

Social Security

**Accountability Report
For Fiscal Year 1998**



Foreword

We are proud to issue our fourth Accountability Report covering FY 1998 performance. The Accountability Report, authorized by the Office of Management and Budget, consolidates the mandatory reporting requirements of the Chief Financial Officers Act, Government Performance and Results Act (GPRA), Prompt Payment Act, Debt Collection Act and the Federal Managers' Financial Integrity Act. Also included are the Office of the Inspector General (OIG) Inspector General's Report to Congress and the Social Security Administration's (SSA) Management Report on Final Action to OIG recommendations. In addition, we have incorporated the reporting requirements of Section 206(g) of the Social Security Independence and Program Improvements Act.

The program and financial performance information presented in this report covers all the programs administered by SSA. The Management Discussion and Analysis provides retrospective, as well as prospective, information that is relevant to SSA and its stakeholders. A number of key issues that will impact our future operations such as program solvency and Year 2000 computer readiness are discussed in the "Major Issues Facing SSA" section. The Management Discussion and Analysis also includes the "Performance Goals and Results" section that discusses the Agency's five strategic goals and key performance measures used to gauge our success in meeting these strategic goals. This section graphically presents trend data for key performance measures as well as the Agency's ability to meet targeted performance.

Following the Management Discussion and Analysis section are the Agency's audited financial statements and footnotes that received an unqualified opinion from the independent accounting firm PricewaterhouseCoopers. Next, additional detailed program and financial information is discussed. The report concludes with the auditor's opinion on SSA's financial statements, report on SSA's assertion on internal controls, report on SSA's compliance with laws and regulations and the OIG's Report to Congress.

SSA's FY 1998 GPRA Performance Report is provided on pages 60 through 69. It contains actual performance against performance targets included in SSA's FY 1999 Annual Performance Plan.

SSA's Accountability Report and other information about the Social Security programs are available through the Internet on SSA's home page at <http://www.ssa.gov>. The SSA homepage is updated on an ongoing basis with current information relating to the Social Security programs and our administration of these programs.



SOCIAL SECURITY

A Message From the Commissioner

I am pleased to present SSA's Accountability Report for Fiscal Year (FY) 1998. The Report provides a complete picture of SSA's program performance and financial accountability in meeting its mission and strategic goals. The Report also provides information on SSA's progress in achieving those goals and demonstrates strong stewardship and accountability in administering the Social Security programs.

During FY 1998, SSA made great strides in addressing the priorities I established as Commissioner: education on the long-term solvency of the Social Security program; assuring program integrity; providing responsive service and guaranteeing equity for all claimants and beneficiaries; strengthening our long-range planning and improving our policy making process. We continue to take a proactive role in educating the American public about Social Security so they will be prepared to take an active role in discussions about the future of the program.

I am also pleased to report that this is the fifth consecutive year SSA's financial statements have received an unqualified opinion. Furthermore, the auditors found that management's assertion on SSA's compliance with the Office of Management and Budget's accounting and internal control objectives is fairly stated in all material respects. In addition, some of the reportable conditions from FY 1997 are no longer identified as reportable conditions in FY 1998 and the auditors also observed that noteworthy progress was made in addressing the remaining ones. While improvements have been made in the internal control area, we recognize that more needs to be done and are committed to strengthening these remaining areas as soon as possible.

SSA is considered by the public to be among the most responsive public service agencies in Government. SSA's toll-free-800 number, which celebrated its tenth anniversary recently, is one of the world's largest 800-number networks. We are committed to providing fair and equitable service to all of our customers whether they are among the 72 million Americans who phone our toll-free-800 number each year, the 26 million who walk into our field offices annually, or the growing number of people seeking information through the Internet. We strive to serve our customers quickly, accurately, and in ways they find most convenient.

During FY 1998, SSA was at the forefront of Government and private organizations dealing with Year 2000 computer issues. Fueled by the foresight and diligent work of our employees, SSA received an A from the House Subcommittee on Government Management, Information and Technology for its efforts to ensure that services are not interrupted and most importantly, that benefit payments will continue timely at the turn of the century. In addition, during 1998 SSA was selected as a recipient of the John N. Sturdivant National Partnership Award in recognition of our accomplishments in union-management relations.

Throughout its 63-year history, Social Security has made a difference in the lives of Americans, young and old. SSA has an obligation not only to strengthen the program's financial outlook in the 21st century, but to be responsible and careful stewards of our programs today. We have set ambitious goals for ourselves and we will do everything we can to achieve them. SSA is prepared to meet the challenges of the future and to serve the American people as responsible stewards of this important public trust.



A handwritten signature in black ink that reads "Kenneth S. Apfel". The signature is written in a cursive, flowing style.

Kenneth S. Apfel
Commissioner
of Social Security



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Ten-Year Summary of Financial Highlights..

For the Fiscal Years Ended September 30, (Dollars in Billions, except for unit costs)	1989	1990	1991	1992
Assets				
Investments	\$157.0	\$215.2	\$268.7	\$319.4
Total Assets	163.5	223.0	278.4	329.2
Financing Sources				
Tax Revenues	\$268.2	\$286.7	\$299.3	\$308.2
Interest Income	11.5	17.1	21.1	24.6
Total Exchange Revenue and Financing Sources	303.0	326.0	346.1	363.5
Outlays				
Benefit				
OASI	\$204.6	\$219.0	\$236.1	\$251.3
DI	22.5	24.3	26.9	30.4
SSI	11.4	11.5	14.6	17.9
Administrative	4.0	3.9	4.3	4.9
Ratios				
Return on Trust Fund Investments	10.3%	10.3%	9.5%	9.0%
Long Range OASDI Actuarial Deficit as a Percentage of Taxable Payroll	.70%	.91%	1.08%	1.46%
Administrative Outlays as % of Benefit Outlays	1.7%	1.5%	1.6%	1.6%
% Change in SSA's Overall Productivity	5.5%	(2.4%)	(2.1%)	9.7%
Number of Beneficiaries (In Millions)*				
OASI	34.9	35.4	36.0	36.5
DI	4.1	4.2	4.4	4.8
SSI	4.6	4.8	5.0	5.5
Unit Costs (Current Dollars)				
Issue SSNs	\$12.94	\$11.51	\$12.11	\$12.16
Process Annual Wage Reports	.60	.50	.49	.53
Issue Earnings Statements**	5.22	5.26	4.83	4.16
Process Initial Claims (Overall Average)	471.73	451.38	460.51	447.46
Maintain Benefit Rolls (Overall Average Per Work Unit)	23.21	23.09	20.17	19.06
Provide Due Process (Overall Average)	872.75	880.83	889.75	741.02
Cost to Collect \$1	NA	.13	.13	.13

* Includes individuals receiving benefits from more than one program.

** SSA began issuing legislatively mandated SIPEBES in FY 1995; those costs are reflected in the FY 1995-1998 unit costs.



1993	1994	1995	1996	1997	1998
\$365.7 376.4	\$419.5 450.1	\$483.2 499.1	\$549.5 565.9	\$631.0 648.6	\$730.3 748.6
\$316.5 27.4 378.0	\$340.8 30.1 407.9	\$356.2 34.2 427.4	\$381.2 37.6 449.5	\$405.3 42.5 477.4	\$432.0 48.0 510.8
\$264.6 33.6 21.0 5.2	\$276.3 36.8 24.2 5.4	\$288.6 40.2 24.5 5.7	\$300.0 43.2 24.3 5.6	\$312.9 45.4 26.5 6.2	\$324.3 47.7 27.4 6.7
9.0%	8.1%	8.0%	7.7%	6.7%	7.3%
1.46% 1.6% 7.5%	2.13% 1.6% 2.1%	2.17% 1.6% 5.2%	2.19% 1.5% 2.3%	2.23% 1.6% 2.2%	2.19% 1.7% 7.4%
36.9 5.2 5.9	37.2 5.5 6.2	37.5 5.8 6.5	37.6 6.0 6.6	37.8 6.1 6.6	37.9 6.3 6.6
\$ 12.27 .56 4.21 414.81	\$12.68 .62 4.97 417.58	\$12.53 .57 1.80 388.87	\$13.65 .49 2.14 385.28	\$14.75 .42 1.83 398.04	\$14.01 .35 .89 367.23
16.86 658.84 .13	16.31 684.36 .13	16.49 707.61 .13	17.12 754.97 .12	19.16 772.77 .09	19.85 784.54 .11

Management's Discussion and Analysis

Introduction

The Management's Discussion and Analysis (MD&A) is designed to provide a high level overview of the Agency—in short, it provides a description of who we are, what we do and how well we meet the goals we have set.

The Mission and Organizational Structure section highlights the Agency's mission as refreshed in our September 1997 Strategic Plan. This section also discusses the major programs we administer: the Old Age and Survivors Insurance (OASI) Program and the Disability Insurance (DI) Program (commonly known as Social Security) as well as the Supplemental Security Income (SSI) Program.

Following the Mission and Organizational Structure section is a discussion of the Major Issues that SSA will be facing in the future. We use the Accountability Report to provide a snapshot of the performance we were able to achieve in FY 1998. However, the status of SSA would not be complete without providing a sense of the challenges tomorrow brings. These challenges include long-term solvency of the Social Security program as well as topics that have a more immediate impact on our operations such as year 2000 computer readiness, SSI management improvement and fraud prevention and detection. While these issues are challenging, we believe we have the policies and plans in place to help ensure they are adequately addressed.

