpayments.

More timely and accurate death data would enable SSA to more effectively administer programs and increase prevention of incorrect payments. SSA is working with State governments to improve the current paper-based process. The most efficient manner to improve timeliness of State data is by using Electronic Death Reporting (EDR) -- a web-based automation of the death registration process. EDR electronically links the participants in death registration, providing more timely and accurate data. SSA's goal is to receive verified death data within 24 hours of receipt in the State repository and within 5 days of death. EDR would also improve the accuracy of the death master file that we share with other Federal agencies.

SSA began a national rollout of its EDR in FY 2001. Currently, 3 States are providing EDR "online" to SSA. SSA has identified funds for this initiative and is proceeding with contract activities with additional States.

SSA has also improved its process for ensuring SSI recipients file for benefits in the OASDI program. One of the conditions for SSI eligibility is that individuals file for any other benefits that they may be eligible to receive. SSA has identified nearly a half-million SSI disability recipients who are potentially eligible for OASDI payments after earning sufficient work credits to qualify for the Disability Insurance program while receiving SI benefits. To keep this from happening in the future, we have rewritten computer programs and retrained technical employees to identify eligibility as it occurs.

### **Improper payment in the SSI program**

Over the past 5-years (FYs 1998-2002) almost \$157 billion was paid to SSI recipients and about 92.5 percent of these dollars were paid accurately. Improper payments (overpayments and underpayments) over this 5-year span represented about 7.5 percent of the dollars paid or about \$11.8 billion. For FY 2002, the major causes of overpayments in the SSI program were:

- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.)
- Wages

The major causes of underpayments in the SSI program were:

- Living Arrangements
- Wages
- In-kind Support and Maintenance

For the last 5 years, financial accounts, along with wages, have represented the two leading causes of preventable SSI overpayments. For FY 2002, financial account overpayment deficiencies accounted for about 24 percent of all overpayment deficiencies. These errors are usually the result of the recipient's financial account, either singularly or in combination with other resources, causing the resource limit to be exceeded. When this occurs, the recipient may become ineligible for SSI. For FY 2002, the recipients' failure to advise SSA that their resources were over the resource limit is responsible for 92 percent of the deficiency dollars in this category. The Foster Care Independence Act of 1999 gives the Commissioner the authority to require SSI applicants and recipients to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. SSA has developed regulations that will allow us to query financial institutions electronically.

For the last 10 years, wage errors have accounted for about one-fourth of the total improper overpayment dollars. Historically, accurate projections of wage income for a large number of SSI recipients have been problematic because the amount of the wages fluctuates from month to month. Fluctuating wage deficiencies, which represent about 46 percent of all wage deficiencies for FY 2002, continue to be responsible for the major portion of improper payments due to wages. From another perspective, the recipient's or representative payee's failure to report a payment affecting change accounted for about 82 percent of all wage deficiencies.

Effective January 2001, SSA began using online queries to access the Office of Child Support Enforcement's (OCSE) quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. But even these data are at least 4 months old when accessed. In an effort to learn more quickly about unreported work, SSA is also exploring the usefulness of a quarterly match with the "new hires" file from OCSE.

In another effort to achieve more timely and accurate reporting of wages, SSA began a test, in April 2003, to determine the feasibility of implementing large scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, SSA will test whether SSI recipients (or their representatives, parents or spouses, where deemed wages affect benefit payments) will report wages, monthly, using this new technique. The key issues will be the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period. Timely and accurate reporting on this issue offer the opportunity to prevent substantial amounts of SSI overpayments, which accounted for over \$350 million in deficiencies in FY 2002.

Deficiencies due to living arrangements (LA), wages and in-kind support and maintenance (ISM) accounted for 63 percent of all underpayment deficiencies for FY 2002. LA deficiencies accounted for over 23 percent of all underpayment deficiencies for FY 2002. Most LA deficiencies were due to the recipient not reporting that their living arrangement has changed to one where they are living in their own household. This is a complex area where recipient understanding of reporting requirements is very difficult to address. For this reason, a portion of the annual redetermination workload is targeted to addressing improper underpayments due to living arrangement changes.

Over 20 percent of all FY 2002 underpayments were due to wages (which were previously discussed, above, for overpayments).

