MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* (MD&A) is Required Supplementary Information to the financial statements and is designed to provide a high level overview of the Social Security Administration (SSA). It provides a description of who the Agency is, what the Agency does, and how well the Agency meets the goals that have been set.

The *Overview of the Social Security Administration* section highlights SSA's mission as set forth in the *Agency's Strategic Plan*. This section also discusses the major programs the Agency administers: the Old Age and Survivors Insurance and the Disability Insurance programs (commonly known as Social Security), as well as the Supplemental Security Income program, and provides a discussion of the Agency's organization.

Next, the *Overview of Key Performance Indicators, Goals and Results* section provides the Agency's progress in the context of the *Government Performance and Results Act of 1993* (GPRA). The GPRA statute requires Federal agencies to develop and institutionalize processes to plan for and measure mission performance. During Fiscal Year (FY) 2007, SSA used 38 distinct GPRA performance measures to manage and track Agency progress. The performance measures focus on SSA's most critical challenges and areas in need of improvement. Of the 38 performance measures, 16 were selected as Key Performance Indicators (KPI), which the Agency believes best tell the story of its efforts to address the most critical challenges. These KPIs are discussed in general terms and indicate whether the performance targets for FY 2007 were met. All of the FY 2007 performance measures, their targeted performance and results, as well as a discussion of each measure and historical data may be found in the *Performance Section*.

The *Overview of Key Performance Indicators, Goals and Results* section of the MD&A also speaks to SSA's Data Quality. This section provides a discussion of the actions SSA has taken to address the Agency's management control responsibilities. A summary of the results from the Office of Inspector General's audits of several GPRA performance measures is provided.

The *Performance and Accountability Report* would not be complete without providing a summary of the issues the Agency faces now and will face over the next five years, as well as the current and future activities and strategies in place to deal with them. These challenges, found in the *Agency Challenges* section, are based on the Major Management Challenges currently designated by the Government Accountability Office and SSA's Office of the Inspector General. Also addressed in the *Agency Challenges* section are the Agency's scores on the President's Management Agenda initiatives and the Agency's program ratings from the Program Assessment Rating Tool.

In addition to discussing program performance, the MD&A also addresses the Agency's financial performance. The major sources and uses of SSA's funds, as well as the use of these resources in terms of both program and function, are explained.

Finally, the *Systems and Controls* section of the MD&A provides a discussion of the actions SSA has taken to address the Agency's management control responsibilities. The Management Assurances within this section provides the Agency's assurances related to the *Federal Managers' Financial Integrity Act* and the determination of the Agency's compliance with the *Federal Financial Management Improvement Act*. Also addressed are the results of the audit of SSA's financial statements and compliance with the *Federal Information Security Management Act*.

OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

MISSION

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

THE SOCIAL SECURITY PROGRAMS AND HOW THEY BENEFIT THE PUBLIC

Few Government agencies touch the lives of as many people as the Social Security Administration (SSA). SSA administers one of the Nation's largest entitlement programs, the Old-Age, Survivors, and Disability Insurance (OASDI) program, commonly referred to as Social Security. Monthly cash benefits are financed through payroll taxes paid by workers through their employers and by self-employed workers. Monthly benefit payments under the OASDI programs are based on an individual's taxable earnings during his or her lifetime.

SSA also administers the Supplemental Security Income (SSI) program which is designed to provide or supplement the income of aged, blind, or disabled adults and children with limited income and resources. SSI payments are financed by general tax revenues.

Over 54 million people, one sixth of the total population, receive monthly Social Security or SSI benefit payments. Through their tax revenues, 163 million workers are earning valuable Social Security coverage for themselves and their families. The following table, *Number of Beneficiaries as of September 30th of Each Year*, indicates the number of people receiving OASDI, SSI and/or the combined benefits. During the last ten years, the number of Old-Age and Survivors Insurance (OASI) beneficiaries has grown by eight percent, Disability Insurance (DI) by 40 percent, and SSI (includes persons receiving only SSI benefits and those who receive combined SSI and OASDI benefits) by 11 percent.

Number of Beneficiaries as of September 30th of Each Year (in Millions)										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
OASI only	37.9	38.0	38.7	38.9	39.2	39.4	39.6	40.0	40.4	40.9
DI only	6.3	6.5	6.6	6.8	7.1	7.5	7.8	8.2	8.5	8.8
SSI only	4.2	4.2	4.2	4.3	4.4	4.4	4.6	4.6	4.7	4.8
Total of beneficiaries receiving OASI, DI or SSI only	48.4	48.7	49.5	50.0	50.7	51.3	52.0	52.8	53.6	54.5
SSI and OASDI	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.6

U. S. Population Below Poverty Line


Data Source: U.S. Census Bureau
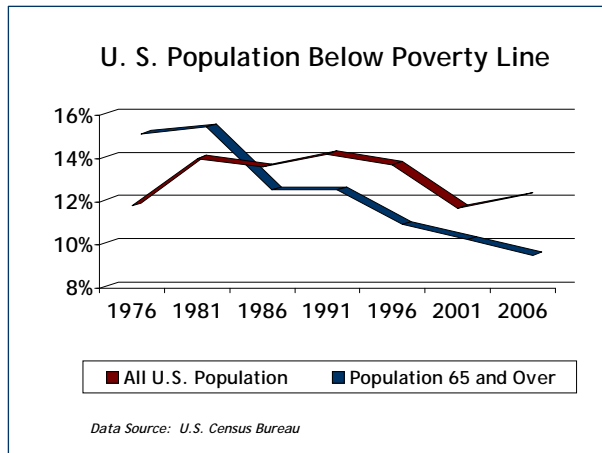
Social Security and SSI benefits play a significant role in the improved economic security of the Nation's people. In 1936, when Social Security Numbers were first assigned to workers, most of the Nation's elderly were living in poverty. Over the past 30 years, poverty among the elderly has been reduced by 37 percent, decreasing from 15 percent in 1976 to 9.4 percent in 2006 and is expected to continue to decline in future years. As shown in the chart, *U.S. Population Below Poverty Line*, the percentage of the population age 65 and over in the United States who lives below the Federal poverty level has been consistently lower than that of the general population since the 1980s. In 2006, the total population of the elderly was 12.3 percent compared to 9.4 percent of the elderly below the poverty line.

The poverty level gives an indication of how Social Security and SSI benefits are improving the quality of life of the elderly; millions more are protected in the event of disability or death. In addition to food stamps, Medicaid, low income housing and other social services, SSI recipients with little or no income may receive an SSI Federal benefit up to 73.2 percent of the Federal poverty level for an individual and 81.9 percent for a couple. Additionally, the portion of the poverty gap not filled by Federal SSI may be filled by State SSI supplemental payments.

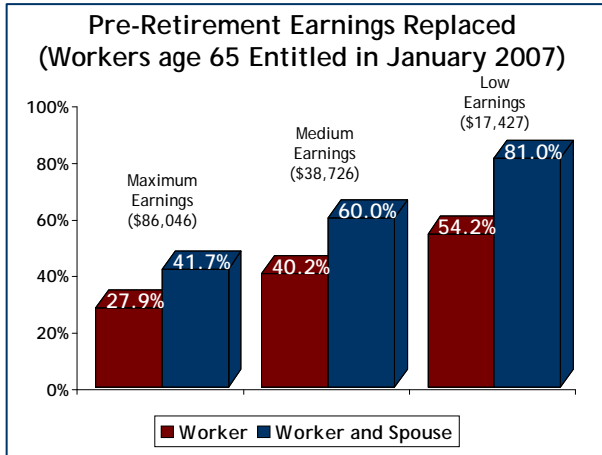## OLD-AGE AND SURVIVORS INSURANCE (OASI) BENEFITS

Working Americans can count on benefits when they retire if they have qualified by working and paying Social Security taxes for at least ten years over the course of their lifetime. Benefits are also paid to certain members of retired workers' families and their survivors.

The chart, *Population 65 or Over Receiving OASI Benefits*, shows as of 2007, 91 percent of the total population that is 65 years of age or over receives OASI benefits and nine percent of the total population do not receive OASI benefits. Of the 91 percent that receive benefits, 82 percent are retired, 6.5 percent receive benefits due to their spouse's earnings and 11.5 percent receive survivor's benefits.

Population 65 or Over Receiving OASI Benefits (2007)

Data Source: U.S. Census Bureau's Estimates of Resident Population
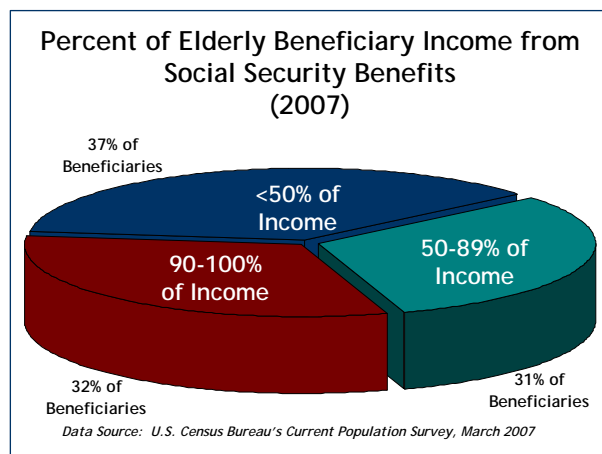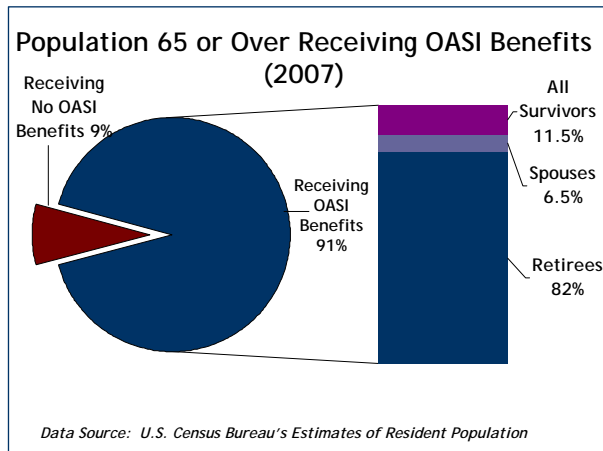
As of 2007, approximately 97 percent of eligible persons age 20-49 have survivor protection for their children under age 18 and for surviving spouses caring for children under age 16. During this same period, 91 percent of the population over 65 were receiving benefits. Social Security benefits comprised 37 percent of all income for individuals and married couples age 65 and over.

Percent of Elderly Beneficiary Income from Social Security Benefits (2007)

Data Source: U.S. Census Bureau's Current Population Survey, March 2007

As shown in the chart, *Percent of Elderly Beneficiary Income from Social Security Benefits*, Social Security benefits comprise at least 90 percent of total income for one-third of the elderly beneficiaries. For nearly two-thirds of elderly beneficiaries, it is their major income source (50-100 percent of their income).

**Pre-Retirement Earnings Replaced
(Workers age 65 Entitled in January 2007)**

[Chart: Pre-Retirement Earnings Replaced]

- Maximum Earnings ($86,046): Worker 27.9%, Worker and Spouse 41.7%
- Medium Earnings ($38,726): Worker 40.2%, Worker and Spouse 60.0%
- Low Earnings ($17,427): Worker 54.2%, Worker and Spouse 81.0%

Legend: ■ Worker ■ Worker and Spouse

The basic benefit structure of the Social Security system has remained unchanged in principle since 1939. Monthly benefits related to the worker's previous earnings are payable to retired and disabled workers, to eligible survivors, and to their families. Benefits based on prior earnings reflect workers' prior standards of living and the earnings from which they paid Social Security taxes. The level of career average earnings replaced by Social Security benefits varies because the benefit formula is progressive. The proportion of previous earnings that is replaced (earnings replacement) is greater for lower than for higher earners because lower earners have less ability to save and invest during their careers. This weighting shows the greater economic needs of the person at a lower earnings level and the greater likelihood that higher paid workers will have supplementary pensions and private savings. The chart, *Pre-Retirement Earnings Replaced*, shows the earnings replacement rate in 2007 for single workers and couples (e.g., worker with a spouse age 65 or older who is not insured) at various earnings levels. The earnings amounts represent the average of the worker's career earnings wage-indexed[1] to 2006.

DISABILITY INSURANCE (DI) BENEFITS

Disability under Social Security is determined based on a person's inability to work. SSA considers a person disabled under Social Security rules if the person cannot perform the work he did before the Agency determined that he could not adjust to other work because of his medical condition(s). A person's disability must also last or be expected to last for at least one year or result in death. In order to qualify for DI benefits, a person must have worked long enough and recently enough under Social Security to be insured in addition to being disabled.