Next, the MD&A discusses SSA's ability to achieve the five strategic goals contained in our current strategic plan. In February 1998, we provided Congress with our FY 1999 Annual Performance Plan outlining the measures we used to assess our ability to meet these five strategic goals. This plan also included performance targets for both FYs 1998 and 1999. The Performance Goals and Results section displays selected measures, targeted performance for FY 1998 and the actual performance achieved. We are not required to submit an Annual Performance Report until March 2000; however, we believe this information is both important and relevant and needs to be shared with the public immediately. Our complete Annual Performance Report is located on pages 60 through 69.

In addition to discussing program performance, the MD&A also addresses our 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 the Commissioner's FMFIA assurance statement, the actions SSA has taken to address our management control responsibilities and a discussion of the Agency's FMFIA material weakness and plan to correct this weakness.

Mission and Organizational Structure

In 1935, when the United States was just moving out of the depths of the economic depression, President Franklin D. Roosevelt led his fellow citizens in making a promise to themselves, to their families and to future generations—to promote the economic security of the nation through the creation of what has been the most successful domestic program of all time—Social Security. That promise is a critical part of our social fabric today.

Mission Statement

To promote 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

The Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. Protection for survivors of deceased retirees was added by the 1939 amendments, thus creating the Old Age and Survivors Insurance (OASI) program. Social Security protection for workers was expanded again in 1956 to include the Disability Insurance (DI) program. SSA's responsibilities were further expanded in 1972 to include the Supplemental Security Income (SSI) program. SSA's responsibilities in 1998 focused on administration of these three entitlement programs that deliver cash benefits to about 50 million beneficiaries every month.

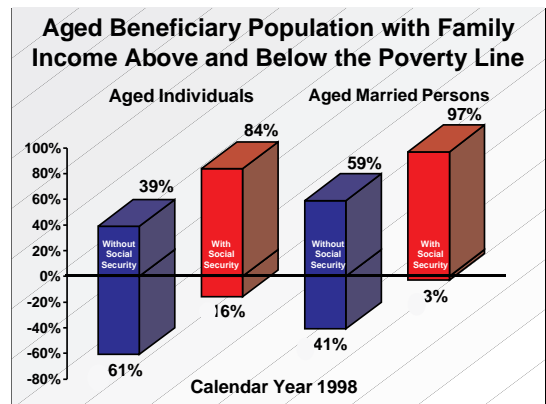
The OASI and DI programs, commonly referred to as Social Security, provide a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through payroll taxes paid by workers and their employers and by self-employed people. Social Security is intended to replace a portion of these lost earnings, but people are encouraged to supplement Social Security with savings, pensions, investments and other insurance.

Social Security benefits have significantly improved the economic well being of the nation. Poverty among the elderly has been reduced by 64 percent over the past 30 years. In 1936, when Social Security numbers were first assigned to workers, many of the nation's elderly were living in poverty. The monthly benefit amount to which an individual (or spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her

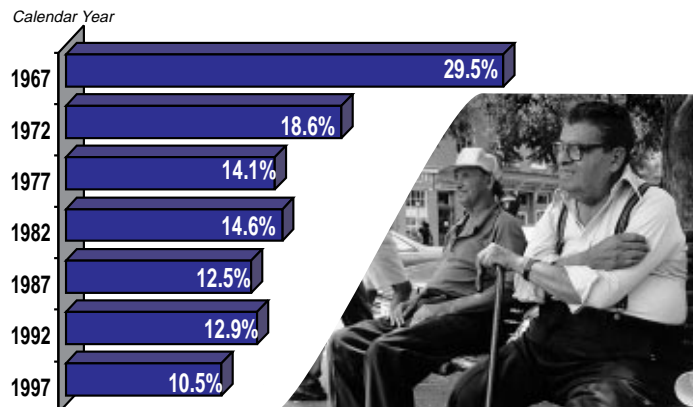
lifetime. The maximum amount of earnings on which contributions were payable in 1997 was \$65,400 and increased to \$68,400 in 1998.

OASI Program - In 1998, the family income of 16 percent of aged, unmarried beneficiaries fell below the poverty line. Without Social Security benefits, 60 percent of those beneficiaries would have income below the poverty line, a difference of 44 percent due to receipt of Social Security. Social Security also lifted many aged married beneficiaries out of poverty.

In 1998, 3 percent of aged beneficiaries who were members of a married couple had income below the poverty line. Without Social Security benefits, 41 percent of these beneficiaries would have income below the poverty line, a difference of 38 percent.

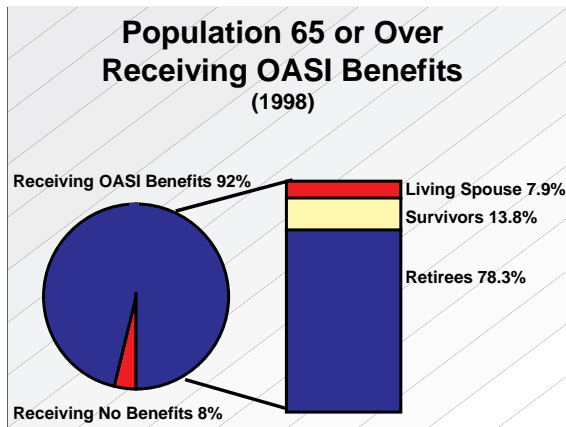


Poverty Rate Among the Elderly

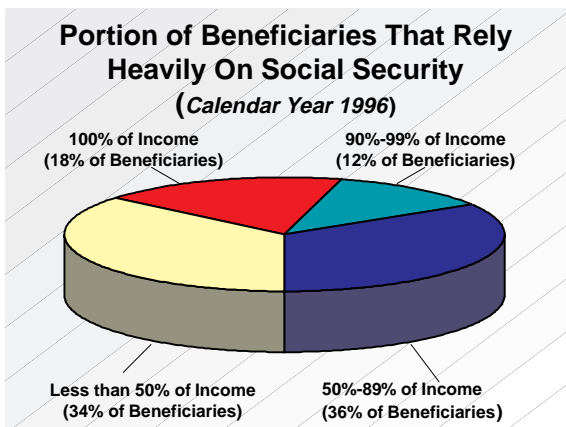


To qualify for OASI benefits, a worker must have paid Social Security taxes (FICA and/or SECA) for at least 10 years (or 40 quarters) over the course of his/her lifetime. Individuals born before 1929 need fewer quarters to qualify. Nine out of 10 working Americans can count on benefits when they retire, with reduced benefits payable as early as age 62. Benefits are also paid to certain members of retired workers' families and to survivors.

Ninety-two percent of people age 65 or over in calendar year 1998 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and spouses with children in their care under 16 can count on benefits if a working parent dies.

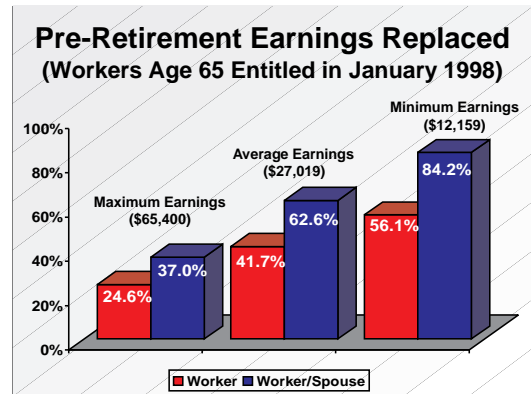


Social Security benefits comprised 40 percent of the aggregate share of all income to the aged population 65 and over. Other sources of income include assets (18 percent), earnings (20 percent), and pensions (18 percent) both Government and private.



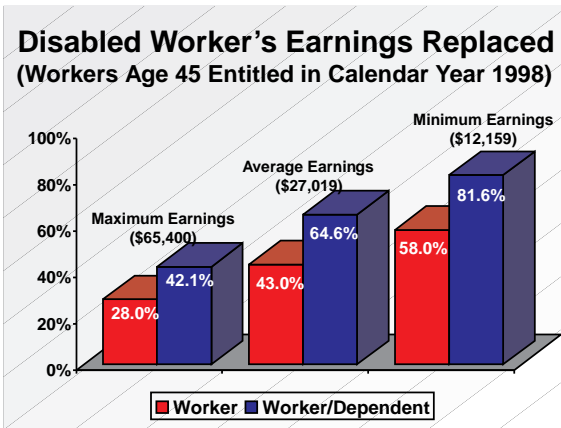
While many of the nation's aged population have income from other sources, a portion of the beneficiary population relies heavily on Social Security. For 18 percent of beneficiaries, it is the only income; for another 12 percent of the population, it contributes almost all of the income; and for another 36 percent, it is the major income source.

The level of pre-retirement earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted to give more credit to workers with low levels of earnings. The following chart shows the replacement rate for individuals and couples at various earnings levels (calendar year 1998).

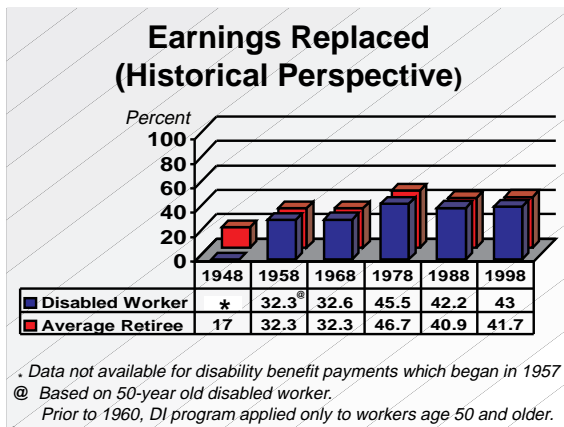


DI Program - To qualify for DI benefits, an individual must meet a test of substantial recent covered work. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. Three of four working Americans age 21 through 64 can count on receiving benefits if they become disabled. Workers are considered disabled if they have severe physical or mental conditions that prevent them from engaging in substantial gainful activity. The condition must be expected to last for a continuous period of at least 12 months or to result in death.