ISM deficiencies accounted for over 19 percent of all underpayment deficiencies for FY 2002. The major factor accounting for these deficiencies is a change in the recipient's contribution to household expenses, which are mostly due to a change in the household composition that was not reported to SSA.

The redetermination process is one of the most powerful tools available to SSA for preventing and detecting improper SSI payments. To detect incorrect payments, SSA regularly reviews cases to ensure that the nondisability factors of eligibility continue to be met and payment amounts are correct. The selection process is based on the likelihood that a case will be in error. Since 1997, SSA has initiated several actions that increased estimated overpayments found or prevented because of the "High Error Profile" (HEP) redeterminations by increasing the volume of HEPs and the effectiveness of the profiling system. The total overpayments collected or prevented because of all the FY 2002 redetermination and limited-issue cases was \$2.3 billion, with an additional \$1.6 billion in underpayments paid or prevented. If SSA had sufficient resources to conduct HEP redeterminations on all 6.5 million SSI recipients, total overpayments found or prevented that would accrue are estimated to be about \$4.1 billion.

### **Medical aspects of the DI and SSI programs**

The medical aspects of the DI and SSI programs are administered through State agencies at the initial claim, reconsideration and continuing disability review stages of the disability process. SSA has established net accuracy rate goals for Disability Determination Service (DDS) allowance and denial decisions. The goals reflect the percent of initial claims that maintain their original DDS decision after Federal review and subsequent additional development, as required.

The actual allowance and denial accuracy rates for FYs 2001, 2002 and 2003 are presented in Table 6. These rates are determined by SSA's quality assurance review of initial claims. In compliance with Section 221(a) of the Social Security Act, SSA reviews samples from each State to determine whether the DDS is in compliance with Federal policy and procedural requirements. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, SSA will have a combined allowance and denial goal for net accuracy. The goal for FYs 2003 and 2004 is 97 percent. FY 2003 data will be available in January 2004.

<b>Table 6. DDS Initial Claim Net Accuracy</b>		
Initial Claim Net Accuracy	FY 2001	FY 2002
Allowance	98.3%	98.5%
Denial	94.7%	95.1%
Combined	96.2%	96.4%

The Social Security Act also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations (PER). To the extent feasible, the selection is made from those determinations most likely to be incorrect.

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected. For FY 2001, the Actuary has produced estimates that PER saved the trust funds \$464 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 14:1.

SSA's budget includes a proposal to extend PER reviews of favorable adult disability decisions to the SSI program. This proposal supports the President's management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this new workload.

### **Collection of Overpayments in the OASI, DI and SSI Programs**

In FY 2003, SSA collected \$1,891.5 million in program debt. Generally, SSA has two types of debt, which are determined by entitlement status:

- (1) Current pay debt, owed by individuals who continue to receive benefits and
- (2) Nonpay debt, owed by those who are no longer on the benefit rolls.

SSA's collection process depends mainly upon the entitlement status of the debtor. When the debtor is on the benefit rolls, SSA's initial overpayment letter informs the individual that if full repayment is not made recovery will be accomplished through offset of future benefits. This does not begin until after the initial 60-day due process period has expired. If the debt has not been repaid, benefit offset begins. In the OASDI program we offset benefits in full unless the person can demonstrate a financial need to receive partial benefits each month. In the SSI program, we recover at the statutory rate of 10 percent of benefits, or a reduced rate if the debtor requests and qualifies for one based upon financial hardship.

When the debtor is no longer on the benefit rolls, SSA first attempts to collect the overpayment on its own. SSA sends an initial overpayment letter requesting payment in full or by regular installments. If no payment has been received, SSA uses its own billing and follow-up system to send a series of progressively stronger follow-up notices, then has debt collectors attempt personal contact to establish a repayment agreement. At any time during this process that the individual contacts SSA to establish a repayment arrangement, SSA's debt collectors negotiate an arrangement with the individual and set up the account for monthly billing. If the individual misses any of the monthly payments, a follow-up process is set in motion.

When a debt becomes "Past-Due" it is considered for referral to the Treasury Department for offset under the Treasury Offset Program (TOP) as well as for referral to credit bureaus. These referrals are preceded by statutorily required notices warning the debtor of our plans to make the referrals and providing him or her the opportunity to

avoid the referrals by repaying the debt or establishing a repayment arrangement. The notice also advises the individual of applicable due process rights.