DI benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. SSA evaluates the work activity of persons claiming or receiving disability benefits. The Agency uses earnings guidelines to evaluate a person's work activity to decide whether the work activity is substantial gainful activity. A person is considered to be performing substantial gainful activity if he/she is earning more than a certain amount of money per month. Once benefits begin, they continue for as long as the person is disabled and does not perform substantial gainful activity. Social Security offers programs that provide incentives for people who would like to return to the workforce. The Agency also conducts periodic continuing disability reviews to determine whether current beneficiaries remain disabled.

**Disabled Workers' Earnings Replaced
(Workers age 45 Entitled in January 2007)**

[Chart: Disabled Workers' Earnings Replaced]

- Maximum Earnings ($94,687): Worker 28.2%, Worker and Dependent 42.3%
- Medium Earnings ($37,222): Worker 43.4%, Worker and Dependent 65.1%
- Low Earnings ($16,750): Worker 58.9%, Worker and Dependent 81.3%

Legend: ■ Worker ■ Worker and Dependent

The chart, *Disabled Workers' Earnings Replaced*, shows the earnings replacement rate in 2007 for disabled workers and their dependents at various earnings levels. The earnings amount represents the average of the workers' career earnings wage-indexed through 2006.

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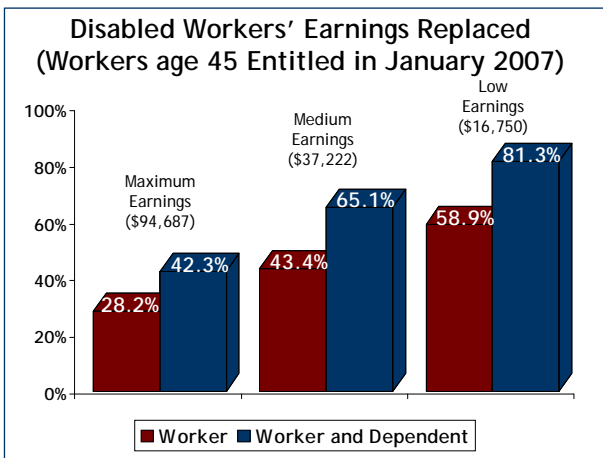
[1] For more information on wage-indexing, please see: http://www.ssa.gov/OACT/COLA/AWI.html#Series.

SUPPLEMENTAL SECURITY INCOME (SSI) PROGRAM

SSI is a means-tested program designed to provide or supplement the income of aged, blind, or disabled people with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security OASDI Trust Funds. Children, as well as adults, can receive payments based on disability or blindness.

The definition of disability for adults used in the SSI program is the same as that used in the DI program, with the exception of statutory blindness for which different rules apply. Like the DI program, there is a separate definition of disability for children applying for SSI benefits. There are general provisions to encourage returning to work and special work incentives for all recipients. SSI is the sole source of income for most recipients. However, as of September 2007, 35.1 percent of all SSI recipients also received Social Security benefits. The chart to the right, *SSI Recipients Receiving OASDI Benefits*, illustrates that a larger percentage of aged SSI recipients (57.4 percent) are receiving both OASDI and SSI benefits while a smaller percentage of blind and disabled SSI recipients (30.7 percent) receive both OASDI and SSI benefits.

SSI Recipients Receiving OASDI Benefits

Aged SSI Recipients — 57.4%, 42.6%
Blind & Disabled SSI Recipients — 69.3%, 30.7%

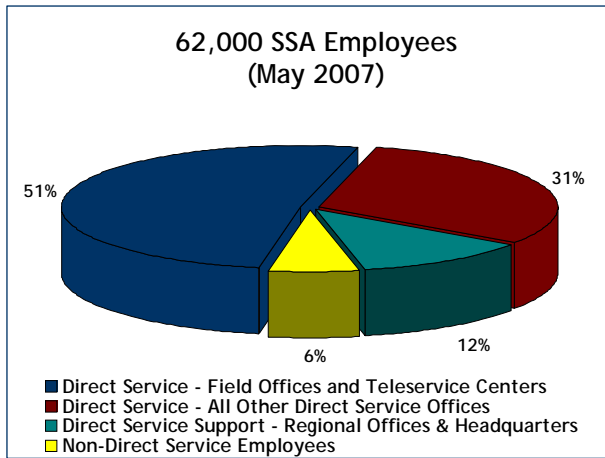Receiving SSI Only
Receiving OASDI and SSI
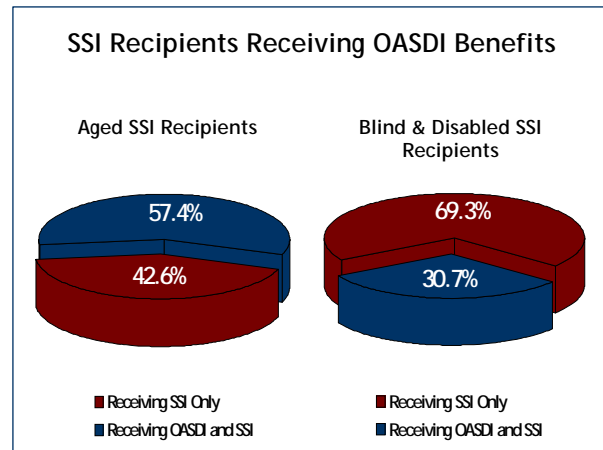
AGENCY ORGANIZATION

The Social Security Administration (SSA) has provided direct service to the American public at critical stages in their lives and has ranked among the premier agencies in Government service for over 70 years. Agency programs touch the lives of over 95 percent of all Americans. As the Federal agency charged with managing and delivering these programs for people across the country, SSA's success is dependent upon how well it manages its limited resources to meet the needs of the American people.

In FY 2007, as in prior years, SSA's limited resources were primarily used to process its workloads including:

- Paying benefits to over 54 million people every month;
- Making decisions on nearly 656 thousand hearings and appellate actions;
- Issuing over 17.6 million Social Security cards;
- Processing over 265 million earnings items for crediting to workers' earnings records;
- Handling 57 million calls to SSA's 800-number;
- Issuing over 146 million Social Security Statements;
- Processing over 764 thousand periodic continuing disability reviews;
- Processing over one million non-disability SSI redeterminations to ensure that SSI eligibility is still met; and
- Administering components of the Medicare programs, including subsidy applications, calculating and withholding premiums, making eligibility determinations, and taking applications for replacement Medicare cards.

SSA's organization is centrally managed with a nationwide network of over 1,300 offices which includes Field Offices, Regional Offices, Teleservice Centers (800-number), Program Service Centers, Hearing Offices, and State Disability Determination Services. The public can also conduct business and obtain information via SSA's website at www.socialsecurity.gov.

SSA's organizational structure is designed to provide timely, accurate, and responsive service to the public. By integrating support services for all of its programs, SSA enhances efficiency, avoids duplication of effort, and increases opportunities to provide one-stop service to the public. SSA's Field Offices are the primary points for face-to-face contact with the public. Teleservice Centers offer national toll-free telephone service at 1-800-SSA-1213. The Program Service Centers process a wide variety of workloads, as well as answer 800-number calls. The Office of Central Operations, which includes the Data Operations Center, processes retirement and disability-related workloads, maintains records of worker's earnings, and also has an expanded role in answering 800-number calls. The State Disability Determination Service offices process medical decisions for the SSA Field Offices. The Hearing Offices make decisions on appeals of SSA determinations.
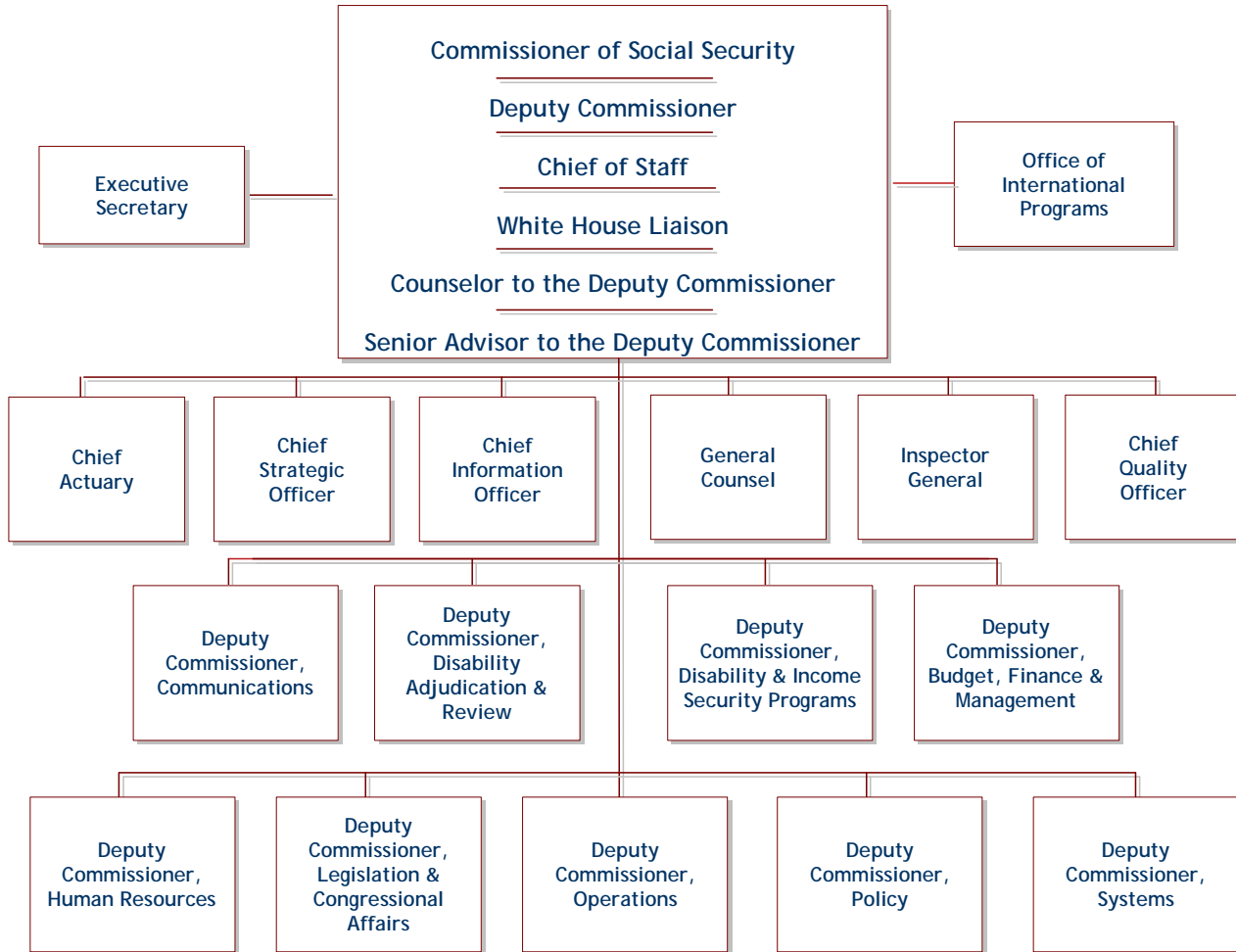
62,000 SSA Employees (May 2007)

51% — 31% — 12% — 6%

- ■ Direct Service - Field Offices and Teleservice Centers
- ■ Direct Service - All Other Direct Service Offices
- ■ Direct Service Support - Regional Offices & Headquarters
- □ Non-Direct Service Employees

As shown in the chart, *62,000 SSA Employees*, around 58,000 of SSA's employees deliver direct service to the public or directly support the services provided by the Agency's front-line staff. Roughly 31,500 employees work in over 1,200 SSA Field Offices (including Resident Stations) and 35 Teleservice Centers.

Approximately 19,000 employees provide direct service from the Agency's Program Service Centers, Hearing Offices, the Office of Central Operations, the Office of General Counsel, the Office of the Inspector General, the Office of Public Inquiries, the Office of Quality Performance, and Social Security Online. Another 7,500 employees in Regional Offices and Headquarters directly support the services delivered by Social Security's front-line workers. The disability programs also depend on the work of over 15,000 employees in State Disability Determination Services.

SSA's employees in non-direct service positions perform equally important functions in developing information technology and public information products, ensuring sound fiscal stewardship, developing and implementing uniform program policies and procedures, and supporting the workforce by providing, maintaining, and safeguarding the Agency's facilities.   SSA's administrative expenses, driven by the size of the programs the Agency administers, are less than two percent of total outlays.