Once benefits begin, they continue for as long as the worker is disabled and does not perform substantial gainful work. There are provisions that provide incentives for work. Disability cases are reviewed periodically to determine if the worker continues to be disabled. The chart below shows the replacement rate for disabled workers and their dependents at various earnings levels (calendar year 1998).



The following chart presents a historical perspective on earnings replacement for both the OASI and DI programs.

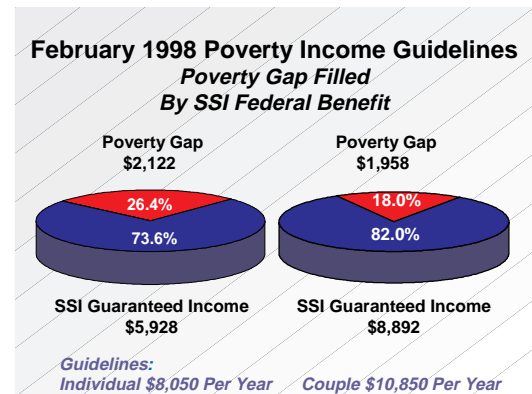


SSI Program

SSI is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security trust funds. Qualified recipients receive monthly cash payments from

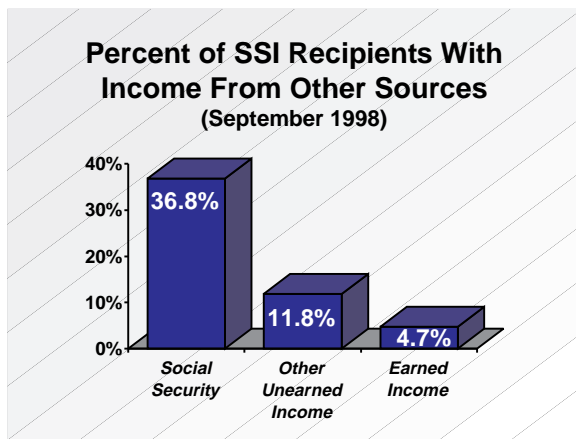
SSA sufficient to raise their income to the level guaranteed by the Federal SSI Program. Children, as well as adults, can receive payments because of disability or blindness. The definitions of disability and blindness used in the SSI program, as well as continuing disability review procedures are the same as those used in the DI program. There are provisions to provide incentives for work including special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide.

As shown in the chart below, SSI recipients with no other income receive the full SSI Federal benefit which is 73.6 percent of the poverty level for an individual and 82 percent for a couple. Those with other income receive less since the SSI Federal and State benefits may be reduced by the income they receive from other sources.

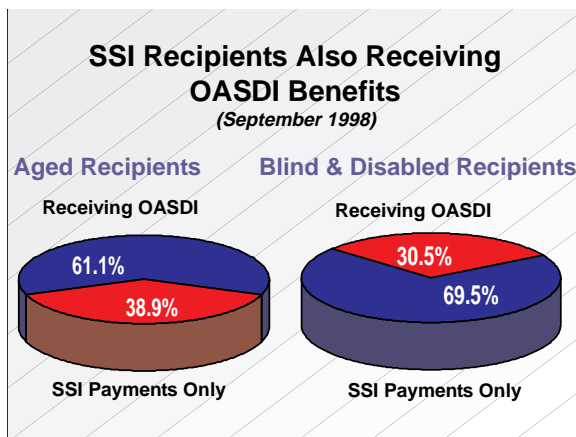


The portion of the poverty gap not filled by Federal SSI may be supplemented by State SSI payments. Also, SSI recipients may be eligible for food stamps, Medicaid and social services.

In September 1998, as shown by the chart at the top of page 5, 36.8 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.7 percent of the recipients, earnings were a source of additional income, and 11.8 percent had unearned income from other sources, such as Veterans' pensions.



OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 36.8 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (61.1 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.5 percent).



Support to Other Programs

In addition to its basic programs, SSA also provides a significant measure of service delivery support to other programs, particularly Black Lung, Medicare, Medicaid, Railroad Retirement and Food Stamps.

Black Lung (BL) Program - - The BL Program pays monthly cash benefits to coal mine workers and their dependents and survivors. SSA is

responsible for administering Part B of the BL program under title IV of the Federal Coal Mine Health and Safety Act. Part B covers claims filed by miners before July 1973 and survivor claims filed before January 1974 or within 6 months of the death of a miner or widow on the SSA rolls, whichever is later. Any claims filed after these dates generally are the responsibility of the Department of Labor (DOL) covered under Part C of the program.

SSA is also responsible for taking claims for, and performing certain other services related to Part C benefits. In FY 1998, SSA field offices took 330 claims for Part C benefits and transferred them to DOL for payment, as required by law. SSA received full reimbursement from DOL for these services. Beginning in FY 1998, DOL certified for payment all Part B benefits from funds appropriated to SSA. However, SSA retains responsibility for these payments.

Medicare - - Being a primary public-contact point for the Health Care Financing Administration (HCFA), SSA provides key services to the Medicare program. SSA staff determine Medicare eligibility, maintain the computerized records of Medicare eligibility, and collect Medicare premiums through withholdings from Social Security payments. Annually, SSA devotes about 1,536 workyears to supporting these workloads and is reimbursed by the Medicare trust fund for these services.

Medicaid - - In 31 States and the District of Columbia, eligibility for SSI benefits confers automatic entitlement to Medicaid. Thus, the SSI eligibility determination made by SSA saves a significant amount of workyears for these States. SSA also provides information and referral services in support of Medicaid and is directly funded by the States and HCFA.

Railroad Retirement - - SSA provides services in connection with entitlement to benefits from the Railroad Retirement Board (RRB). SSA takes the applications, determines jurisdiction and coordinates benefit payments with the RRB. The latter organization, as required by statute, issues a combined monthly benefit payment when a retiree is entitled to both railroad and Social Security retirement benefits due to having worked for both the railroad and other

industries prior to retirement. SSA reimburses the RRB for OASI benefits paid on SSA's behalf. In addition, SSA arranges an annual financial interchange with the Railroad Retirement Trust Fund to place the Social Security trust funds in the same position they would have been in had railroad employment been covered by Social Security.

Food Stamps - - SSA assists the Department of Agriculture by providing information about the food stamp program and taking food stamp

applications for qualified OASI, DI and SSI claimants. In FY 1998, SSA processed 25,231 food stamp applications and recertifications.

State and Local Programs - - SSA regularly provides information from Social Security records needed to make eligibility and payment decisions for a variety of State and local welfare programs, and provides automated data exchanges with over 100 State and Federal agencies.

Agency Organization

SSA's unique organizational structure is designed to provide responsive and accurate world-class service to the public. SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 6 Program Service Centers, 1,348 Field Offices, 1 Data Operations Center, 36 Teleservice Centers and 132 Hearings Offices.

Field offices are located in cities and rural communities across the nation and are the Agency's main physical point of contact with beneficiaries and the public. Additionally, the Social Security disability program depends on

the services of 54 Disability Determination Services (DDS) which include all 50 States, the District of Columbia, Guam and Puerto Rico.

To meet the needs of non-English-speaking customers, SSA recruits bilingual individuals to serve as a public contact for customers visiting SSA field offices and calling SSA's 800-number telephone service. During FY 1998, 6 percent of new hires were certified bilingual. At year end, 2,556 employees were certified bilingual in at least one of 22 different languages.

SSA's Service Delivery Network

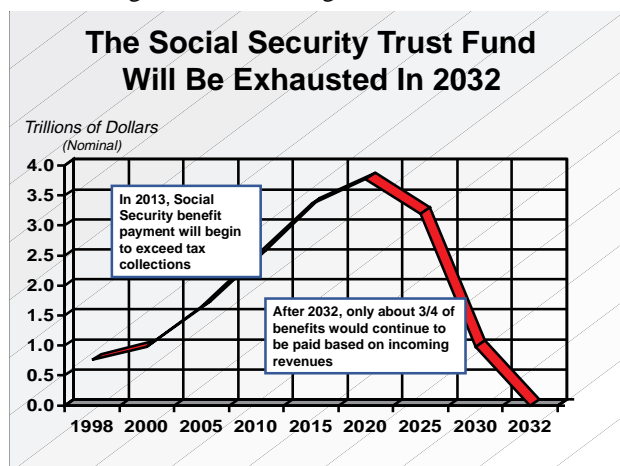


Major Issues Facing SSA

The major goal of SSA's Accountability Report is to demonstrate the Agency's success in administering our programs and managing the resources entrusted to us. In addition to the retrospective information reported throughout the Accountability Report, we believe that full disclosure necessitates that we discuss the prevailing issues that will affect our programs and our ability to administer these programs in the future. In addition to the long term financing of the Social Security system and Year 2000 computer compliance, we will be required to continue to meet the challenge of our stewardship responsibilities while administering our programs in a fair and equitable manner.