When SSA's debt collectors determine that the debt will not be collected, either because the debtor cannot be located or because further recovery efforts are determined not to be cost effective, the debt is written-off. Written-off debt is still eligible for further benefit offset should the individual return to the benefit rolls. For FY 2003, debt written-off due to termination of collections efforts was \$471.5 million or 4.2 percent of \$11,205.1 million in debt available for collection. Where applicable, written-off debt remains at Treasury for offset until the delinquency reaches 10 years. We continue to report to the credit bureaus on the delinquency until it is 7 years old. The statutes governing administrative offset preclude its use on debts delinquent more than 10 years, while those governing credit bureau reporting set a limit of 7 years.

In addition to using TOP and credit bureau reporting for delinquent OASDI and SSI debts, SSA has developed and implemented mandatory cross-program recovery. Mandatory cross-program recovery will enable SSA to collect an SSI debt owed by a former recipient from any OASDI benefits being paid to that person. SSA will integrate the use of Administrative Wage Garnishment, Federal salary offset, cross-servicing and interest charging in its collection process. For more information, see the section entitled Debt Management which follows.

### **Additional Actions that Could be Taken to Prevent Erroneous Payments and Correct Improper Payments**

#### *Program Integrity Fund*

The FY 2004 President's budget request for SSA includes earmarked funding for the costs of CDRs, SSI redeterminations, and detecting and collecting overpayments, with the intent that cap adjustment funding will be proposed. This would provide a consistent funding source that would not be in competition with resources needed to process claims and other ongoing SSA workloads.

This special funding for program integrity is essential because, unlike a corporation, SSA does not have a single "bottom line". SSA's administrative budget funds the competing demands of both service and stewardship. Currently there is no way to ensure adequate funding for stewardship activities when they compete with service delivery for the same scarce discretionary dollars. We know that program integrity efforts pay for themselves many times over. The significant return delivered by these investments demands that we find a way to ensure that now and into the future they are adequately financed in the Federal budget structure.

#### *SSA's Corrective Action Plan*

In June 2002, SSA released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased detection and prevention, new measurement strategies, potential changes in SSI policies and Agency accountability. We are extremely pleased that the General Accounting Office (GAO) has removed the SSI program from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA's progress to improve the management of the program. We are continuing our efforts to improve our management of the SSI program across three fronts – improved prevention of overpayments, increased overpayment detection, and increased collection of debt.

## *Debt Management*

During FY 2003, SSA continued to use the aggressive debt collection tools available to the Agency. These authorized recovery mechanisms include:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund;
- Administrative Offset that enables collection of a delinquent debt from a Federal payment other than a tax refund;
- Mandatory Cross-Program Recovery which is the collection of a former SSI recipient's debt from any OASDI benefits due that person; and
- The use of Credit Bureau Reporting to encourage repayment of delinquent debts.

These tools continue to demonstrate their significance in the collection of delinquent program debt. As of September 2003, SSA has collected over \$790 million from tax refunds and other Federal payments since the program's inception in January 1992. Since implementation of mandatory cross program recovery in February 2002, SSA has collected over \$78 million.

In FY 2003, SSA continued its development of administrative wage garnishment (AWG), or the collection of OASDI and SSI debts from wages of people working in the private sector. The Agency published draft regulations as a Notice of Proposed Rulemaking. AWG promises to be a significant addition to SSA's debt collection program.

The new system, developed in FY 2002, for analyzing and monitoring SSA's debt portfolio was instrumental in the creation of a new performance measure for debt collection in FY 2003. This measure is the percent of outstanding OASDI and SSI debt that is scheduled for collection by benefit withholding or installment payment. Using the new debt portfolio monitoring system, we plan to move toward a more ambitious goal for FY 2004 by developing more efficient processes to deal with our outstanding debt. Our objective is to increase the percent of outstanding debt that is in a collection arrangement and to increase collections. To accomplish these objectives, we will continue to use the aggressive debt collection tools available.

The following collection data includes all the program debt owed to SSA and is presented on a combined basis without intra-Agency eliminations. Collection data shown in the Government Performance and Results Act only includes legally defined overpayments in which beneficiaries have certain due process rights.