ORGANIZATION OF THE SOCIAL SECURITY ADMINISTRATION

Commissioner of Social Security

Deputy Commissioner

Chief of Staff

White House Liaison

Counselor to the Deputy Commissioner

Senior Advisor to the Deputy Commissioner

Executive Secretary

Office of International Programs

Chief Actuary

Chief Strategic Officer

Chief Information Officer

General Counsel

Inspector General

Chief Quality Officer

Deputy Commissioner, Communications

Deputy Commissioner, Disability Adjudication & Review

Deputy Commissioner, Disability & Income Security Programs

Deputy Commissioner, Budget, Finance & Management

Deputy Commissioner, Human Resources

Deputy Commissioner, Legislation & Congressional Affairs

Deputy Commissioner, Operations

Deputy Commissioner, Policy

Deputy Commissioner, Systems

OVERVIEW OF KEY PERFORMANCE INDICATORS, GOALS AND RESULTS

FY 2007 OVERVIEW OF PERFORMANCE

SSA is developing a new *Agency Strategic Plan* (ASP) for Fiscal Years (FY) 2008 through 2013. The ASP reflects the priorities and direction of the President and SSA's Commissioner, setting the Agency's course for achieving measurable results that improve American lives. The current ASP'*s* four strategic goals drive objectives and outcomes that support the Agency's mission and provide the framework for allocating Agency resources. These objectives articulate the challenge of providing outstanding public service, improving program integrity through financial stewardship, supporting reforms to ensure sustainable solvency for future generations, and maintaining the quality staff SSA needs to provide service and stewardship. SSA has worked diligently to emphasize the relationship between resources and results.

The following figures represent the portion of the Agency's FY 2007 operating expenses used in support of each strategic goal.

- To deliver high-quality, citizen-centered service -- $7,873 million
- To protect the integrity of Social Security programs through superior stewardship -- $1,253 million
- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations -- $126 million
- To strategically manage and align staff to support the mission of the Agency -- $338 million

Operating Expenses by Strategic Goal FY 2007 (in millions)
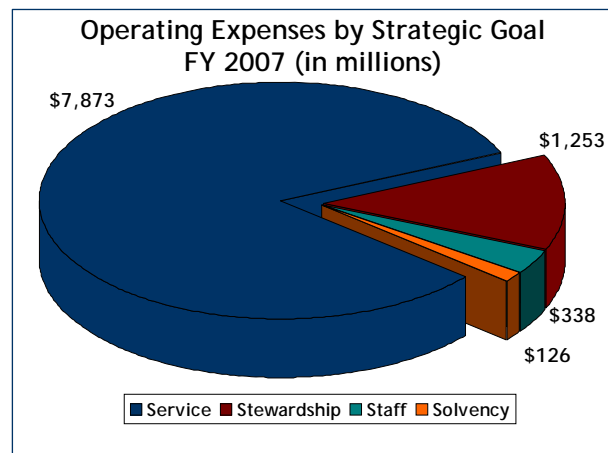
Agency accounting and cost analysis systems which track the administrative costs of SSA programs by workload, as well as employee production rates, provide integrated financial and performance information for SSA managers at all levels. Agency executives meet on a periodic basis to review and discuss performance measures. Resource allocation decisions are then made based on performance and projected workloads.

The Agency's *Annual Performance Plan* (APP) describes how SSA will strategically perform in a given fiscal year. It specifies performance targets by which Agency goals and objectives can be measured. SSA has developed automated tools to assist the Agency in determining the full and marginal costs of achieving performance outcomes. These tools enable SSA to determine the resources required to keep up with core workloads, process special workloads, work down backlogs of disability claims, hearings and appeals, other operational workloads, and improve productivity and fiscal stewardship. A primary purpose of the *FY 2007 Performance and Accountability Report (*PAR*)* is to document the Agency's accomplishments for the performance measures specified in the *Annual Performance Plan for FY 2007*.

The *Government Performance and Results Act* (GPRA) requires all Federal agencies to create performance indicators and goals. Of the Agency's 38 GPRA performance measures, 16 have been designated as key performance indicators (KPIs). These 16 indicators, charted on the following pages, were selected because they characterize the Agency's efforts to address the measurable challenges it faces. A chart of all 38 performance measures and goals can be found in the *Performance Section* on page 49.

The following performance tables group the FY 2007 KPIs according to the strategic goal they support. The *Goal Achieved?* column displays either an up (⬆) arrow if the goal was achieved or a down (⬇) arrow if the goal was not achieved.

Strategic Goal 1: *To deliver high quality, citizen-centered service*					
	Key Performance Indicator	FY 2007 Goal	FY 2007 Actual	Goal Achieved?	See[1] Page #
1.1a	Percent of initial disability claims receipts processed up to the budgeted level	100%[2]	100%[3]	⬆	54
1.1b	Maintain the number of initial disability claims pending in the Disability Determination Services (at or below the FY 2007 goal)	577,000	555,317	⬆	55
1.1c	Number of SSA hearings processed	555,000[4]	547,951	⬇	55
1.1d	Maintain the number of SSA hearings pending (at or below the FY 2007 goal)	738,000[4]	746,744	⬇	56
1.1e	Average processing time for initial disability claims	88 days	83[3] days	⬆	57
1.1f	Average processing time for SSA hearings	524 days	512 days	⬆	58
1.3d	Maximize public use of electronic services to conduct business with SSA	2,946,800	2,869,829	⬇	66
1.3e	Increase the percent of employee reports (W-2 forms) filed electronically and processed to completion	80%	81%[3]	⬆	67
1.3f	Percent of individuals who do business with SSA rating the overall service as "excellent," "very good," or "good"	83%	81%	⬇	68

SSA is committed to providing superior service to the American public despite increased workloads and reduced resources. The Agency continues to face significant challenges in attempting to provide the level of service that disability benefits claimants deserve due to the complexity of and growth in claims for those benefits. The Agency continues to make significant progress in implementing new processes to enhance its ability to make accurate, consistent, and timely disability decisions. One indication of the progress being made is that the Agency has met performance goals for initial disability claims processed, pending and average processing time. In the last half of FY 2007, the Agency implemented a plan to eliminate the hearings backlog by FY 2013. While SSA met the goal for average processing time for hearings, the goals for hearings processed and pending have suffered. The initial focus of the hearings backlog elimination has been the oldest cases, which are paper claims that take more time to review. As the paper claims continue to be completed and electronic claims become standard, SSA expects to meet the hearing processed and pending goals in the future. With better systems and processes, SSA expects to improve disability claims service and the Agency's overall service rating.

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[1] More detailed information can be found in the *Performance Section* on the pages cited in the chart above.

[2] The budgeted level for FY 2007 was 2,530,000.

[3] The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

[4] Final FY 2007 appropriations decisions for the Agency restored sufficient resources to the Agency's FY 2007 budget to allow processing of 14,000 additional SSA hearings. The appropriations change required an adjustment to the projected workloads for FY 2007 compared to those shown in the FY 2007 column of the FY 2008 President's Budget and the Congressional Justification for the Agency's budget. This number has been modified to reflect this action.

	Strategic Goal 2: *To protect the integrity of Social Security programs through superior stewardship*				
	Key Performance Indicator	**FY 2007 Goal**	**FY 2007 Actual**	**Goal Achieved?**	**See[1] Page #**
2.1a	Number of Supplemental Security Income (SSI) non-disability redeterminations processed	1,026,000	1,038,948	⬆	70
2.1b	Number of periodic Continuing Disability Reviews (CDRs) processed to determine continuing entitlement based on disability	729,000	764,852	⬆	71
2.2b	Percent of SSN receipts processed up to the budgeted level	96%[2]	97%[3]	⬆	78
2.4b	Disability Determination Services (DDS) case production per workyear (PPWY)	252	249[3]	⬇	80
2.4f	Get to "green" on the *President's Management Agenda* (PMA) initiatives status scores	Achieve a status score of "green" on five of five PMA initiatives	Achieved a status score of "green" on four of five PMA initiatives	⬇	84

SSA continues to help ensure the integrity of the disability program by conducting CDRs and SSI redeterminations. Processing these two important workloads equal a program savings of approximately $10 to $1 for CDRs and $7 to $1 for SSI redeterminations. SSA's attempts to safeguard the process of assigning and issuing SSNs, have contributed to significant improvements in the enumeration and verification processes. Social Security Card Centers are one example of using a highly-trained staff to process this specialized workload. DDS PPWY continues to suffer due to overall Agency resource constraints and reduced staffing levels which are complicated by the DDSs experiencing a retirement wave similar to that of SSA. At the end of FY 2007, DDS staffing levels were between 1,000 and 1,200 employees below the FY 2005 staffing level and is expected to continue decreasing in FY 2008. Although SSA did not achieve "green" status in the *Expanded Electronic Government* portion of the PMA scorecard, the Agency continues to enhance its use of electronic technologies. For example, SSA is planning several enhancements to the existing Internet Social Security Benefits Application, which allows the public to apply for retirement, disability, or spousal benefits online. The Agency is also working to add fraud indicators to eVerify, which provides an automated link to Federal databases to help employers determine the employment eligibility of new hires and the validity of their Social Security numbers. Although SSA is working more efficiently, higher productivity and improved processes are not enough to keep up with increasing workloads and eliminate backlogs.

	Strategic Goal 3: *To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations*				
	Key Performance Indicator	**FY 2007 Goal**	**FY 2007 Actual**	**Goal Achieved?**	**See[1] Page #**
3.1a	Provide support to the Administration and Congress in developing legislative proposals and implementing reforms to achieve sustainable solvency for Social Security	Conduct analysis for the Administration and Congress on key issues related to implementing Social Security reforms	Completed	⬆	85

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[1] More detailed information can be found in the *Performance Section* on the pages cited in the chart above.
[2] The budgeted level for FY 2007 was 18,000,000. The goal of 96% of the budgeted level was 17,280,000.
[3] The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

SSA provided analytical and data support to the Administration and Congress on legislative proposals to address Social Security reform issues related to the solvency of the Trust Funds. In addition, SSA continues to communicate with the public at forums about SSA programs and financing facts, promote information and services available on the Internet website, and issue annual *Social Security Statements*.

Strategic Goal 4: *To strategically manage and align staff to support the mission of the Agency*					
Key Performance Indicator		FY 2007 Goal	FY 2007 Actual	Goal Achieved?	See[1] Page #
4.1a	Minimize skill and knowledge gaps in mission-critical positions	Identify skill and competency gaps and develop an implementation plan for addressing gaps in mission critical occupations – Actuaries and Economists	Completed	⬆	87

SSA continues to be committed to outstanding service and continuous improvement. At the heart of that commitment is a staff of highly committed, capable, and creative employees who provide a high level of service to the American people. Workloads are expected to grow significantly while the Agency faces a retirement wave. With this in mind, SSA has developed human capital strategies to help the Agency maintain a workforce armed with the knowledge, skills, and abilities necessary to safeguard operations and ensure that the Agency provides quality service to the public.

Electronic versions of the documents discussed can be viewed at the following Internet addresses:

- SSA's *Strategic Plan FY 2006 – FY 2011* can be found at: http://www.socialsecurity.gov/strategicplan.html.
- SSA's *FY 2008 Annual Performance Plan/Revised Final FY 2007 Annual Performance Plan* can be found at: http://www.socialsecurity.gov/performance/.
- For a paper copy of either SSA's *Strategic Plan* or *Annual Performance Plan*, write to:

<div align="center">

Social Security Administration
Office of Strategic Management
4215 West High Rise
6401 Security Boulevard
Baltimore, MD 21235

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DATA QUALITY

Social Security is committed to providing clear, reliable data for managerial decision-making and oversight. The Agency strives to ensure that its data is quantifiable and verifiable. SSA management has put internal controls in place to provide reasonable assurance that these objectives are met. These controls include ongoing data quality reviews as well as reviews at all levels of management, audit trails, restricted access to sensitive data, and separation of job responsibilities. SSA's controls provide assurances that data in this Report contain no material inadequacies and support the Commissioner's Federal Managers' Financial Integrity Act Assurance Statement.

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[1] More detailed information can be found in the *Performance Section* on the pages cited in the chart above.

SOCIAL SECURITY DATA INTEGRITY SYSTEMS AND CONTROLS

Data for quantifiable performance measures are generated by automated management information and workload measurement systems. The data for several accuracy and public satisfaction measures come from surveys and workload samples designed to achieve confidence levels of 95 percent or more. The Agency performs stewardship reviews on the quality of Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. The reviews are the primary measure of quality for Agency performance and provide an overall accuracy measurement of payments to all Social Security beneficiaries. Each review is based on sample selections from Social Security records consisting of beneficiaries currently receiving monthly benefits. For each sampled claim, Social Security interviews the recipient or authorized representative, makes other contacts as needed, and redevelops all non-medical factors of eligibility.