Trust Fund Solvency

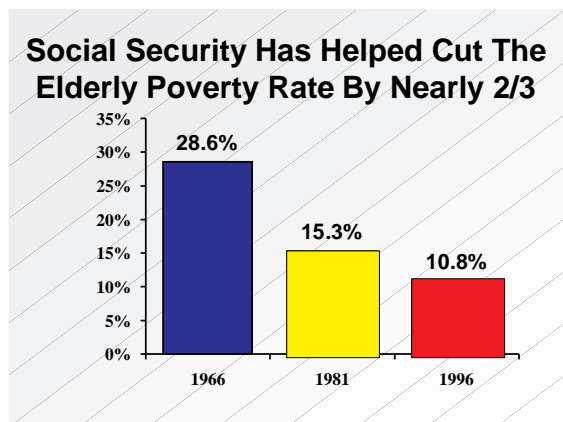
While the Social Security trust funds are currently building large reserves, long-range projections are that in 2013, Social Security benefit payments will begin to exceed tax collections and that by 2032, the trust funds will be exhausted. If these projections hold true, income to the system in 2032 will only be enough to meet $\frac{3}{4}$ of benefit obligations—if nothing is done.



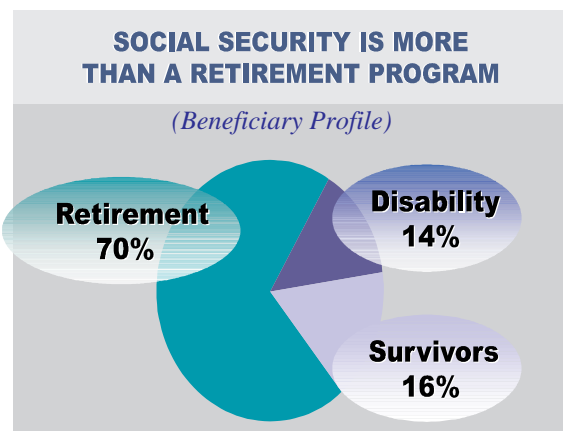
To correct the long-term imbalance in Social Security financing, the President has called for a year-long participatory process that involved the American public in discussions about the future of the program. Following the discussions, a White House conference on Social Security will be held in December 1998. Early next year, the President plans to begin bipartisan discussions that address the long-range solvency of the Social Security programs.

Only through the wide participation by a knowledgeable public can the process of reform be reflective of America's wants and needs. To educate the American public about the current program, SSA has undertaken an educational effort designed to make the public aware of several basic points about the current program.

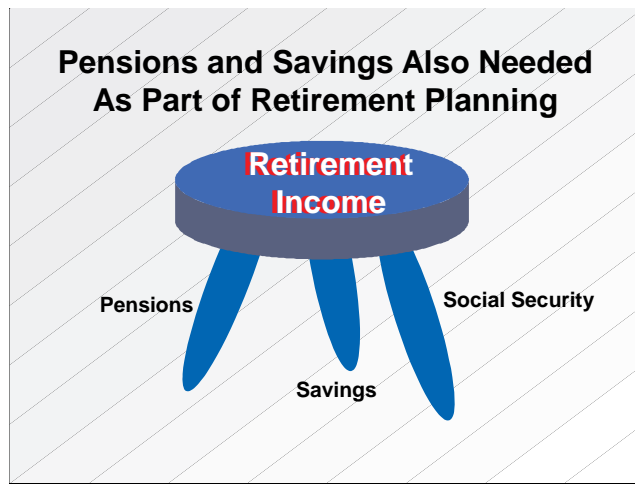
First, it is important that all Americans understand that Social Security has made an enormous difference in the lives of older Americans. More than 9 in 10 older Americans get Social Security retirement benefit payments each month. Eleven percent of American senior citizens live below the poverty line; without Social Security, it would be over half. For two-thirds of the elderly, Social Security is their major source of income, representing at least half of their total income. For about a third of the elderly, Social Security is virtually their only income.



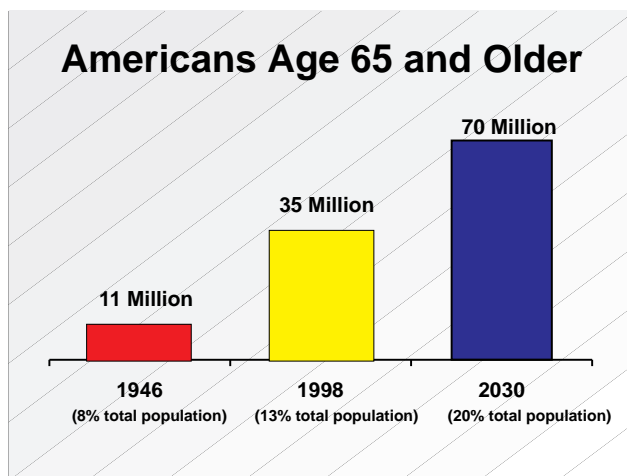
Second, Social Security is more than a retirement program—it is America's family protection plan. Younger workers and their families receive valuable disability and survivors insurance protection. In fact, about 1 in 3 Social Security beneficiaries are not retirees. They are disabled workers and their dependents, and survivors of deceased workers. Approximately 7.5 million people get monthly survivors benefits, and more than 6 million workers and family members get disability benefits.



Third, Social Security provides a foundation on which to build retirement security. Even with Social Security, pensions and private savings need to be a part of retirement planning for workers. A comfortable retirement has always rested on a three-legged stool—Social Security, pensions and private savings or investments. Today, only a little more than half of all workers have employer-sponsored pensions and people are not saving as much as they should. While Social Security will replace about 42 percent of the average worker's pre-retirement income, most financial advisors say that people will need about 70 percent of pre-retirement earnings to live comfortably.



Fourth, people need to understand that changing demographics are driving the need for change. We're living longer and healthier lives...and this is good news. When Social Security was created in 1935, a 65-year-old had an average life expectancy of 12 ½ more years; today, it's 17 ½ years—and rising. About 76 million baby boomers will begin retiring in about 2010, and in about 30 years, there will be nearly twice as many older Americans as there are today.

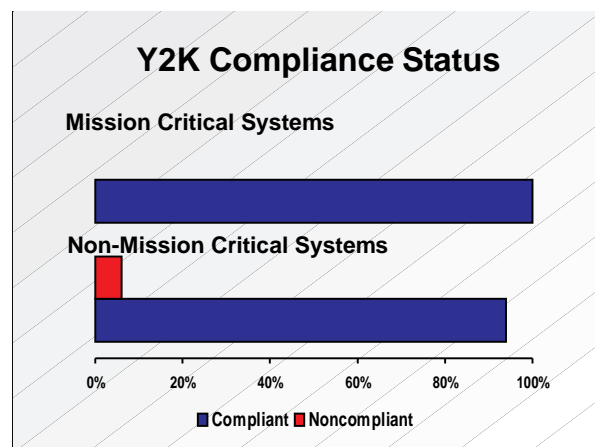


Fifth, it's important that people know that Social Security is an economic compact among generations. Social Security is an intergenerational compact, in which the Social Security taxes of today's workers fund benefit payments for today's retirees.

Finally, there are choices to be made that involve difficult tradeoffs that need to be discussed. Regardless of the outcome of the discussions on Social Security reform, SSA is playing a major role in helping to educate the public about how the program works and other information they need to participate in discussions about the future shape of the Social Security program.

Year 2000 Compliance

SSA has made significant progress in its efforts to address the Year 2000 problem. We have completed renovation of all mission-critical systems targeted for renovation. Detailed forward year, integration testing and formal certification procedures have been developed to certify Year 2000 compliance. To ensure the integrity of our production environment, SSA established a separate Year 2000 Test Facility to test the operating systems, vendor products and all of SSA's main frame applications that run in SSA's National Computer Center and distributed applications that run on the Intelligent Work Station/Local Area Network environment. Year 2000 compliance testing of SSA's applications began in September 1997 and will be completed in January 1999.



We are pleased to report that all of the software that produces the Social Security Income Payment files has been forward-date tested and certified. In addition, testing with Treasury's Financial Management Service has been completed, and the

October 1998 payments for both Social Security and the SSI programs were produced using Year 2000 compliant systems. The Federal Reserve (Automated Clearing House) has also successfully tested Social Security direct deposit payments.

SSA also has made significant progress in addressing non-mission critical systems. Thus far, 94 percent of the non-mission critical systems are Year 2000 compliant. With regard to data exchanges, SSA has been in contact with all of its trading partners regarding the format and schedule for making data exchanges compliant, and 84 percent have been made Year 2000 compliant and implemented. In the area of telecommunications, SSA has inventoried all of its telecommunications systems and is working with the vendor community to obtain upgrades and fixes to make all systems Year 2000 compliant. Numerous acquisitions have been made that will result in the installation of telecommunications software and hardware upgrades to make systems Year 2000 compliant.

As of October 31, 1998, 41 State DDS systems have been made Year 2000 compliant, and SSA is working closely with all of the states in this area to accomplish our goal of making all state systems compliant by December 1998.

On March 31, 1998, SSA issued its Y2K Business Continuity and Contingency Plan (version 1). On June 30, 1998, the first update (version 2) was issued. On September 30, 1998 the second update (version 3) was issued. The plan was developed to assure that SSA's core business functions could be performed if unforeseen Year 2000 related disruptions occur.

The plan is consistent with General Accounting Office guidelines for contingency planning. It identifies potential risks to business processes, ways to mitigate each risk and strategies for ensuring continuity of operations if planned corrections are not completed or if systems fail to operate as intended. The plan also identifies milestones, target dates and responsible components for developing local contingency plans and procedures throughout all of SSA's operating components. The plan addresses all five core business processes of SSA —enumeration, earnings, claims, postentitlement and informing the public — as well as disability claims processing functions supported by the State DDSs.