<b>FY 2003 Quarterly Debt Management Activities (In Millions)</b>				
	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
Total receivables (cumulative)	\$13,707.5	\$12,793.2	\$13,074.3	\$13,418.4
Total collections (cumulative)	597.9	1,147.8	1,762.9	2,307.6
Total write-offs (cumulative)	223.2	431.0	662.7	918.7
TOP collections (cumulative)	1.6	43.6	71.8	79.4
Aging schedule of delinquent debts:				
- 180 days or less	829.3	698.9	749.9	864.0
- 181 to 10 years	1,419.5	1,439.9	1,436.3	1,634.4
- Over 10 years	<u>35.0</u>	<u>32.6</u>	<u>33.2</u>	<u>38.8</u>
- Total delinquent debt	\$2,283.8	\$2,171.4	2,219.4	2,537.2

<b>SSA Debt Management Activities</b>					
	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
Total debt outstanding end of FY (millions)	\$6,524.4	\$7,107.7	\$11,437.1	\$12,531.0	\$13,418.4
% of outstanding debt					
- Delinquent	13.5%	15.5%	9.3%	16.5%	18.9%
- Estimated to be uncollectible	30.2%	33.9%	25.3%	18.9%	21.1%
New debt as a % of benefit outlays	1.0%	0.9%	1.7%	0.9%	0.8%
% of debt collected	34.0%	33.5%	19.9%	18.5%	17.2%
Cost to collect \$1	\$0.11	\$0.10	\$0.11	\$0.11	\$0.10
% change in collections from prior FY	16.5%	7.6%	(4.4%)	1.5%	(0.3%)
% change in delinquencies from prior FY	5.4%	25.6%	(3.5%)	94.4% <sup>1</sup>	22.4%
Collections & write-offs as a % of Total Debt	30.8%	31.0%	21.5%	21.0%	19.4%
Collections as a % of clearances	73.3%	73.7%	70.8%	70.8%	71.5%
Total write-offs of debt (in millions)	\$807.6	\$850.8	\$941.3	\$954.0	\$918.7
Average number of months to clear receivables:					
- OASI	12	12	14	14	18
- DI	25	26	32	34	33
- SSI	20	27	4	26	52

1. In September 2001, SSA implemented a new process FY 2002 that identifies, ages, and reports delinquent debt on an individual debt basis in the SSI program. This new process increased the amount of delinquent SSI debt reported from about \$61 million at the close of FY 2001 to about \$1.1 billion at the close of FY 2002.





# Glossary of Acronyms

## A

AC	Appeals Council
ACAPS	Appeals Council Automated Processing System
ADP	Automated Data Processing
AeDIB	Accelerated Electronic Disability
AET	Annual Earnings Test
AICPA	American Institute of Certified Public Accountants
AIME	Average Indexed Monthly Earnings
ALJ	Administrative Law Judge
APP	Annual Performance Plan
APR	Annual Performance Report
ASEC	American Savings Education Council
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment
AWIC	Area Work Incentive Coordinator

## B

B&D	Blind and Disabled
BCIS	Bureau of Citizenship and Immigration Services
BL	Black Lung
BPAO	Benefit Planning, Assistance and Outreach

## C

CAP	Competency Assessment Program
CAS	Cost Accounting System
CCNS	Call Center Network Solution
CDI	Cooperative Disability Investigations
CDR	Continuing Disability Review
CHIP	Customer Help and Information Program
CIO	Chief Information Officer
CMP	Civil Monetary Penalty
CMS	Centers for Medicare and Medicaid Services
COOP	Continuity of Operations Plan
COTS	Commercial Off-The-Shelf Software
CPI	Consumer Price Index
CPI-W	Consumer Price Index – Urban Wage Earners
CPS	Current Population Survey
CSQ	Customer Service Query
CSR	Customer Service Record
CSRS	Civil Service Retirement System

**D**

D&T	Deloitte & Touche
DCM	Differential Case Management
DDS	Disability Determination Service
DI	Disability Insurance
DOC	Data Operations Center
DoD	Department of Defense
DOL	Department of Labor
DT	Department of Treasury

**E**

EAB	Enumeration at Birth
EDR	Electronic Death Reporting
EIC	Executive Internal Control
EMIS	Executive Management Information System
EMODS	Earnings Management Information Operational Data Store
EN	Employee Network
EPE	Extended Period of Eligibility
ESF	Earnings Suspense File