SSA uses an evaluation process to provide quality feedback on recently processed OASDI and SSI claims in addition to SSI redeterminations (a review of a recipient's/couple's non-medical eligibility factors to determine whether the recipient/couple is still eligible for and receiving the correct SSI payment). The process, known as Transaction Accuracy Reviews, focuses on Field Office and Program Service Center quality. It relies on claims processing procedures defined in the Agency's *Program Operations Manual System* instructions. The review samples a total of about 17,000 claims annually - 8,500 for each of the OASDI and SSI programs. Results from these reviews are extrapolated to produce national and regional data on the quality of approximately 5 million OASDI claims, as well as 4.2 million SSI claims, redeterminations, and other actions. In addition, Regional Office staff conducts field assistance visits to identify areas where work process improvements can be made. An annual report and a mid-year updated report are produced.

ROLE OF SOCIAL SECURITY'S OFFICE OF THE INSPECTOR GENERAL (OIG)

The Office of Inspector General (OIG) has a key role in auditing performance measure data systems to determine the validity and reliability of performance, budgeting, and financial data. The OIG contracts with PricewaterhouseCoopers to perform the *Government Performance and Results Act* (GPRA) audits. The objectives of the audit are to:

- Assess and test SSA's internal controls over the development and reporting of performance data for selected annual performance indicators;
- Assess and test the application controls related to the performance indicators;
- Assess the overall reliability of the performance indicators' computer processed data;
- Test the accuracy of results presented and disclosed in the PAR;
- Assess the meaningfulness of the performance indicators; and
- Report the results of the testing to the OIG and SSA Management.

In FY 2007, OIG issued seven audits that initiated a review of 14 GPRA performance measures. Three of these audits were based on work completed in FY 2007. These audits, also known as historical audits, addressed five performance measures. The other four audits are based on data as it became available during FY 2007. These real-time audits address nine performance measures. The results of these four audits will not be available until early in calendar year 2008 and will be reported in the FY 2008 PAR. SSA has already implemented or agreed to implement a majority of the audit recommendations in response to the audit observations made by the OIG.

The following issues from the three released FY 2007 historical audits were identified:

- Four of the performance measures' data were reliable.
- One of the performance measures' data was unreliable because SSA programmers had direct access rights to the performance measure data. It should be noted that SSA management has since removed all programmers' direct access. Furthermore, the auditors were able to re-calculate the data for this measure and found no errors.

- One performance measure did not have complete documentation of its policies and procedures. This issue has been resolved and the action was noted in the final audit report.

- One performance measure did not clearly support a Strategic Objective. This issue has been resolved within this FY 2007 PAR by expanding the performance measure discussion.

In FY 2007, OIG also completed the real-time audits of nine FY 2006 PAR performance measures. The following issues relating to the reliability of the computerized data were identified:

- Five of the performance measures' data were reliable.

- Three of the performance measures' data were unreliable because SSA programmers had direct access rights to the performance measure data. It should be noted that SSA management has since removed all programmers' direct access. The auditors found no errors during the data recalculation of these measures.

- One of the performance measures' data was unreliable because the User Identification and password settings for a program were inadequate. This issue will not be resolved because the system used to maintain the data will be replaced in 2008. The new system will contain the necessary User Identification and password settings. The auditor's found no errors during the data re-calculation of this measure. This information is noted in the audit report.

Refer to the *Inspector General's Statement on SSA's Major Management Challenges*, *Internal Control Environment and Performance Measures* section, beginning on page 172, for more information about how the GPRA audits were performed.

AUDIT OF SSA'S FY 2007 FINANCIAL STATEMENTS

In accordance with the *Chief Financial Officer's Act of 1990*, SSA's financial statements were independently audited by PricewaterhouseCoopers. The objective of this audit was to determine whether the financial statements fairly presented the financial position of the Agency. The audit included an examination of the data supporting the amounts and disclosures in SSA's financial statements. The PricewaterhouseCoopers audit report can be found in the *Financial Section* of this FY 2007 PAR.

AGENCY CHALLENGES

MAJOR MANAGEMENT CHALLENGES

The Government Accountability Office (GAO) and Social Security's Office of the Inspector General (OIG) have identified several areas where the Agency can improve its operations. The tables below list the major challenges facing the Agency, the corresponding actions taken in response to these challenges, and actions planned for the future.

The major management challenges for FY 2007 included 11 items:

I.	Social Security Number Protection (OIG)
II.	Management of the Disability Process (OIG)
III.	Improve the Disability Determination Service Process and Return to Work (GAO)
IV.	Disability Insurance - High Risk (GAO)
V.	Supplemental Security Income (GAO)
VI.	Improper Payments and Recovery of Overpayments (OIG)
VII.	Service Delivery and Electronic Government (OIG & GAO)
VIII.	Internal Control Environment and Performance Measures (OIG)
IX.	Systems Security and Critical Infrastructure Protection (OIG)
X.	Information Security (GAO)
XI.	Human Capital (GAO)

I. Social Security Number Protection (OIG)

The process of assigning and issuing Social Security Numbers (SSN), known as enumeration, is a core Agency function. The Social Security card provides a written record of the number that has been assigned to an individual so that employers can accurately report a worker's earnings. Although SSA's purpose for assigning a number and issuing a card has not changed, the SSN has become a convenient means of identification for both the Government and the private sector. This usage has made the SSN vulnerable to acts of identity theft and fraud.

As stewards of the Social Security program, one of SSA's Strategic Objectives is to strengthen the integrity of the enumeration process. The Agency has taken many steps to increase its capacity to prevent SSN misuse including implementation of new policy initiatives under the *Intelligence Reform and Terrorism Prevention Act of 2004* (IRTPA), PL.108-458. IRTPA requires that SSA limit the issuance of multiple replacement SSN cards, establish minimum standards for verifying documents submitted for an original or replacement SSN card, verify any birth record submitted by a U.S. born individual for original cards, and coordinate with the Department of Homeland Security and other agencies to further improve the security of Social Security cards and numbers.

Current and Future Actions

Enumeration at Birth

Enumeration at Birth (EAB) offers parents an opportunity to request an SSN for their newborn during the birth registration process. The process is quick, easy, and convenient.

In accordance with recent SSA OIG and GAO audit recommendations, as well as Section 7213(c) of IRTPA, SSA modified the EAB systems process to prevent the assignment of multiple SSNs to the same child and to restrict the assignment of SSNs to unnamed children. These system enhancements have improved the EAB process and reduced opportunities for fraud.

Numident Updates

In March 2007, two new fraud indicators were implemented for internal use by SSA. These indicators identify cases where: (1) SSA's OIG investigated and established that an original SSN was assigned based on fraudulent documents or no documents at all, and (2) SSN card number holders requested a new SSN because their original SSN was misused with criminal or harmful intent and, as a result, they have been subjected to recent economic or personal hardship. This fraud indicator is assigned to the original SSN when a new SSN is created. Refer to eVerify, below, for more information about fraud indicators and SSN verification programs.

Modernized Enumeration System

In FY 2007, the Agency began to redesign the Modernized Enumeration System to protect the integrity of the SSN by further improving the enumeration process. The SS-5 Assistant application is a software program that interfaces with the Modernized Enumeration System and assists Field Office personnel in gathering and recording required SSN application information. The SS-5 Assistant was developed to ensure compliance with SSA's comprehensive enumeration policies and procedures. The application confirms that the necessary evidence and documents (verifications) are received for non-citizen applications prior to processing Social Security card applications.

In FY 2007, SSA implemented software that allows SS-5 Assistant users to access the Department of Homeland Security's web-based Systematic Alien Verification for Entitlements application that allows for the automatic processing of these verifications and eliminates the need to send a paper document verification request in most situations. New software will combine the current Modernized Enumeration System and SS-5 Assistant programs into a single application and will be available for employee use in FY 2008.

Social Security Number Verification Service

In 2005, the Agency implemented an Internet-based tool, the Social Security Number Verification Service, that allows employers to instantly verify up to ten names and SSNs. In addition, employers can upload overnight files of up to 250,000 names and SSNs and usually receive a response by the next business day. This option allows employers to verify an entire payroll database or a large number of newly-hired workers for wage reporting (Form W-2) purposes. If information does not match, the Agency will send notices to employers requesting the corrected information be forwarded to the Agency within 60 days. If the employer cannot resolve the error, then the employer should advise the employee to contact their local Social Security office.

eVerify

The eVerify program, formerly known as Basic Pilot, is conducted jointly by SSA and the Department of Homeland Security. eVerify enables employers who participate voluntarily to electronically verify the employment eligibility for newly-hired employees. As of mid FY 2007, there were more than 19,000 employers participating in eVerify at more than 81,000 sites. Participation is growing by more than 1,000 employers every month.

This year, SSA continued to modify the information shared with employers. Under IRTPA, SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines as determined appropriate by the Commissioner of Social Security. SSA previously added death indicators to those verification routines used by employers and State agencies and is working to add fraud indicators by December 2007.

Social Security Card Enhancements

In April 2007, SSA made several improvements to the Social Security card. The card issuance date is now printed on the card. It also contains instructions that state the card should not be signed until the card carrier is age 18 or begins to work, whichever is earlier. Finally, language on the back of the card about identity theft and misuse has been enhanced to include the Federal Trade Commission's phone number and website, as well as SSA's fraud hotline number.

As of October 2007, the number holder's last name and any suffix, such as Jr., will be printed on a second line on the card. Employers have been requesting this change for a number of years to resolve verification issues. In addition, the new card has enhanced security features, such as symbols on both sides of the card and the fading of color on the card.

II. Management of the Disability Process (OIG)

SSA must continue to improve critical parts of the disability process such as making timely disability decisions and safeguarding the integrity of its disability programs. To achieve those goals, SSA has implemented a number of initiatives including: (1) an electronic disability processing system aimed at eliminating delays caused by the handling of paper claim files; (2) a comprehensive process improvement initiative aimed at making decisions earlier in the claims process; and (3) a comprehensive fraud and abuse investigation program.

Current and Future Actions

Electronic Disability Folders

The electronic folder helps reduce processing delays caused by organizing, mailing, locating, and reconstructing paper folders. The Independence Day Assessment (IDA) certification process was designed to verify a component's readiness to accept electronic folders and operate in a fully electronic environment.

As of January 4, 2007, all Disability Determination Services sites, the Division of Disability Hearings Quality, and the Division of Disability Quality Operations were IDA-certified. In addition, as of May 31, 2007, all of the Office of Disability Adjudication and Review's (ODAR) states/territories with Hearing Offices, Program Service Centers, the Office of Disability Operations, and four Disability Processing Branches have been IDA-certified. The Agency expects the remaining three Disability Processing Branches, including the Flexible Disability Unit, to be IDA-certified by December 2007. SSA also expects to expand the electronic disability process to the Office of International Operations by early 2008.

Continuing Disability Review Diary Model

SSA helps ensure the integrity of the disability program by conducting continuing disability reviews (CDR) to determine whether beneficiaries continue to be eligible for benefits based on their medical conditions. SSA has developed the CDR mailer/statistical scoring model process that screens cases and identifies those in which a full medical review is not cost-effective.

Beginning in FY 2007, an additional statistical scoring model was developed to more accurately assign medical re-examination diary types and corresponding medical re-examination dates to indicate when a CDR is necessary. Implementation of the Diary Model will save SSA millions of dollars by assigning medical diaries to cases where medical improvement is most likely. The Diary Model was fully implemented in FY 2007 as part of the National Disability Determination Service System.

Cooperative Disability Investigations Program

SSA's Cooperative Disability Investigations program continues to be one of the Agency's most successful anti-fraud initiatives. Cooperative Disability Investigations are a joint effort of the OIG, SSA, State DDS, and State and local law enforcement personnel. SSA's 19 Cooperative Disability Investigations units in 17 States investigate issues of fraud and abuse related to initial and continuing disability claims. The Cooperative Disability Investigations program yielded almost $92 million in SSA program savings during FY 2007.

Fugitive Felon Program

The Fugitive Felon Program helps to safeguard the integrity of SSA's disability programs by identifying fugitive felons and parole and probation violators via computer data matches between SSA's beneficiary rolls and Federal and State warrant databases. The impact of this program reaches beyond Social Security to local communities nationwide. OIG aids local law enforcement agencies in locating fugitive felons by providing the address and bank information of the wanted individual on SSA records. SSA is prohibited from paying Social Security to fugitive felons. In addition, fugitive felons are barred from serving as representative payees. A representative payee is the person, agency, organization, or institution selected to receive and manage benefits on behalf of an incapable beneficiary; this includes, for example, a parent who is receiving benefits on behalf of his/her minor child.