As with all other businesses and government agencies, SSA is critically dependent on infrastructure services, such as the power grid and telecommunications industry. Since SSA delivers 50 million payments at the beginning of each month, the Agency is also dependent on financial institutions. SSA's Business Continuity and Contingency Plan addresses how the Agency can

mitigate risks in these areas and if problems occur, where contingencies will be implemented. In addition, SSA chairs the Benefit Payments work group and participates in the Financial Institutions work group of the President's Council on Year 2000 Conversion.

SSA estimates the cost of its Year 2000 Program will be approximately \$42 million.

Stewardship

Zero Tolerance for Fraud

SSA has an aggressive, ongoing program to deter, detect, investigate and prosecute fraud involving Agency programs.

As a linchpin, SSA established the National Anti-Fraud Committee, comprised of SSA's executive leadership, to oversee the implementation and coordination of SSA's strategies to eliminate fraud. The national committee is supported by 10 regional committees, comprised of SSA and OIG staff, which have the primary duty to oversee local policies and strategies.



Based upon concerns initially raised by SSA staff in field offices along U.S. borders, several pilot programs were established to address the issue of residency verification within the SSI program. The purpose of the pilots was to determine whether individuals were fraudulently receiving SSI payments while living outside the United States. These pilots proved to be very successful and have now been expanded to other border areas as part of SSA's day to day operations.

SSA funds were used to initiate successful pilots using multi-agency resources to increase the number of fraud cases that could be investigated. These pilots have been expanded and incorporated as part of SSA's ongoing activities. These units investigate suspected fraud and identify SSI disability recipients and individuals that conspire to obtain benefits fraudulently. Of particular interest are third party facilitators such as physicians, lawyers and interpreters.

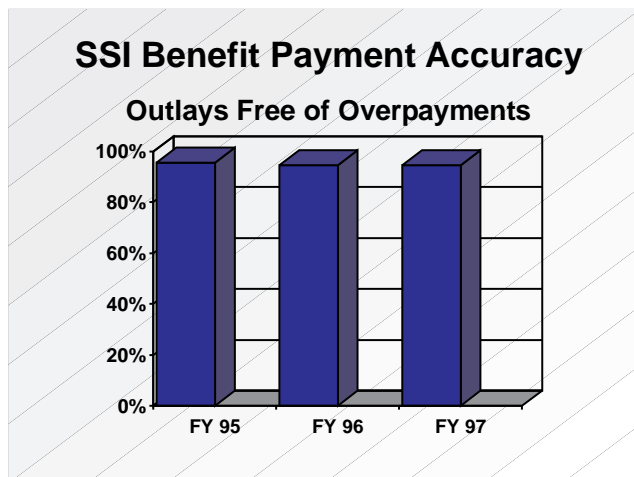
Another initiative which is part of this program includes the expansion of a more selective and targeted integrity review process (the Comprehensive Integrity Review Process system) to identify cases across all program applications that are more susceptible to fraud and abuse. In addition, the Agency implemented a key initiative to combat fraud.

Lastly, SSA developed a legislative proposal to impose administrative sanctions on certain individuals who misstate or withhold facts material to eligibility or payment amount. This proposal is awaiting congressional action.

SSI Management Improvement

The SSI program has provided for the basic needs of millions of people since its inception in 1974. It has also grown in size and complexity over those same years, increasing the scope and type of potential problem areas. In an effort to improve management of the program, the Commissioner initiated a series of reviews to determine where corrective actions needed to be taken and which areas of the program may require legislative action.

The Commissioner issued a report on October 9, 1998 detailing the actions the Agency will be taking to improve oversight and stewardship in the SSI program. The report makes it clear that SSA is committed to the effective and accurate administration of the SSI program and strives to administer the program in a way that balances its responsibilities of service to SSI recipients and stewardship of the SSI funds. SSA is committed to protecting the rights of the millions of SSI beneficiaries and delivering world-class service.

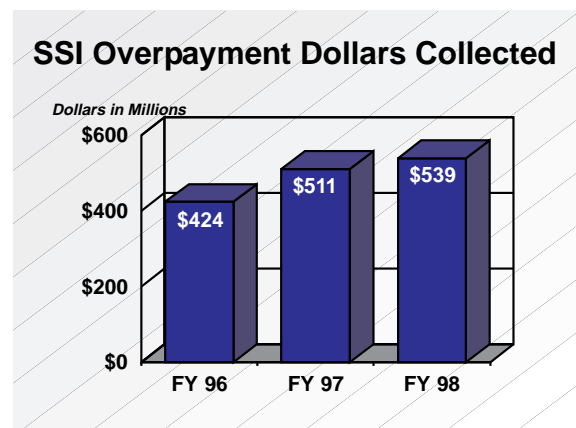


Equally important to SSA is our responsibility to safeguard and administer the SSI program funds in a manner which ensures integrity and public confidence. Discussed below are several initiatives SSA has underway to strengthen the integrity of the SSI program.

Improving payment accuracy is one of SSA's highest priorities. Despite SSA's many efforts and a relatively low payment error rate, payment errors will inevitably occur due to the complexity of the program. Most of these overpayments result from beneficiaries' failure to report changes in income, resources or living arrangements (i.e., institutionalization). SSA employs many techniques to prevent debts where possible and to improve collection, such as computer matching with Federal and State agencies to obtain information about income, resources and institutionalization and prisoner reporting agreements. SSA is also pursuing several new initiatives, such as new computer matches, to enhance the techniques used to detect and prevent payment errors. Legislation has also been developed which would help strengthen payment accuracy by increasing the Agency's ability to obtain eligibility information in a more timely and economical basis.

In addition, SSA is increasing the number of redeterminations of eligibility and continuing disability reviews (CDR) conducted. This will enable the Agency to ensure that only those entitled to benefits continue to receive benefits. SSA will continue to pursue the funds necessary to conduct both redeterminations and CDR workloads.

The Agency has also concentrated efforts on the issue of fraud. The majority of payment error cases do not involve fraud. However, SSA is engaged in an aggressive program to deter, detect, investigate and prosecute fraud as discussed in the previous section. Lastly, SSA has a debt management program in place that makes use of all collection tools available under existing statutes. Improvements are continually being made to increase the ability to detect and prevent debts. SSA has sent legislation to Congress that would enhance the ability to recover those debts that occur.



Furthermore, the program improvements being pursued as part of SSA's stewardship and service objectives will have a residual positive impact on SSA's debt management. These initiatives to correct known problem areas and continued attention to management improvement of the SSI program will strengthen public confidence in SSA's administration of this program.

Return to Work Initiatives

Among SSA's beneficiaries with disabilities, there are many who would like to return to work. And, despite their impairments, they can work if they receive the supports they need. They and their caregivers and advocates tell SSA this in surveys, letters, meetings and in numerous other ways. However, a very small number of SSA's beneficiaries with disabilities actually leave the benefit rolls because of work activity. In response to these concerns, SSA is striving to better fulfill the needs of its customers with disabilities, particularly in terms of their need to be independent, work, and maintain a sense of financial security.

SSA has developed and is implementing a cost-effective and comprehensive strategy to increase the number of beneficiaries with disabilities who work, despite their impairment, and thereby lessen their dependence on the benefit rolls. Key concepts of this employment strategy are:

- Enhancing the financial security and smoothing the transition away from income support programs of those who choose to work despite their impairments;
- Providing greater incentives for public and private sector providers of employment and rehabilitation services to serve SSA's beneficiaries;
- Maximizing the employment potential of young people with disabilities; and
- Simplifying program policies for people who want to work.

This strategy involves a number of initiatives, including some that require legislation and others that can be pursued using existing legislative authorities. Some of the major initiatives are:

1. Ticket to Independence Program

The President proposed the Ticket to Independence Program in 1997 as an alternative to the current SSA

vocational rehabilitation (VR) program. Under the proposal, a beneficiary with a long-term impairment would be issued a "ticket" which would provide access to a broad range of employment and VR services. Approved private and public service providers, who receive a ticket from a beneficiary, would be rewarded when they are successful in helping the beneficiary achieve independence from SSA's benefit rolls. In each case where SSA realizes a cash benefit savings due to a beneficiary's work activity, the provider would be paid a proportion of the savings.

In June 1998, the House passed H.R. 3433, called the "Ticket to Work and Self-Sufficiency Act of 1998," which included a ticket program for SSA's beneficiaries with disabilities and had many of the elements of the President's proposal.

2. Enhancements to SSA's VR Program

Using existing legislative authority, SSA recently implemented the Alternate Participant (AP) program, as a supplement to the traditional SSA VR program, to expand opportunities for beneficiaries to receive VR services. In the past, SSA has paid only State VR agencies to provide services to beneficiaries with disabilities.

However, because the State VR agencies serve many other client groups and have limited funding, they do not have the capacity to serve all disabled beneficiaries who may need services. To expand the opportunity for beneficiaries with disabilities to receive VR services, SSA recently began contracting for services from the private sector.

Under both the traditional SSA VR program and the AP program, which began in 1997, State VR agencies or APs are reimbursed for the costs of the services they provide to any beneficiary, if that beneficiary becomes employed and earns at least \$500 per month for nine or more months. Almost 400 APs are under contract to SSA thus far.

In addition to implementing the AP Program, SSA is working with the State VR agencies to improve the process for referral of beneficiaries for services and the process for reimbursing the State VR agencies. These and other process improvements are being implemented in an attempt to increase the number of SSA's beneficiaries with disabilities who are served by the State VR agencies.



3. State Partnership Initiatives

We have heard from consumers and advocates many times that earnings from working affect much more than just Social Security DI and SSI benefits. Increases in income can also cause the loss of Section 8 housing, food stamps, public assistance payments, etc. Many individuals who may not fear the loss of cash benefits, do fear the loss of housing subsidies, etc.