**F**

FAIR	Federal Activities Inventory Reform
FAQ	Frequently Asked Questions
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FedCIRC	Federal Computer Incident Response Center
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Fee-For-Service
FICA	Federal Insurance Contributions Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Systems
FO	Field Office
FWTP	Future Workplace Transition Plan
FY	Fiscal Year

**G**

GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GDP	Gross Domestic Product
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GS	General Schedule
GSA	General Services Administration

**H**

HCPS	Human Capital Planning Staff
HEP	High Error Profile
HI/SMI	Hospital Insurance/Supplemental Medical Insurance
HO	Hearings Office
HOTS	Hearings Office Tracking System

**I**

IG	Inspector General
IPT	Intrusion Protection Team
IRA	Individual Retirement Account
IRS	Internal Revenue Service
ISM	In-Kind Support and Maintenance
IT	Information Technology
IVT	Interactive Video Training
IWMS	Integrated Workload Management System

**K**

KPI	Key Performance Indicator
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**L**

LA	Living Arrangements
LAE	Limitation on Administrative Expenses

**M**

MCAS	Managerial Cost Accounting System
MD&A	Management's Discussion and Analysis
MS	Military Service
MSWC	Military Service Wage Credit

**N**

NRA	Normal Retirement Age
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**O**

OASDI	Old-Age, Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCSE	Office of Child Support Enforcement
OCO	Office of Central Operations
ODS	Operational Data Store
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General
OMB	Office of Management and Budget

## P

P&F	Program and Financing
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PE	Post Entitlement
PEODS	Post-Eligibility Operational Data Store
PIN	Personal Identification Number
PMA	President's Management Agenda
POMS	Program Operations Manual System
PP&E	Property, Plant and Equipment
PPWY	Production Per Workyear
PSC	Program Service Center
PTF	Payments to the Trust Funds
PUMS	Public Understanding Measurement System
PwC	PricewaterhouseCoopers LLP
PWS	Performance Work Statements

## Q

QA	Quality Assurance
QC	Quarters of Coverage

## R

RO	Regional Office
ROAR	Recovery of Overpayments, Accounting and Reporting System
RPS	Representative Payee System
RRB	Railroad Retirement Board
RRI	Railroad Retirement Interchange
RSDI	Retirement, Survivor, Disability Insurance
RSI	Retirement and Survivors Insurance
RZ SDO	Redeterminations Service Delivery Objective

## S

SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDW	Special Disability Workload
SECA	Self-Employment Contributions Act
SEI	Self Employment Income
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SGA	Substantial Gainful Activity
SOF	Status of Funds
SSA	Social Security Administration
SSASRT	SSA Security Response Team
SSI	Supplemental Security Income

SSICR	SSI Claims Report
SSN	Social Security Number
SSNVS	Social Security Number Verification Service
SSPP	Standard Security Profile Project
SSR	Supplemental Security Record
SUMS	SSA Unified Measurement System

**T**

TOP	Treasury Offset Program
TRO	Tax Refund Offset
TSC	Tele-Service Center
TWP	Trial Work Period

**U**

UI	Unemployment Information
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**V**

VIP	Visitor Intake Process
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**W**

W-2s	Employee Wage Reports
WBDOC	Wilkes-Barre Data Operations Center
WC	Workers' Compensation
WMDW	Work Measurement Data Warehouse

# SSA Management and Board Members

## *Key Management Officials*

Commissioner	Jo Anne B. Barnhart
Deputy Commissioner	James B. Lockhart III
Chief Actuary	Stephen C. Goss
General Counsel	Lisa DeSoto
Inspector General	James G. Huse, Jr.
Chief Information Officer	Thomas P. Hughes
Chief of Staff	Larry W. Dye
Chief Strategic Officer	Myrtle S. Habersham
Deputy Commissioner, Communications	James Courtney
Deputy Commissioner, Disability and Income Security Programs	Martin H. Gerry
Deputy Commissioner, Finance, Assessment and Management	Dale W. Sopper
Deputy Commissioner, Human Resources	Reginald F. Wells
Deputy Commissioner, Legislative and Congressional Affairs	Robert M. Wilson
Deputy Commissioner, Operations	Linda S. McMahon
Deputy Commissioner, Policy	Paul Hewitt
Deputy Commissioner, Systems	William E. Gray

## *Board of Trustees*

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