III. Improve the Disability Determination Service Process and Return to Work (GAO)

Modernizing Federal Disability Programs has been on the GAO's high-risk list since 2003. The reasons given by the GAO include lengthy processing times, outmoded concepts of disability, and inconsistencies in disability decisions across adjudicative levels and locations. SSA needs to continue to improve critical parts of the disability process, such as making disability decisions and improving the timeliness and quality of the Agency's disability adjudication processes. Disability criteria must be updated to reflect the current state of science, medicine, technology, and labor market conditions.

SSA is in the process of moving from a "disabled for life" approach to one that helps individuals with disabilities return to work. An emphasis towards enhancing the productive capabilities of beneficiaries would result in a fundamental shift in the Agency's focus.

Current and Future Actions

Quick Disability Determination Process

The Quick Disability Determination (QDD) process accelerates claims where there is a high potential that the claimant is disabled and where evidence of the claimant's alleged disabling condition(s) is readily available. Since August 2006, SSA has successfully used this process in the six States within the Boston region (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont) with the result that 96 percent of closed QDD cases were processed as allowances and 94 percent had decision times of 20 days or less. The national QDD rollout began on October 9, 2007 with Arizona, New Jersey, and North Dakota. During the month of October, the Agency will rollout a total of 18 States (38 percent). There will be 17 additional States rolling out in November (36 percent) and seven States (15 percent) in December. SSA expects 89 percent of all States and U.S. Territories to be rolled out by the end of December 2007.

Return to Work Initiative

SSA seeks to address the multiple barriers faced by beneficiaries who wish to return to work through immediate and demonstration projects. The immediate projects include regulatory initiatives and other actions SSA has begun or will begin in the short term. The demonstration projects are longer term activities that address barriers to working or returning to work. SSA's research and demonstration projects include:

- The Accelerated Benefits Demonstration, which will provide immediate health benefits and employment supports to newly entitled Disability Insurance (DI) beneficiaries who have no medical insurance. Recruitment for this project began in October 2007 and a final report is expected in 2011.

- The Benefit Offset project, which will test whether providing supports and services to disability applicants, will result in improved employment, earnings, and other outcomes for people with disabilities. As of December 2006, four pilot States had recruited approximately 900 beneficiaries into the treatment groups.

- The National Benefit Offset Demonstration, which will allow beneficiaries to face a gradual reduction in their benefits, eliminating the abrupt loss of benefits from the DI program when a beneficiary works and has earnings over a specific amount. This project is currently under design.

- The Mental Health Treatment Study, which will provide mental health disorder treatments and employment supports that are not covered by other insurance. The purpose of this study will be to determine the impact these services have on outcomes, such as medical recovery, employment, and benefit receipt for certain DI beneficiaries. Recruitment for this project began in October 2006 and a final evaluation is expected in 2010.

- The Youth Transition Demonstration projects are designed to enable youth with disabilities to maximize their self-sufficiency. Multiple government agencies, school systems, private-sector providers, and employers will be brought together to create enhanced transition programs, better services, and service delivery systems. These activities may lead to reductions in Federal and State expenditures for Supplemental Security Income, Medicaid and other public benefits; increases in public revenues; and a better quality of life for persons with disabilities.

Regulatory changes include finalizing the changes to the Ticket to Work program proposed in the September 2005 *Ticket to Work Notice of Proposed Rule Making*. The Agency expects to publish these final rules in early 2008.

Medical Impairment Listings

SSA remains committed to updating the medical listings to take into account advances in medical care and treatment. Within the past 12 months, SSA has published a final regulation covering visual impairments and the Agency is in the final stages of publishing final regulations for the digestive system and the immune system. In addition, SSA anticipates publishing a Notice of Proposed Rule Making this year for mental impairments, malignant neoplastic diseases, and respiratory disorders.

IV. Disability Insurance - High Risk (GAO)

The GAO added modernizing Federal disability programs, including SSA's Disability Insurance (DI) program, to its high-risk list in January 2003 due, in part, to lengthy processing times. SSA continues to improve the DI program with electronic services intended to decrease processing time and medical reviews to determine continued eligibility.

With the Social Security DI program, SSA serves a diverse population of individuals with disabilities. Beneficiaries represent various age groups and have different impairments, levels of education, work experiences, and capacities for working. Once SSA establishes eligibility for disability benefits, the Agency turns its efforts toward ensuring that an individual continues receiving benefits only as long as SSA's eligibility criteria are met.

Current and Future Actions

Improving Hearing Office Procedures and Reducing Hearing Office Backlogs

In addition to the initiatives listed under *II. Management of the Disability Process*, the Agency has begun efforts to address the backlog of aged disability cases.

SSA plans to: (1) streamline the file assembly process and have additional staff available to prepare cases in order to schedule the hearing dockets of current Administrative Law Judges (ALJs) to capacity; (2) improve the productivity of current ALJs; (3) remand cases to the Disability Determination Service offices to issue fully favorable determinations or update the claims file; (4) appoint additional Senior attorneys and ALJs from other agencies to cover the most backlogged offices; (5) implement a medical expert screening process; (6) hire more ALJs to reach the 1250 level by FY 2008; and (7) open a National Hearing Center to handle electronic files and conduct video hearings.

Findings Integrated Template

The Findings Integrated Template is an electronic program that the Administrative Law Judges (ALJ) uses as a decision-tool for cases. The Findings Integrated Template was developed to improve the quality of ALJ decisions by providing a template to follow throughout the decision-writing process. The Findings Integrated Template gives a guide for drafting decisions that follow the related statutory and regulatory requirements and was originally piloted in 40 hearing offices. The template was modified and improved based on feedback from these pilot offices and was released to all hearing offices in January 2006. Approximately 80 percent of ALJs are using this template. Judges are reporting that the decision drafts are of higher quality and, because of the format, they are able to review the drafts more quickly and spend less time editing.

Continuing Disability Reviews (Medical)

SSA helps ensure the integrity of the disability program by conducting Continuing Disability Reviews (CDR) to determine whether beneficiaries continue to be entitled to benefits based on their medical conditions. SSA began processing CDRs using electronic folders in June 2007. Not only will the electronic records ensure that SSA has medical information available for future CDRs, SSA will also begin to collect data that can be used to target reviews of those cases with the greatest likelihood of medical improvement. Processing CDRs is also cost-effective: SSA saves $10 in program benefits for every $1 spent conducting these reviews.

V. Supplemental Security Income (GAO)

In 1997, GAO designated the Supplemental Security Income (SSI) program as "high risk." At that time, GAO indicated that SSA lacked an effective plan to address overpayments. Since that time, SSA has taken a number of steps to improve oversight of the SSI program resulting in the removal of the SSI program from GAO's "high risk" list in 2003. SSA continues to sponsor initiatives to reduce improper payments in the SSI program.

Current and Future Actions

Redeterminations

The most powerful tool the Agency has to detect and prevent overpayments is the SSI redetermination process. Required by law, an SSI redetermination is a periodic review of non-medical factors of SSI eligibility. In FY 2007, SSA completed 1,038,948 redeterminations. The estimated benefits from the FY 2006 redeterminations totaled $969 million in overpayment benefits (estimated recoveries of retroactive overpayments plus prevention of future overpaid monthly payments) and $803 million in underpayment benefits. SSA saves $7 in program benefits for every $1 spent conducting these redeterminations.

SSI Automated Telephone-based Monthly Wage Reporting

SSA piloted an automated telephone-based monthly wage reporting method for workers at risk for wage-related overpayments. SSA continues to develop enhancements designed to improve the process so that it can support more callers and eventually provide fully automated national SSI wage reporting.

VI. Improper Payments and Recovery of Overpayments (OIG)

The President and Congress have expressed strong interest in improving the measurement and reduction of improper payments. The President's Management Agenda (PMA) incorporates a separate agenda item for Eliminating Improper Payments. Under the *Improper Payments Information Act of 2002* (Pub. L. No. 107, 300), SSA must estimate its annual amount of improper payments and report this information in the Agency's annual Performance and Accountability Report (PAR). Additionally, Federal agencies, such as SSA, should take all necessary steps to ensure the accuracy and integrity of Federal payments.

SSA is responsible for an estimated $600 billion in annual benefit payments. The stewardship of these dollars is one of the Agency's primary goals. SSA's extensive efforts regarding the elimination of improper payments are highlighted quarterly in the PMA and annually in the PAR.

Current and Future Actions

Access to Financial Information Project

The Access to Financial Information project automates access to financial institution data. Through the use of Access to Financial Information, SSA expects to eliminate a substantial number of improper SSI payments made to applicants or recipients that have a level of resources that would make them ineligible for SSI benefits.

In FY 2007, the Agency conducted a successful test of a web-based system designed to electronically request account information from financial institutions. SSA also performed a more extensive evaluation study of the system in the New York and New Jersey Field Offices.

The Agency will expand the use of Access to Financial Information to Field Offices in the State of California. Concurrent with this expansion, the Agency is examining integration of this system with the Modernized Supplemental Security Initial Claims System and is developing a proposal for a national expansion of the system.

eWork

eWork is a comprehensive application that assists Agency staff in processing work reports and continuing disability reviews for disabled beneficiaries. The system implementation was completed in March 2007. eWork allows for improved coordination between Field Offices, enabling earnings information to be recorded at the point-of-contact and reducing overpayments.

eVital/Electronic Death Registration

SSA uses death information primarily to prevent the payment of benefits to deceased beneficiaries. eVital/Electronic Death Registration (EDR) is an eGov initiative which assists States in automating their death registration processes. EDR allows the States to verify the decedents Social Security Number online in a real-time environment. EDR allows SSA to receive a verified State death report within five days of death and within 24 hours of the death report's receipt in the State. SSA continues to monitor the progress of the States under contract and provides technical assistance to additional States that are building their vital records systems without SSA contract support. States also have access to several SSA-funded tools they can use to decrease the cost of implementing an EDR system, including Online Verification Software, National Model EDR Requirements Document, and Standards and Guidelines. To date, SSA has implemented EDR in 16 States, New York City, and the District of Columbia. The Agency anticipates 14 additional States will be implemented in FY 2008.

Provisions of the *Intelligence Reform and Terrorism Prevention Act* transfer the funding authority for EDR to the Department of Health and Human Services (HHS). SSA continues to work closely with the Office of Management and Budget and HHS on the transition of eVital to HHS.

Fugitive Felon Program

Refer to *II. Management of the Disability Process*

Continuing Disability Reviews Medical

Refer to *IV. Disability Insurance*

SSI Redeterminations

Refer to *V. Supplemental Security Income*

Piloting an Automated Telephone-based Monthly Wage-Reporting

Refer to *V. Supplemental Security Income*

VII. Service Delivery and Electronic Government (OIG & GAO)

One of SSA's strategic goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services (eGov) to applicants for benefits, beneficiaries, and the public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. eGov has changed the way Government operates and the way citizens relate to Government. Within the next five years, SSA expects to provide cost-effective eGov services to citizens, businesses, and other Government agencies allowing them to easily and securely conduct most of their business with SSA electronically.

Current and Future Actions

Electronic Wage Reporting Web Service

SSA has made significant improvements in the earnings process and service to employers. As of September 2007, 81.2 percent of tax year 2006 employee W-2s were filed electronically. SSA will continue piloting an Electronic Wage Reporting Web Service that will not only allow employers and third parties to submit wage reports more quickly, but also allow them to check the status of their submissions.

In FY 2006, SSA began designing software that will allow payroll software companies to modify their programs to electronically submit wage reports to SSA. This software will continue to be piloted in FY 2008. For tax year 2007, SSA's goal is to receive 81 percent of all W-2s electronically. Refer to page 67 under performance measure 1.3e for more discussion about the FY 2007 goal.

Business Services Online

Business Services Online is a suite of applications enabling organizations and authorized individuals to conduct business with and submit confidential information to SSA. Using Business Services Online, employers can submit wage reports and verify an employee's Social Security Number online. Business entities that have representatives who receive direct payment may provide SSA with the required taxpayer identification information online. Another application, Electronic Records Express, is an initiative to offer electronic options for submitting health and school records related to disability claims. Finally, eData Services is a secure website that allows other agencies to communicate sensitive information to SSA.

Internet Social Security Benefits Application

The Internet Social Security Benefits Application (ISBA) allows the public to apply for retirement, disability, or spousal benefits online. Census data shows that 80 million baby boomers (the generation born between 1946 and 1964) will become eligible to retire starting in January 2008. At the same time, public demand for services available via the Internet has increased. The American Customer Satisfaction Index results show the public wants the option to apply for benefits through a single, easy-to-use, secure Internet application. ISBA retirement usage volumes increased by 11 percent in FY 2007.