In April 1998, SSA announced the availability of cooperative agreements to States to conduct projects that will determine the degree of interaction of State and Federal systems and benefits, and seek ways to integrate services to overcome barriers to employment. We intend to initiate powerful, well-researched, and comprehensive initiatives that are designed to facilitate services and benefits at the State or local level, will increase income through earnings, and will be cost neutral. At each site, the State will implement a team-based, comprehensive package which coordinates vocational planning and

support, employer and employee coaching, financial planning, risk management, health and long-term care, job search, job placement and ongoing job support, transportation, training and other necessary supports. The cooperative agreements were awarded by September 30, 1998. We also awarded a contract for the project office to provide oversight to the State cooperative agreements.

Additional areas of the employment strategy that are being investigated by SSA include expanded health insurance for workers with disabilities; projects to integrate CDRs and return-to-work processes; improvements to SSA's service delivery in terms of the work incentives and employment and rehabilitation programs; and use of research to expand SSA's knowledge regarding employment and rehabilitation.

Performance Goals and Results

SSA's September 1997 strategic plan created an improved set of five strategic goals that encompass all of SSA's program activities, address the universe of competing needs of the wide variety of SSA stakeholders.

We track the performance of our programs using various traditional and new outcome measures to help us and others assess whether the Social Security programs and SSI are achieving their intended outcomes.

The performance measures (PM) that follow appear in SSA's GPRA Performance Report found on pages 60 through 69 of this report. They were selected from the 57 traditional outcome and milestone performance measures included in the GPRA Performance Report. They ensure that we continue to make progress towards the Agency's strategic objectives and are aligned under their respective strategic goals.

Discussion under the first goal provides progress in meeting FY 1998 milestones which measure our progress in revitalizing research and policy capacity and create an environment that fosters public discussion about program issues. Charts 1, 2, 3, 4, 7, 9, 10 and 11 provide progress against intermediate GPRA goals for long term performance objectives. Charts 5, 6, 8 and 12 display our progress in meeting GPRA goals for traditional workload measures.

GOAL: To promote valued, strong and responsive social security programs and conduct effective policy development, research, and program evaluation

The ultimate intent of this goal is for SSA to help create responsive programs — programs that provide value by meeting the needs of the varied constituents today and adapting to the changing needs of constituents tomorrow.

SSA is currently engaged in an effort to redefine the objectives under this goal to make them more outcome-oriented so that they may express more concretely the results we are striving to achieve. In the interim, our performance goals are based on the milestones and deliverables of the major initiatives that we are undertaking in support of this goal.

SSA's Strategic Goals

- > To promote valued, strong and responsive social security programs and conduct effective policy development, research, and program evaluation.***
- > To deliver customer-responsive, world-class service.***
- > To make SSA program management the best in business, with zero tolerance for fraud and abuse.***
- > To be an employer that values and invests in each employee.***
- > To strengthen public understanding of the social security programs.***

Establish an ongoing retirement policy research consortium

SSA awarded the contract to establish an ongoing retirement policy research consortium on September 30, 1998 to Boston College and the University of Michigan. The 5-year program will provide \$1.25 million in funding to each university in the first year. The two universities have formed collaborative partnerships with other academic institutions and policy experts in the field of economics, sociology and public policy. The consortium will enable the Agency to encourage outside research on retirement issues, facilitate sharing of data with other researchers and help SSA acquire information on high priority research topics.

In addition to conducting research and evaluation, the consortium will:

- Disseminate information to the public, to policymakers and to the media;
- Train and educate scholars to encourage researchers to focus on retirement issues; and
- Provide expertise to SSA's in-house research program.

Conduct planned research and policy evaluation necessary to assist the Administration and Congress in devising proposals to strengthen and enhance the Social Security program

SSA conducted the following activities in FY 1998 to support this goal:

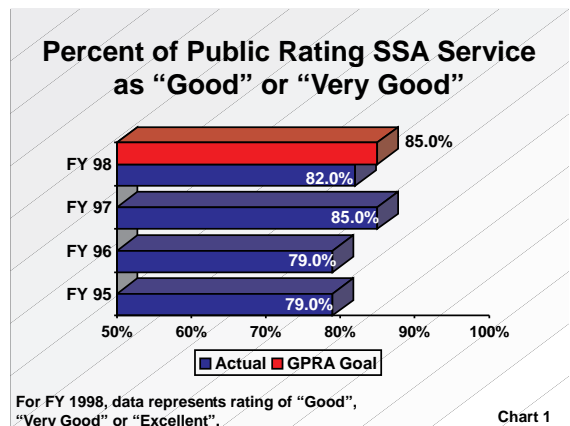
- We developed a preliminary version of a long-run microsimulation model for estimating the impact on various socioeconomic groups (e.g., income, marital status, gender, etc.) of making major changes to the Social Security system.
- We used a short-run microsimulation model to produce, for policymakers in SSA and the Congress, estimates of the distributional impacts of proposals to modify (1) Social Security's retirement earnings test and (2) the taxation of Social Security benefits.
- We produced data and analysis on the relationship between health and OASI/DI beneficiary status for policymakers in SSA and other parts of the executive branch. This work helps identify population subgroups that would be vulnerable if there were increases in the Social Security early and/or normal retirement age.
- We completed a study of redistribution under Social Security's DI Program. The paper describes the relationship between taxes paid and benefits received under the program by race, gender, and birth cohort.
- We completed research on the economic well being of Social Security beneficiaries, particularly women. We examined a change that may improve the circumstances of divorced women.

GOAL: To deliver customer-responsive, world-class service

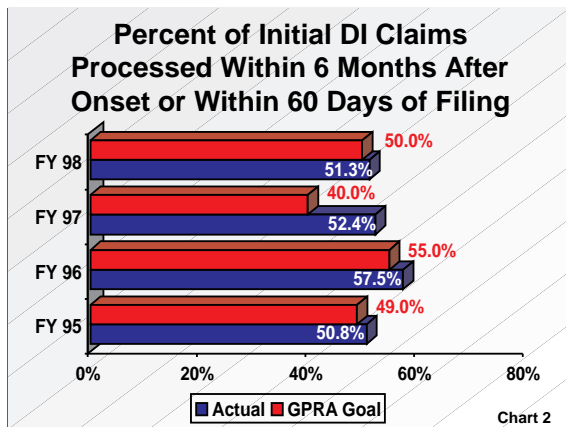
This is our traditional goal, the one that explicitly or implicitly has guided the actions of most SSA and DDS employees throughout our history. It reflects the millions of actions taken throughout the Agency that have made SSA "the government" to millions of individuals.

This goal is directed specifically toward the way we convey service to the people who conduct business with SSA. Through this goal, we are not just focusing on our customers but being responsive to the needs and desires of our customers. Historically, SSA learns about customer needs and satisfaction through a program of focus groups and surveys.

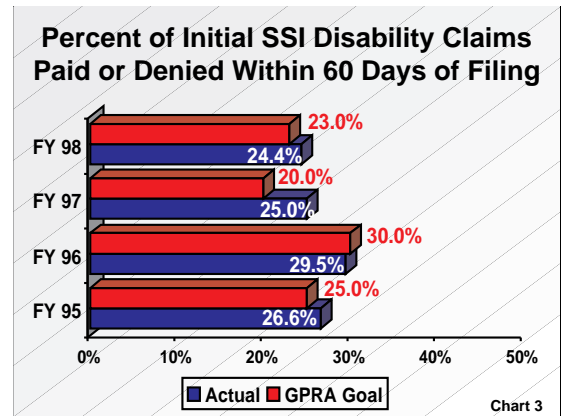
SSA has a long-standing reputation as the premier government agency when it comes to providing customer service. As we look to the future, SSA aims to provide not just the kind of service that customers expect from government, or even the best service that government has to offer, but the kind of service that every organization - public or private - would hope to emulate. As shown by the following chart, customers continue to give SSA's service high ratings. The results were taken from SSA's FY 1998 Annual Customer Satisfaction Survey.



The initial DI claims workload continues to present challenges for SSA as it remains one of the largest workload categories in SSA. Its demands on our resources are considerable as we progress with our disability process redesign. Overall, initial DI claims had shown a gradual decrease in their processing times from FY 1994 through FY 1996. However, in FYs 1997 and 1998, processing times increased. Processing times rose 8.6 days in FY 1997 over FY 1996 and 3.6 days in FY 1998 over FY 1997. In part, the increased processing time can be attributed to priority workloads stipulated by Congress. These workloads included non-citizen SSI cases, non-disability redeterminations, debt reduction and debt avoidance initiatives and increased volumes of CDRs.

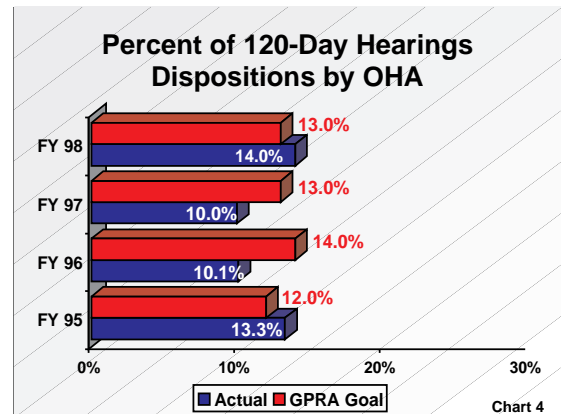


The Agency is diligently working to fully transform the disability process redesign from a vision into a reality. SSA has implemented phases to improve the disability process by reducing the paper involved, becoming more technologically advanced and initializing a more customer oriented system. It is hoped, that once SSA's business process is completely redesigned, the Agency will attain the goal of providing timely decisions on SSI disability claims. In FY 1998, there was a decrease of 0.6 percentage points in the percent of SSI blind/disabled claims paid within 60 days of filing date compared to FY 1997.



Hearing level dispositions issued within 120 days or less generally tend to be favorable decisions that can be issued on-the-record without a hearing or additional development of the record. Through several pre-hearing screening and adjudication initiatives (e.g., the Senior Attorney Program, Adjudication Officer Program and Screening Units), Office of Hearings and Appeals (OHA) has been able to identify and dispose of fully favorable cases earlier in the hearings process.

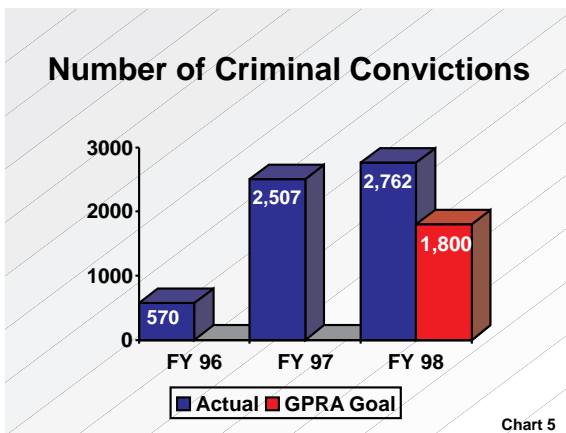
In September 1998, OHA disposed of 14 percent of the SSA cases within 120 days of filing, exceeding its goal of 13 percent. (Data through FY 1997 are for all cases; beginning in FY 1998, data are for SSA cases only, i.e., excluding Medicare cases.) We anticipate continuation of pre-hearing screening and adjudication programs that will enable OHA to continue to increase the number of cases processed within 120 days.



GOAL: To make SSA program management the best in business, with zero tolerance for fraud and abuse

This program-management goal reflects SSA's responsibility, from both a service and a business perspective, to pay benefits accurately and otherwise be a good steward of the money entrusted to our care. We are setting our standards very high to reflect our view that the public deserves the highest possible level of performance consistent with fiscal responsibility. Our assertion of zero tolerance for fraud and abuse means that we will increase our attention on deterring fraudulent activities and on bringing to justice those who practice them, whether members of the public or of our own employee population. (See page 9 and page 57 for FY 1998 fraud prevention initiatives and activities.)

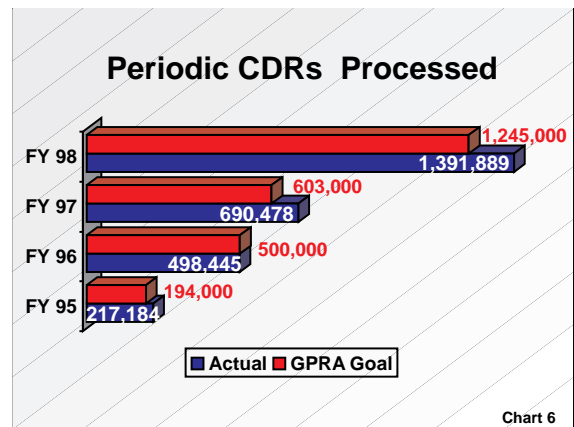
In FY 1998, as part of our fraud detection and prevention program for safeguarding SSA assets, we worked with our Office of Inspector General, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The following chart shows the number of criminal convictions related to SSA's programs.



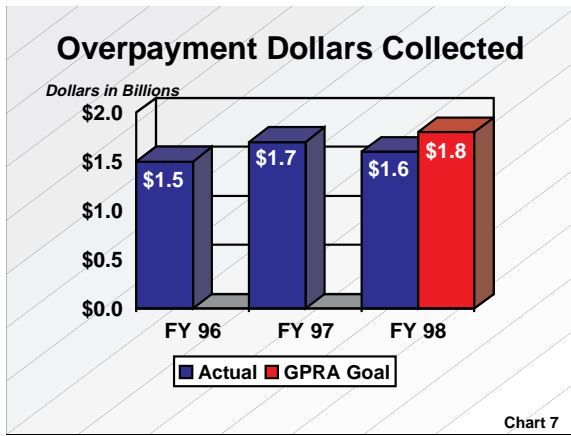
In the program management and stewardship area, SSA conducts periodic reviews, called continuing disability reviews (CDRs), to determine whether individuals receiving disability benefits have medically improved so that they are no longer considered disabled and no longer eligible for benefits. The CDR process allows SSA to ensure the integrity of payments to individuals in the DI and SSI programs by monitoring the disability status of beneficiaries.

SSA has developed a 7-year plan for conducting CDRs and expects to conduct approximately 5.8 and 3.6 million CDRs for DI (including SSI concurrent) and SSI beneficiaries, respectively, over the life of the plan. Estimates indicate about \$3 billion in SSI program savings and eliminates the SSI backlog as a result of CDRs conducted through 2002. The backlog for the DI program will be eliminated by the end of 2000.

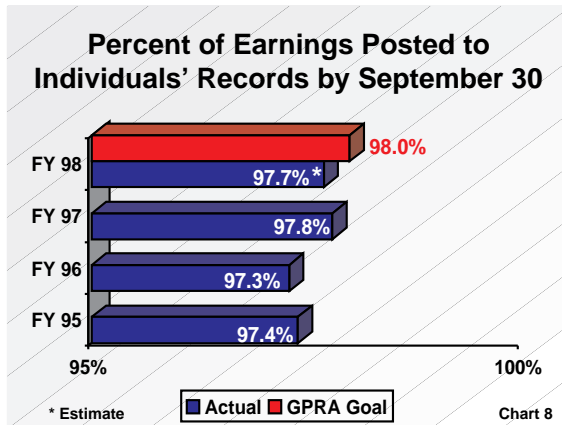
In FY 1998, SSA conducted over 101 percent more periodic CDRs than in FY 1997. During FY 1998, SSA was able to perform 1,391,889 periodic reviews and 19,614 medical reviews related to work issues. SSA expects to perform close to 1.6 million CDRs in FY 1999.



In FY 1998, SSA implemented three improvements to our debt collection program. These were two new collection tools authorized by the Domestic Employment Reform Act of 1994 and the expansion of the tax refund offset program to include delinquent SSI debtors. Nevertheless, as shown in the chart at the top of page 17, total overpayment dollars collected decreased in FY 1998. We believe this net decrease in collections is due to improvements in the administration of the annual earnings test. These improvements prevented our most easily collected overpayments, OASI retirement checks, from ever occurring. Pages 58 and 59 contain additional debt management information.



During FY 1998, SSA continued its efforts to improve accuracy and processing times for both wages and self-employment income. Employers and payroll processors were approached through outreach initiatives including instructional videos and special publications to enhance wage report accuracy. The IRS/SSA wage reconciliation process continued to be performed on a current basis and additional wages were posted as a result.



SSA is working with the Departments of Treasury and Labor to reduce the tax and wage reporting burden on employers while improving the effectiveness of each Agency's operations. The objective is to simplify laws and procedures, provide enhanced assistance and services to employers for easier filing and enable employers to electronically file a single return that can be used by SSA, IRS and State tax and unemployment insurance agencies. SSA is working to increase the number of annual wage reports filed electronically. Reports filed electronically tend to be more accurate and can be processed more efficiently and cost effectively than paper or magnetic media reports.

GOAL: To be an employer that values and invests in each employee

SSA's greatest strength lies in the attitudes, skills, and drive of its employees. This goal recognizes that the employees of SSA and the DDSs are key to achieving our goals and objectives. It also reflects SSA's conviction that employees deserve a professional environment in which their dedication to the SSA mission and to their own goals can flourish together.

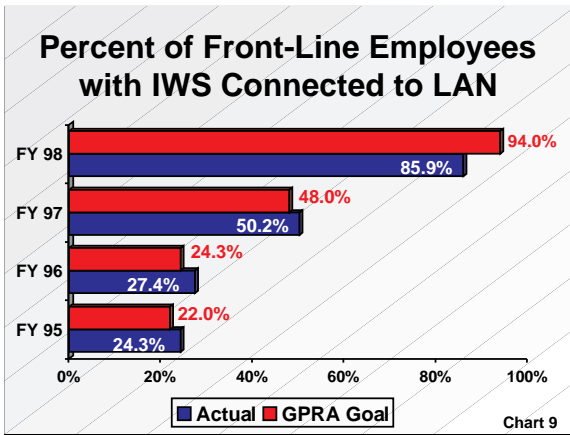
The focus of this goal is to ensure that all SSA and DDS employees, individually and collectively, understand and value the culture of the organization — a culture rooted in our traditional customer-service values while embracing the concepts of modern management.

While the SSA workforce is SSA's most valuable asset, technology runs parallel in importance because it is essential to the effectiveness of that workforce, as indispensable to the success of the SSA business approach. SSA must meet growth in both customer expectations and workloads and improve or maintain service while satisfying staffing and streamlining goals. To accomplish this, SSA must use enabling technology to support improved or dramatically altered processes which simplify, speed up and eliminate tasks and free employee time for the more complex activities which are not susceptible to simplification or automation.

The Intelligent Workstation/Local Area Network (IWS/LAN) is the linchpin for both SSA's customer service program and its entire business approach. It will facilitate many of the planned productivity improvements and enable full reengineering of the disability process including processing time reductions and other improvements projected in the redesign.