To help meet the growing demand for service in FY 2008, SSA is planning several enhancements to the ISBA application. These planned enhancements include usability improvements, additional automated customer support, and the ability for third parties to begin the filing process and protect claimants' filing dates. SSA will also remove two questions that exclude users from completing an online application for benefits, thereby increasing the number of successful claims submitted online. For individuals filing for disability benefits, an enhancement to ISBA will allow information to flow seamlessly into the documentation that is required for all disability applications. In addition, SSA will eventually expand ISBA claims types to include Medicare-only claims.

W-2C Online

SSA uses W-2C Online, which provides employers with the ability to electronically report corrections to W-2 forms, as well as W-2 News, which notifies electronic filers via e-mail of any changes to the employer services provided.

Use of Video Technology

SSA uses video technology to take claims and provide other services in three western States - North Dakota, Wyoming, and South Dakota. This service is in addition to the video hearings offered by the Office of Disability Adjudication and Review (ODAR). SSA has entered into a joint venture with the University of North Dakota, the General Services Administration, local Government, and tribal leaders to establish video networks. Many people live in remote areas of the United States and have restricted access to SSA Field Offices. The video sites offer many of the services provided in a Field Office. Through video technology, SSA is better able to serve the public.

The Agency plans to expand the video network to provide additional sites and services. Locations in Montana are being considered, as well as establishing links between claimants and the State Disability Determination Services. The number of claims taken has increased significantly in areas offering video conferencing.

ODAR also uses video equipment to conduct hearings on appealed claims, thereby reducing the need for judges to travel and increasing the availability of witnesses for hearings. Since 2004, ODAR has held over 120,000 hearings using video technology. ODAR currently has almost 400 video equipped hearing rooms and is continuing to expand their video hearing capacity. ODAR will soon open its National Hearing Center, which will conduct exclusively video hearings using electronic folders. ODAR also plans to expand its efforts to co-locate with SSA field Offices in order to share video technology and extend its network.

Generations Online

In an effort to better engage the senior population, SSA developed a tutorial to assist seniors in conducting three simple transactions on http://www.socialsecurity.gov/: changing an address and/or phone number, requesting direct deposit, and requesting a password.

Retirement Planner

The Retirement Planner provides detailed information about Social Security retirement benefits under current law and provides helpful advice to individuals contemplating retirement.

Changes to the Retirement Planner in FY 2007 included:

- Adding a link to a calculator that allows individuals to compute the effect of early or delayed retirement on their future benefits;

- Rewording the Retirement Planner military service pages to clarify how Social Security treats military service and to explain how SSA credits military service from 1957 through 2001; and

- Notifying applicants that SSA can contact their State Bureau of Vital Statistics online and verify the required information at no cost.

Public Insight Process

SSA developed and implemented the Public Insight Process which is a systematic approach for better integrating "the voice of the user" into the design, development, launch, and enhancement of its Internet products and services. The Public Insight Process will help to: reduce design and development costs; raise the usefulness and usability of eServices and information; increase usage of SSA's electronic services; and provide a framework of ongoing evaluation and continuous improvement. In FY 2007, the Agency applied Public Insight Process-related activities to five eGov projects.

eService Vision and Mission

To the maximum degree possible, SSA's eService program must help offset the estimated large and growing gap between the resources needed and the resources available to handle the projected growth in the volume and complexity of workloads. The Agency cannot afford to continue with business as usual as baby boomers join the rolls in the coming years, and doing so will fail to meet the public's expectations for up-to-date service delivery. The Agency's eService Vision is "A virtual SSA where the public, businesses, and Government agencies can also conduct all business through secure, electronic channels." Due to Congress' deep budget cuts, the Agency cannot fully realize the eService vision for many years. The Vision will, however, provide direction for SSA to guide executive decisions once it is combined with goals and objectives that address all aspects of quality service.

VIII. Internal Control Environment and Performance Measures (OIG)

Sound management of public programs includes both effective internal controls and performance measurement. Internal control includes the plans, methods, and procedures used to meet SSA's goals and objectives. The Office of Management and Budget's (OMB) Circular No. A-123, Management's Responsibility for Internal Control, requires the Agency and its managers to take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls for results-oriented management. SSA management is responsible for determining, through performance measurement and systematic analysis, whether the Old-Age, Survivors and Disability Insurance and Supplemental Security Income programs achieve their intended objectives.

Current and Future Actions

Audit of SSA's FY 2007 Financial Statements

Financial audits determine whether SSA's financial statements fairly present, in all material respects, the financial position of the Agency. SSA's financial statements have received its 14th straight unqualified opinion with no material auditor reported internal control weaknesses. The audit report can be found in the *Financial Section* of this document.

Office of the Inspector General

The Office of Inspector General (OIG) improves SSA programs and operations and protects them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations of the Agency's programs. The OIG provides timely, useful, and reliable information and advice to SSA officials, Congress, and the public. In FY 2007, the OIG completed 105 reviews, began 97 reviews, and supervised the review of 13 performance indicators.

Due to systems limitations, the Agency cannot maintain an entire fiscal year's worth of detail-level data related to several of its performance measures. In addition, SSA believes that the cost for the additional systems storage would outweigh the return on investment. In response to the Agency's systems limitations, OIG agreed to implement a real-time audit approach. This real-time approach is used to audit *Government Performance and Results Act* performance measures that use data from systems that do not have an entire fiscal year's worth of data. The results for these six audits will be reported in the *FY 2008 Performance and Accountability Report*. Refer to page 18 for the results from the real-time audits of the nine performance measures reported in FY 2006.

IX. Systems Security and Critical Infrastructure Protection (OIG)
X.   Information Security (GAO)

SSA's information security challenge is to understand and mitigate system vulnerabilities to ensure that its systems remain secure. Weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations have been identified. While many of these weaknesses have been resolved, SSA needs to monitor these issues diligently to ensure that they do not recur.

Federal information security has been on GAO's list of high-risk areas since 1997. With the enactment of the *Federal Information Security Management Act of 2002*, Congress continued its work to improve Federal information security by permanently authorizing and strengthening key information security requirements. Federal agencies have been issued guidance on appropriate measures to protect sensitive information.

Current and Future Actions

Federal Information Security Management Act of 2002

The *Federal Information Security Management Act* (FISMA) is an Information Technology (IT) Security framework for all Federal agencies. Included as Part III of the *eGov Act of 2002*, FISMA requires all Federal agencies to submit a report to the Office of Management and Budget (OMB) by October 1st of each year. The report summarizes the results of annual IT security reviews of systems and programs, agency progress on correcting identified weaknesses, and the results of other work performed during the reporting period using OMB's performance measures to assess and report the status of agency IT security programs.

SSA ranked fifth among Federal agencies for the FY 2006 FISMA review with a score of "A." The scoring highlights Agency progress and is tabulated by OMB after reviewing all Federal agency FISMA reports. For the second year in a row, SSA was the only Federal agency to receive an "Excellent" rating for its Certification and Accreditation process, both of which are mandated by FISMA.

SSA provides mandatory IT security awareness training each year to all Agency employees. Training is conducted via onsite training presentations, component awareness sessions, and is also available on the Agency's website.

Standardized Security Profile Project

The Standardized Security Profile Project was developed to verify SSA employee profile access to ensure "least privileged" and "need to know" rules are met. The Standardized Security Profile Project places all employee access to systems and data into standardized profiles and institutes a policy of "least privileged" access. Profiles are a way of grouping access needed by more than one individual. Profiles become standardized when the access given by the profile has been tested and approved as being the least necessary access needed by individuals having that profile to do their job.

Personally Identifiable Information

The collection and maintenance of personally identifiable information (PII) is essential to Social Security's mission and SSA takes its obligation to safeguard that information very seriously. In 1939, Congress enacted Section 1106 of the *Social Security Act* requiring that SSA maintain the confidentiality of PII. No disclosure shall be made of any file, record, report, paper, or other information obtained at any time by the Commissioner of SSA or by any officer or employee of SSA in the course of discharging the duties of the Commissioner except as provided by SSA regulations or by Federal law.

Social Security's IT security program includes protection of PII. Further, the Agency holds each employee responsible for safeguarding the PII with which they work and on an annual basis, reminds all employees of this responsibility. In addition to these Agency-level efforts, the components within the Agency proactively re-enforce the importance of protecting PII.

Common Identification for Federal Employees and Contractors

Homeland Security Presidential Directive 12, dated August 27, 2004, entitled "Policy for a Common Identification Standard for Federal Employees and Contractors," created a Federal standard for secure and reliable forms of identification for Federal employees and contractors. The new identification standards are different from the existing SSA identification badges. SSA has already begun issuing the new identification badges. The Agency expects all employees to have the new badges no later than September 30, 2008.

XI. Human Capital (GAO)

GAO first added strategic human capital management as a Government-wide high-risk area in 2001 because Federal agencies lacked a strategic approach to human capital management and failed to integrate human capital efforts with agency mission and program goals. The area remains high-risk as momentum grows toward making Government-wide changes to agency pay, classification, and performance management systems.

SSA recognizes the need to manage the Agency's human capital efforts in anticipation of these Government-wide changes. A key function is organizing the Agency's intellectual resources and information systems. This is also known as knowledge management. SSA continues to create an environment that fosters effective knowledge management. The Agency's knowledge management strategies include maintenance of web-based materials, process documentation, succession planning, mentoring, filling positions before key vacancies occur, using understudies in targeted critical positions, and strategic placement of rehired annuitants.

Current and Future Actions

Recruitment

Although SSA is working more efficiently than in the past, higher productivity and improved processes are not enough. SSA needs to increase the number of Agency employees to keep up with increasing workloads and eliminate the current disability hearings backlogs.

In September 2006, the number of SSA's workforce was approximately 63,000. By September of 2007, the Agency's workforce had dropped to approximately 61,600 – the lowest since 1972, before the Supplemental Security Income program began. The loss of experienced employees and their extensive institutional knowledge is worsened by overall Agency resource constraints that have limited the ability of the Agency to hire new employees. Consequently, the Agency's staffing level is projected to further decrease to approximately 59,000 employees by September 2008.

SSA's National Recruitment Strategy is an effective mechanism for hiring talented individuals to the extent that the budget allows it to be used. SSA's recruitment cadre, marketing materials, and unique brand have made SSA a leader in recruitment initiatives across the Government. SSA's hiring process is strategically managed to ensure timely selections and has expanded the use of structured interviewing in order to select the best possible job candidate.

Diversity

SSA successfully maintains a high degree of diversity among its employees. Seventy percent of SSA employees are women. Forty-seven percent of the workforce is a member of a minority group, compared to 31.8 percent in the rest of Government and 27.4 percent in the national civilian labor force. SSA's minority representation for all groups exceeds their representation in the national civilian labor force. In addition, Employees with Disabilities had an overall workforce representation in SSA of 7.9 percent compared to a Federal workforce representation rate of 7.0 percent. SSA ranks second highest among Federal agencies with 500 or more employees in the percentage of individuals with targeted disabilities.

Competency Development and Training

SSA has developed and implemented a process to identify, assess, and address competencies in its mission-critical positions. In FY 2007, SSA continued to implement a multi-phase plan to ensure that staff in several mission-critical positions are proficient in targeted competencies. SSA uses various methods, including training, recruitment, and hiring, to ensure the workforce has the knowledge, skills, and capabilities necessary. SSA trains employees in over 1,500 locations through a combination of traditional training methods, interactive video training and computer-based training via the Intranet and Internet.

Employee Outreach

SSA employees have electronic access to information about personnel benefits and employee services. In FY 2007, SSA conducted seminars on pre-retirement planning, financial literacy, and mid-career planning. The Agency also successfully implemented several outreach initiatives, such as open season fairs, to help employees take full advantage of available programs, including health benefits and flexible spending accounts.

Leadership and Succession Planning

SSA's leadership and succession planning programs continuously transform to meet the Agency's current and future workforce needs. In FY 2007, SSA released its Strategic Leadership Succession Plan, a blueprint for how SSA will maintain an adequate leadership cadre and talent pool. This plan addresses the Agency's current and future leadership needs, strategic goals, and specific strategies towards achieving those goals.

The Agency is investing resources in developing leaders who will positively influence organizational performance and workforce satisfaction. In FY 2007, SSA conducted two national leadership development programs that foster leadership competency development through assignments, training, mentoring, and exposure to key Agency executives. Eighty participants were selected for the Advanced Leadership Program for GS-13 and GS-14 employees. Thirty-one employees participated in the Senior Executive Service Candidate Development Program. SSA also implemented various regional and component-level development programs and participated in the Office of Personnel Management's Presidential Management Fellows program and other interagency development programs.

SSA is making significant gains in enhancing the skills of its new and mid-level managers. The Agency has arranged five separate introductory leadership courses for over 500 managers this year. In an effort to further strengthen the competencies of Agency managers, SSA continued its new Leadership Symposiums that develop the knowledge and skills of GS-14 and GS-15 mid-level managers. In FY 2007, approximately 900 mid-level managers attended symposiums in six Regions.

Leveraging Technology

SSA continues to develop efficient and user-friendly tools to enable employees to accomplish their tasks and better serve the public. Employees have online access to personnel, payroll, and training data. SSA also uses video conferencing and automated case processing systems to increase productivity. The workforce has steadily become more proficient in the use and application of technology resulting in greater efficiency and quality customer service.

Performance Culture

The alignment of employee performance with the Agency mission and strategic goals is an ongoing priority. In October 2006, SSA implemented a new multi-level performance appraisal program for all employees at the GS-14 level and below and for GS-15 bargaining unit employees. The program fosters communication between managers and employees and allows for distinctions in individual performance.

The Agency plans to further support successful implementation of the new performance appraisal system through both evaluation and ongoing refresher training for supervisors.

Retention

In FY 2007, SSA was identified by the Partnership for Public Service as one of the top ten Best Places to Work in the Federal government, ranking 7th amongst all Government agencies – a significant improvement from its ranking of 21st in FY 2005. SSA was the most improved of all large Federal agencies. Additionally, SSA has maintained a score of "Green" in both status and progress on the President's Management Agenda scorecard demonstrating continuous accomplishments in the Agency's strategic approach to workforce planning and its implementation of effective human capital initiatives.

The Agency is continuously improving its human capital practices to retain talented managers and employees in its workforce. SSA's structured orientation and training programs facilitate employee engagement and welcome new employees. Expanded family-friendly services help employees balance work and family matters. As a result, SSA's retention rate is currently one of the best in the Federal government. For FY 2006, the Agency's overall retention rate was 93.3 percent, as compared to 91.8 percent Government-wide. Refer to performance measure 4.1c on page 89 of the *Performance Section* for more information about SSA's strategy regarding future workforce needs.

THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) is the President's strategy for improving the management and performance of the Federal government with a focus on results. The Agenda contains five Government-wide initiatives in addition to agency specific program initiatives. SSA is involved in the PMA program initiative, Eliminating Improper Payments. Each quarter, the Office of Management and Budget releases a scorecard that rates agencies' progress and overall status on the PMA goals. The scorecard uses a color-coded grading scale: ●Green for success, ●Yellow for mixed results, and ●Red for unsatisfactory.

A summary of SSA's FY 2007 Fourth Quarter Scorecard is provided below. For more information on the PMA and the Agency's complete scorecard, please go to: www.whitehouse.gov/results/agenda or refer to performance measure 2.4f on page 84 of the *Performance Section*.

● Progress	Strategic Management of Human Capital	Status ●
Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with mission objectives and goals.		
● Progress	Competitive Sourcing	Status ●
Achieve efficient, effective competition between public and private sources and establish infrastructure to support competitions.		
● Progress	Performance Improvement Initiative[1]	Status ●
Improve the performance and management of the federal government by linking performance to budget decisions and improve performance tracking and management. The ultimate goal is better control of resources and greater accountability over results.		
● Progress	Expanded Electronic Government	Status ●
Expand the federal government's use of electronic technologies (such as e-procurements, e-grants, and e-regulation) so that Americans can receive high-quality government service.		
● Progress	Improved Financial Performance	Status ●
Maintain world-class financial services that support strategic decision-making, mission performance, and improved accountability to the American people		
● Progress	Eliminating Improper Payments	Status ●
Measure improper payments on an annual basis, develop improvement targets and corrective actions, and track results annually to ensure corrective actions are effective.		

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[1] Effective July 1, 2007, the name of this initiative was changed from *Budget and Performance Integration* to the *Performance Improvement Initiative.*

PROGRAM ASSESSMENT RATING TOOL

The Office of Management and Budget uses the Program Assessment Rating Tool (PART) to evaluate programs across a set of performance-related criteria including program design, strategic planning, program management, and results. Programs are assessed and assigned numeric scores which correspond to the ratings of Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated. PART scores and findings are used to inform the budget process and drive improvements. For more information on the PART, please see: http://www.whitehouse.gov/omb/expectmore/.

The SSA programs that have been evaluated and corresponding assessment ratings have been documented in the chart below. The assessment rating is determined by scoring four sections of each program. The individual scores for each section of the Agency's programs are also documented in the chart below.

SSA's PART Assessment Ratings and Scores (2003 – 2007)	
Program Name	**Assessment Rating and Scores**
Supplemental Security Income	**Moderately Effective**
Program Purpose and Design	60%
Strategic Planning	100%
Program Management	100%
Program Results/Accountability	58%
Old-Age and Survivors Insurance	**Moderately Effective**
Program Purpose and Design	80%
Strategic Planning	100%
Program Management	100%
Program Results/Accountability	75%
Disability Insurance	**Moderately Effective**
Program Purpose and Design	60%
Strategic Planning	88%
Program Management	100%
Program Results/Accountability	58%

For detailed information on the performance measures used to evaluate the effectiveness of SSA's programs, please see the *Agency Performance Summary* charts, beginning on page 49, and pages referenced for each PART performance indicator in the *Performance Section*.

HIGHLIGHTS OF FINANCIAL POSITION

OVERVIEW OF FINANCIAL DATA

SSA's financial statements and footnotes appear on pages 103 through 156. The financial statements presented in this report received an unqualified opinion from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate funds which are financed by payroll taxes, interest on investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.
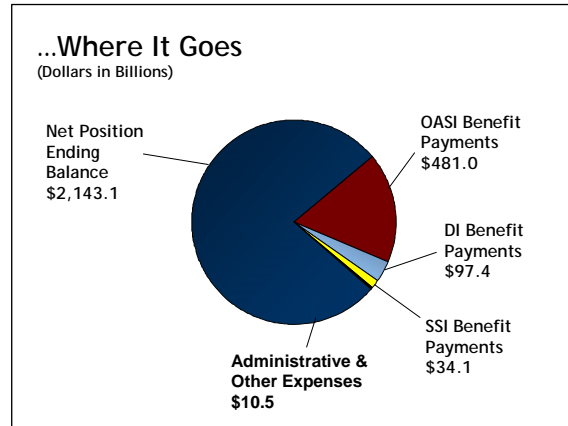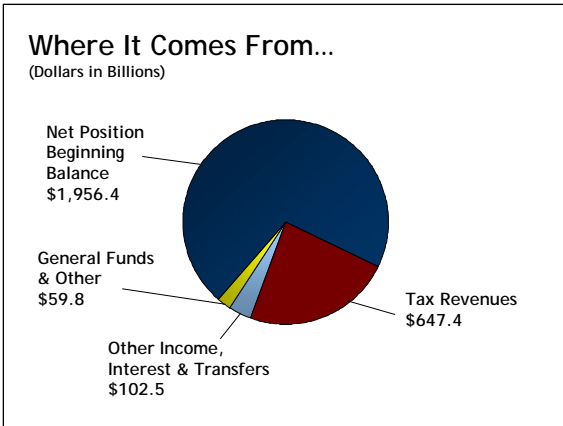
BALANCE SHEET: The Balance Sheet displayed on page 104 reflects total assets of $2,226.3 billion, a 9.4 percent increase over the previous year. Approximately 98.0 percent of assets are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The $186.8 billion growth (9.4 percent) in investments from 2006 is primarily due to tax revenues of $647.4 billion and interest on those investments of $108.5 billion, exceeding the cost of operations of $622.8 billion. The majority of our liabilities, 84.0 percent, consist of benefits that have accrued as of the end of the fiscal year but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Liabilities grew in 2007 by $4.1 billion (5.2 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew $186.6 billion or 9.5 percent to $2,143.1 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 58.1 percent of the growth of the investments, up from 53.7 percent in 2006.

STATEMENT OF NET COST: Net cost of operations increased 5.9 percent or $34.8 billion from $588.0 billion in 2006 to $622.8 billion in 2007. This increase in the net cost of operations is primarily due to the first wave of baby boomers attaining retirement age. Of this increase, $34.9 billion (6.0 percent growth) resulted from increased benefit payments and $92.0 million (0.9 percent decline) resulted from decreased operating expenses. The net cost and benefit payments of the OASI program both grew 6.5 percent, while operating expenses grew by 0.5 percent. The number of OASI beneficiaries grew 1.1 percent to 40.9 million while average benefit payments grew by 4.4 percent to $990 per month. The net cost and benefit payments of the DI program grew 6.9 percent and 7.1 percent, respectively. Operating expenses decreased by 0.5 percent. The number of DI beneficiaries grew by 3.1 percent while average benefits increased 4.2 percent to $839 per month.

The net cost and benefit payments of the SSI program decreased 2.9 percent and 3.1 percent, respectively. The decrease is primarily due to SSI having 12 months of benefit payment activity in FY 2006, versus 11 months of activity in FY 2007. There were only 11 months of activity in FY 2007 because October 1, 2006 was on a Sunday so the benefit payment for October was accelerated into September 2006. Operating expenses decreased by 1.0 percent. The number of SSI beneficiaries grew by 1.8 percent while maximum benefits increased by 3.3 percent to $623 per month. The operating expenses of the Other program, which consists primarily of administrative expenses charged to the Health Insurance and Supplemental Medical Insurance Trust Funds, grew by 3.7 percent.

STATEMENT OF CHANGES IN NET POSITION: The Statement of Changes in Net Position reflects an increase of $186.6 billion in the net position of SSA. This increase is primarily attributable to a $186.8 billion increase in investments. At this time tax revenues continue to exceed benefit payments. The following charts summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds SSA was provided in FY 2007 and how these funds were used. These statements are displayed on pages 105 and 106, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate investments to pay future benefits. When funds are needed to pay administrative expenses or benefit entitlements, investments are redeemed to supply cash to cover the outlays. Administrative expenses, as a percent of

benefit expenses, is 1.7 percent. In 2007, total financing sources grew by $37.4 billion or 4.8 percent from $772.0 billion in 2006 to $809.4 billion in 2007. The primary sources for this growth were a payroll and income tax revenue increase of $27.4 billion (4.4 percent) from 2006 due to a continuing improvement in the United States' economy and investment income of $8.6 billion (8.6 percent) from 2006. The growth in investment income was due to increasing assets of the combined OASI and DI Trust Funds and an increase in the average interest yield from 6.43 percent to 6.59 percent.
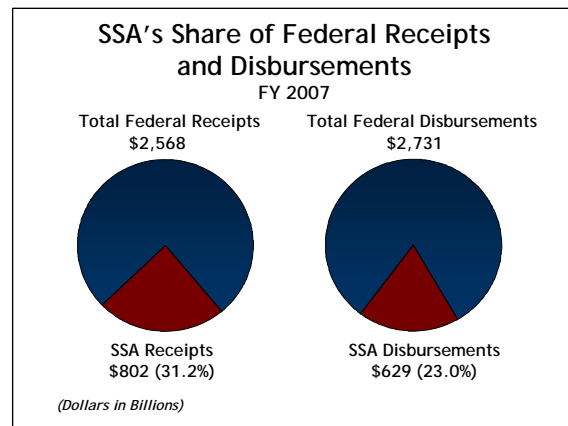
Where It Comes From...
(Dollars in Billions)

- Net Position Beginning Balance $1,956.4
- General Funds & Other $59.8
- Other Income, Interest & Transfers $102.5
- Tax Revenues $647.4

...Where It Goes
(Dollars in Billions)

- Net Position Ending Balance $2,143.1
- OASI Benefit Payments $481.0
- DI Benefit Payments $97.4
- SSI Benefit Payments $34.1
- Administrative & Other Expenses $10.5

STATEMENT OF BUDGETARY RESOURCES: This statement displayed on page 107 shows that SSA had $665.0 billion in budgetary resources of which $3.1 billion remained unobligated at year-end. SSA recorded total net outlays of $621.8 billion by the end of the year. Budgetary resources grew $34.0 billion, or 5.4 percent from 2006, while net outlays increased $36.3 billion, or 6.2 percent.

STATEMENT OF SOCIAL INSURANCE: Effective for FY 2006 and thereafter, Federal Accounting Standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of existing and future participants of social insurance programs, the present value of the cost of providing scheduled benefits to those same individuals and the difference between the income and cost. The Statement of Social Insurance displayed on page 108 for the Social Security program covers a period of 75 years in the future and the information and disclosures presented are deemed essential to fair presentation of our financial information.
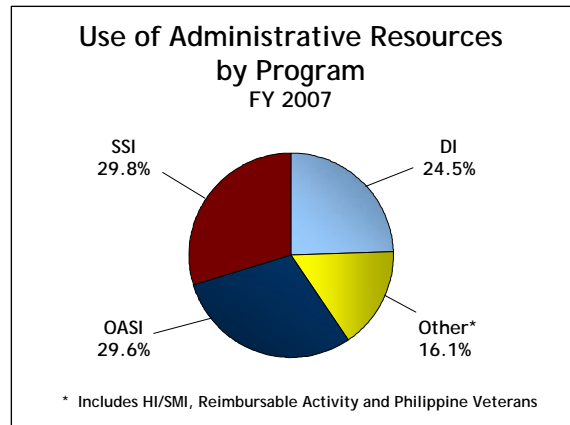
SSA'S SHARE OF FEDERAL OPERATIONS

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the chart to the right. Receipts for our programs represented 31.2 percent of the $2.6 trillion in total Federal receipts, a decrease of 1.1 percent over last year as Federal income tax collections grew more rapidly than payroll taxes. Disbursements increased by 0.6 percent to 23.0 percent of Federal disbursements.

SSA's Share of Federal Receipts and Disbursements
FY 2007

Total Federal Receipts $2,568

Total Federal Disbursements $2,731

SSA Receipts $802 (31.2%)

SSA Disbursements $629 (23.0%)

(Dollars in Billions)

USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2007 in terms of the programs SSA administers or supports. Although the DI program comprises only 15.9 percent of the total benefit payments made by SSA, it consumes 24.5 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.6 percent of the total benefit payments made by SSA, it consumes 29.8 percent of annual administrative resources. Claims for DI and SSI disability benefits are processed through State Disability Determination Services where a decision is rendered on whether the claimant is disabled. In addition, the Agency is required to perform continuing disability reviews on many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2006 use of administrative resources by program was 29.2 percent for the OASI program, 24.4 percent for the DI program, 29.8 percent for the SSI program and 16.6 percent for Other.

Use of Administrative Resources by Program
FY 2007

SSI 29.8%
DI 24.5%
OASI 29.6%
Other* 16.1%

* Includes HI/SMI, Reimbursable Activity and Philippine Veterans

OASI AND DI TRUST FUND SOLVENCY

PAY-AS-YOU-GO FINANCING

The OASI and DI Trust Funds are deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund assets. In recent years, current income has exceeded program obligations for the OASDI program, and thus the combined OASI and DI Trust Fund assets have been growing. The following table shows that OASI and DI Trust Fund assets, expressed in terms of the number of months of program obligations that these assets could finance has grown from 35.9 months at the end of FY 2003 to an estimated 42.8 months at the end of FY 2007, an increase of 19 percent.

Number of Months of Expenditures Fiscal-Year-End Assets Can Pay[1]					
	2003	2004	2005	2006	2007
OASI	37.8	39.9	42.6	44.4	46.8
DI	26.2	25.4	25.0	24.2	23.7
Combined	35.9	37.5	39.6	40.9	42.8

[1] Computed as 12 times the ratio of end-of-year assets to outgo in the following fiscal year.
Note: Values for 2006 and 2007 are estimates that are based on 2007 Trustees Report intermediate assumptions.

SHORT TERM FINANCING

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of OASI and DI Trust Fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2007 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2007 Trustees Report, OASDI estimated expenditures and income for 2016 are 86 percent and 72 percent higher than the corresponding amounts in 2006 ($555 billion and $745 billion, respectively). From the end of 2006 to the end of 2016, assets are expected to grow by 118 percent, from $2.0 trillion to $4.5 trillion.

OASDI Income Exceeds Expenditures Increasing Assets for Short Term

Current Dollars in Billions
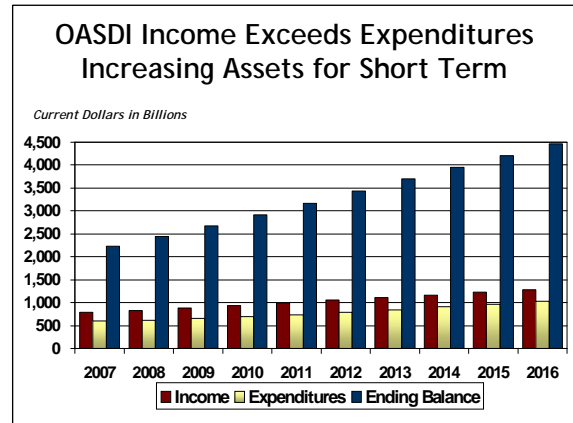
LONG TERM FINANCING

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. In 2017, program cost will exceed tax revenues, and, in 2041, the combined OASI and DI Trust Funds will be exhausted according to the projections by Social Security's Chief Actuary. The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth rates well below historical levels. In present value terms, the 75 year shortfall is $4.7 trillion, which is 1.8 percent of taxable payroll and about 0.7 percent of Gross Domestic Product (GDP) over the same period. Possible reform alternatives being discussed – singularly or in combination with each other – are (1) increasing payroll taxes, (2) slowing the growth in benefits, (3) using general revenues or (4) increasing expected returns by investing, at least in part, in private securities through either personal accounts or direct investment of OASI and DI Trust Fund assets.

For more information, pages 141 through 156 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

LIMITATION ON FINANCIAL STATEMENTS

The principal financial statements beginning on page 104 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of SSA in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

SYSTEMS AND CONTROLS

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)
ASSURANCE STATEMENT
FISCAL YEAR 2007

SSA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. SSA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, SSA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

SSA also conducts reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, SSA can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2007.

In addition, SSA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that SSA's internal control over financial reporting was operating effectively as of September 30, 2007.

Michael J. Astrue
November 7, 2007

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

SSA has a well established Agency-wide management control and financial management systems program as required by FMFIA. The Agency accomplishes the objectives of the program by:

- Integrating management controls into its business processes and financial management systems at all organizational levels;

- Reviewing its management controls and financial management systems controls on a regularly recurring basis; and,

- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

SSA has no FMFIA material weaknesses to report this year. Agency managers are responsible for ensuring that effective controls are implemented in their areas of responsibilities. SSA senior level executives are required to submit to the Commissioner of Social Security an annual assurance statement providing reasonable assurance that functions and processes under their areas of responsibility functioned as intended and that there were no major weaknesses that would require being reported, or a statement indicating that such assurance could not be provided. This executive accountability assurance provides an additional basis for the Commissioner's annual assurance statement.

The Agency's Executive Internal Control (EIC) committee, consisting of senior managers and chaired by the Deputy Commissioner of Social Security, ensures SSA compliance with the requirements of FMFIA and other related legislative and regulatory requirements. If a major control weakness is identified in the Agency, the EIC determines if the weakness should be considered a material weakness and thus submitted to the Agency head for final determination.

Effective internal controls are incorporated into the Agency's business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls and the new or changed processes and systems are reviewed by management to certify that the controls are in place. The controls are then tested prior to full implementation to ensure they are effective.

Management control issues and weaknesses are identified through audits, reviews, studies and observation of daily operations. SSA conducts internal reviews of management and systems security controls in its administrative and programmatic processes and financial management systems. The reviews are conducted to evaluate the adequacy and efficiency of the Agency's operations and systems to provide an overall assurance that the Agency's business processes are functioning as intended. The reviews also ensure that management controls and financial management systems comply with the standards established by FMFIA and OMB Circulars A-123, A-127 and A-130. The reviews encompass SSA's business processes such as enumeration, earnings, claims and postentitlement events, debt management and SSA's financial management systems. SSA develops and implements corrective action plans for weaknesses found through the reviews and audits and tracks the corrective actions until the weaknesses are corrected.

MANAGEMENT CONTROL REVIEW PROGRAM

SSA has an Agency-wide review program for management controls in its administrative and programmatic processes. Locations chosen for review are selected by considering performance measures in selected critical processes and by using the experience and judgment of the regional security personnel. During FY 2007, SSA personnel and contractor conducted reviews at 215 Field Offices, 6 Program Service Centers (PSC) and 28 Hearings offices.

SSA continues to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). The DDSs perform annual security self-reviews using the guidelines and a review checklist. Additionally, SSA's Regional Offices (RO) and contractor perform independent security reviews of the DDSs using this same review checklist. The ROs develop a 5-year review plan in which each State DDS is reviewed at least once to ensure adherence to SSA's policies. During FY 2007, SSA and the contractor conducted reviews of 25 DDS sites.

SSA contracted with an independent public accounting firm to review the Agency's management control program, evaluate the effectiveness of the program and make recommendations for improvement. Annually, the contractor reviews operations at SSA's central office, and selected ROs, PSCs, and DDS's. The contractor's efforts have indicated that SSA's management control review program appears to be effective in meeting management's expectations for compliance with Federal requirements.

FINANCIAL MANAGEMENT SYSTEMS (FMS) REVIEW PROGRAM

OMB Circular A-127 requires agencies to maintain an FMS inventory and to conduct reviews to ensure FMS requirements are met. In addition to pure financial systems, SSA also includes all major programmatic systems in this FMS inventory. Within a 5-year period, SSA conducts both a detailed review and a limited review of each system. An independent contractor conducts the detailed review at audit level standards including transaction testing and the system manager conducts the limited review.

During FY 2007, SSA's contractor conducted a detailed review of SSA's Title 2 Redesign System and performed a risk and vulnerability assessment of SSA's National Computer Center. The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations or Federal standards.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Commissioner has determined that SSA's financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) for FY 2007. In making this determination, he considered all the information available, including the auditor's opinion on the Agency's FY 2007 financial statements, the report on management's assertion about the effectiveness of internal controls and the report on compliance with laws and regulations. He also considered the results of the financial management systems reviews and management control reviews conducted by the Agency and its independent contractor.

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted for the audit of SSA's FY 2007 financial statements. The auditor found that the basic financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The auditor also found that management fairly stated that SSA's internal control over financial reporting was operating effectively, and reported no instances of noncompliance with laws, regulations or other matters.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The *Federal Information Security Management Act* (FISMA) requires Federal agencies to conduct an annual self-assessment review of their Major Information Technology Systems Security Testing and Controls (ST&E) program, to develop and implement corrective actions for identified security weaknesses and vulnerabilities, and to report to OMB on the Agency's compliance. An independent contractor's evaluation indicated that SSA's controls methodology was consistent with established FISMA requirements. SSA's OIG also performed an independent review of SSA's compliance with FISMA and concluded that SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on October 1, 2007.

FINANCIAL MANAGEMENT

(Section 52.4(a), OMB Circular A-11)

GOALS AND STRATEGIES

The President's Management Agenda (PMA) is a coordinated strategy to reform Federal management and improve program performance. The PMA outlines five government-wide and nine agency specific areas that need to be revamped to better serve the American people. OMB issued scorecard standards for success for each of the PMA initiatives. Information on the PMA and the scoring criteria may be found at www.results.gov.

One of the five government-wide targets is to improve financial performance by ensuring that agencies have accurate and timely financial information to manage cost and inform decision-making. Over the years, SSA has worked hard to improve its financial management. SSA attained a status score of "green" for the Improved Financial Performance PMA initiative as of the third quarter of 2003. SSA's achievement of "green" status was the culmination of efforts over more than a decade in implementing sound financial management practices. SSA has maintained its "green" status by continuing to receive an unqualified opinion on its financial statements with no material weaknesses cited by the auditors; having financial systems compliant with Federal law; and demonstrating to OMB that SSA uses accurate and timely information to manage the Agency. SSA continues to get beyond green by developing new initiatives that will enhance the existing financial and management information systems. These actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The Agency's goal is to maintain the "green" status and to achieve the milestones established for improvement.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

SSA's FMS inventory is reviewed annually and is updated to reflect the most recent status as a result of systems modernization projects. SSA maintains an inventory of twelve FMS that are categorized under the broad categories of Program Benefits, Debt Management, or Financial/Administrative.

SSA continues the long-term development of its FMS following a defined strategy. In the Program Benefits category, SSA is continuously involved in streamlining the systems and incorporating new legislative requirements. In the Financial/Administrative category, Social Security Online Accounting and Reporting System (SSOARS), a federally certified accounting system based on Oracle Federal Financials, was implemented as SSA's System of Record on October 1, 2003. Throughout FY 2007, SSA continued to exercise the Commercial Off-the-Shelf technology available in this software to integrate agency financial systems that traditionally integrate with SSOARS by providing real-time access to validate accounting information and fund availability. SSA contracted out some of the day-to-day maintenance of the system to Oracle on Demand, which is considered to be a first step in meeting the Financial Management Lines of Business requirements by OMB.

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