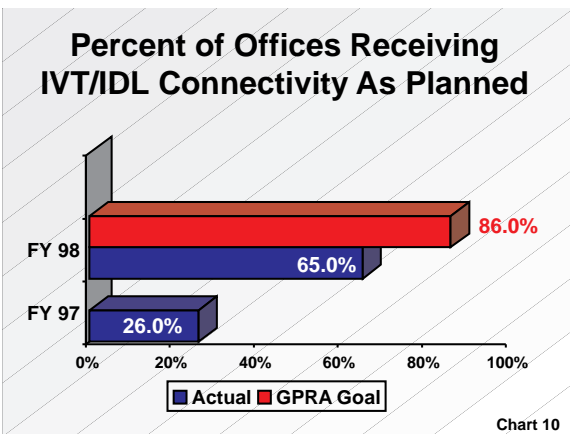
During FY 1998, SSA made significant progress toward its long range goal of providing all front line employees with IWS/LANs. However, due in part to start up problems in some offices' IWS/LAN installations, SSA did not meet its FY 1998 goal of providing 94 percent of front line employees with IWS/LAN workstations. SSA

fully expects to achieve its end-of-year FY 1999 goal of 100 percent.



To meet the training needs of SSA's more than 65,000 employees, SSA is utilizing a process called Interactive Video Training/Interactive Distance Learning (IVT/IDL). IVT/IDL connectivity allows employees in all areas of the country as well as headquarters to participate in this unique training experience. Through IVT/IDL, we are able to reach thousands of employees at the same time at a minimal cost.

During FY 1998, we fell short of meeting our connectivity goal. This was largely due to technical problems associated with the launching of a new satellite and its subsequent loss after launch making it necessary for satellite dishes at hundreds of sites already installed to be repositioned to another satellite.



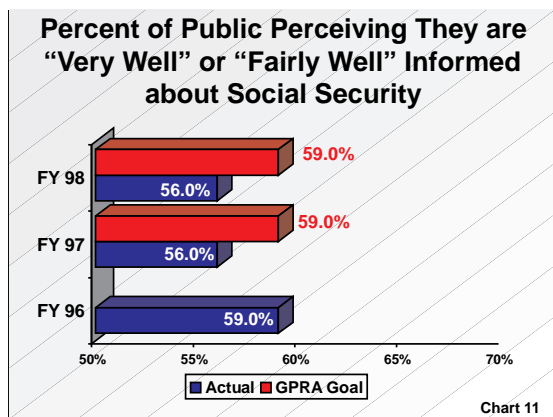
GOAL: To strengthen public understanding of the social security programs

One of SSA's basic responsibilities to the public is to ensure that they understand the benefits available under the Social Security programs to the individual and to the population as a whole. This enables people to make reasonable and responsible choices as they plan for their own future and as they help the nation's leaders make decisions about the future of society.

SSA publishes pamphlets, newsletters, booklets and other informational materials about its programs, policies and procedures so that the public can be fully informed about its Social Security programs. SSA also produces information in audio, video and computer media. SSA publishes about 50 consumer pamphlets, booklets and fact sheets to inform the public about Social Security programs and policies.

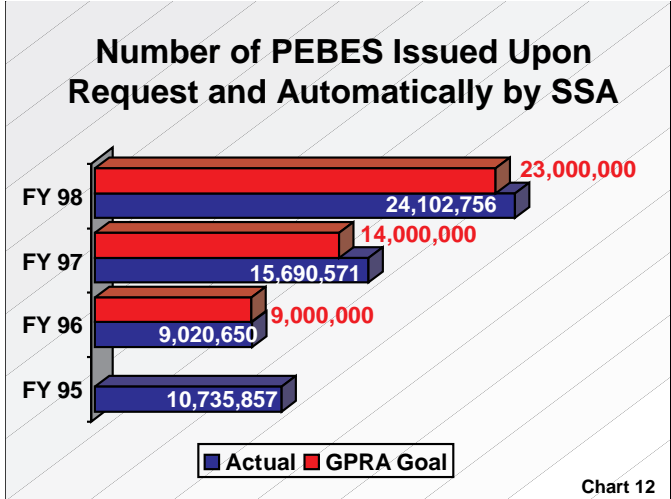
SSA also produces about 20 administrative publications, many of which are included as stuffers with notices sent to Social Security beneficiaries. Annually, SSA produces more than 95 million of these 70 or so publications.

As shown in the following chart, for the second year in a row, results of the American Council on Life Insurance Survey show that 56 percent of those surveyed responded they were "very well" or "fairly well" informed about Social Security.



As a service to the public, SSA provides earnings histories and estimates of benefit amounts upon request. Starting in FY 1995, under legislative mandate, SSA began sending SSA-Initiated Personal Earnings and Benefit Estimate Statement (SIPEBES) to more segments of the working population. Current law requires SSA to issue one-time PEBES to approximately 15 million individuals who turn age 60 during FY 1996-1999. SSA has accelerated the mailings and is far exceeding the legislative mandate.

PEBES are a way to increase the public's knowledge of the Social Security program by keeping wage earners up-to-date on their estimated future benefits. They also serve as a useful financial planning tool.

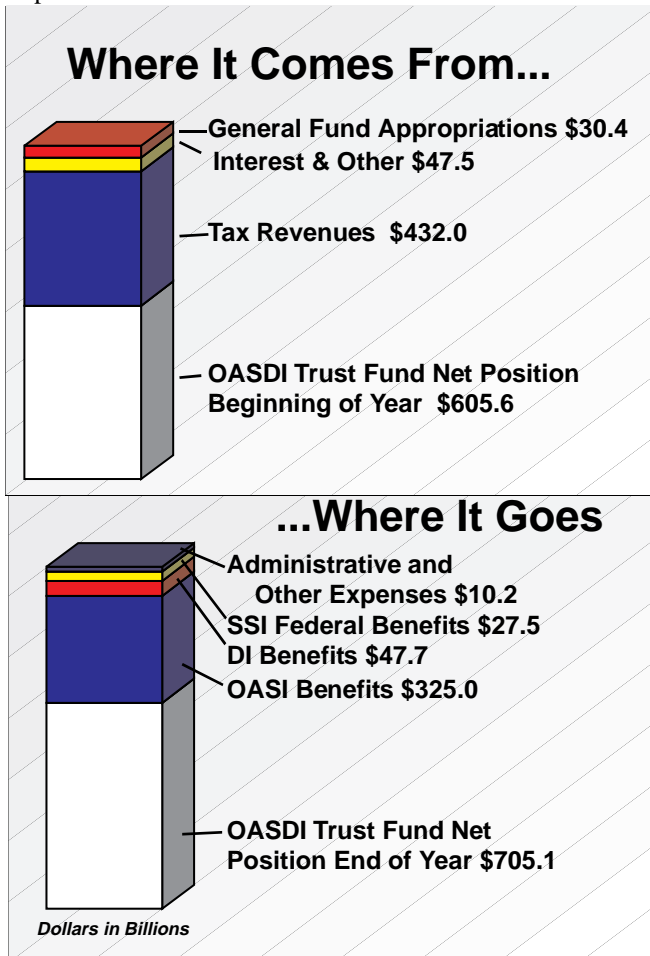


Highlights of SSA's Financial Position

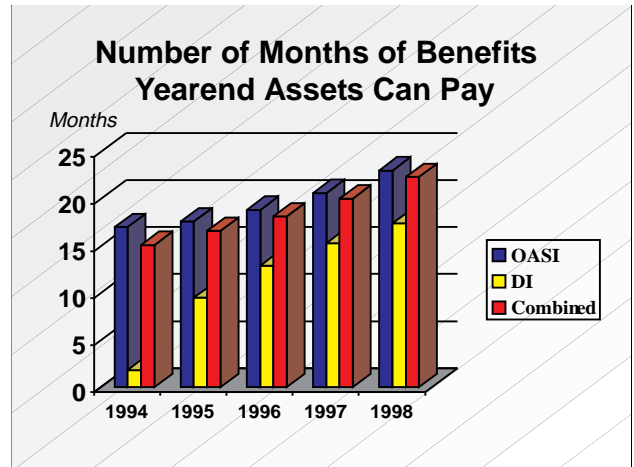
Overview of Financial Data

SSA's financial statements and footnotes, appearing on pages 27 through 39, received an unqualified audit opinion for the fifth consecutive year. Investments continue to be our largest asset and comprise almost 98 percent of SSA's total assets. These investments are commonly known as the Social Security Trust Funds. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The majority of our liabilities, nearly 80 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 3.

The charts below summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds that SSA was provided in FY 1998 and how these funds were used. Most resources available to SSA were used to finance current OASDI benefits and to accumulate reserves 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. Less than one percent of the resources available to SSA are used to pay administrative expenses.

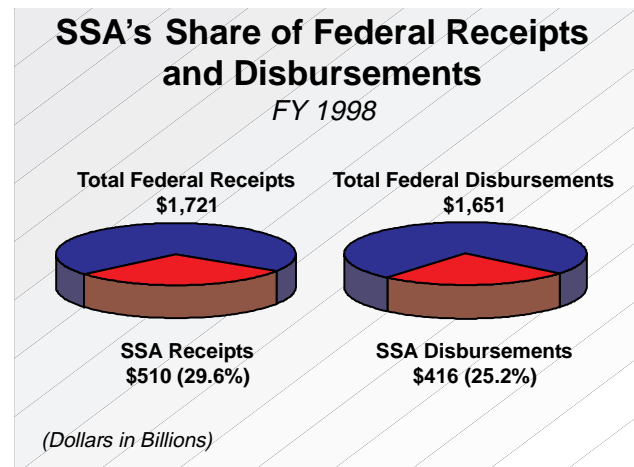


The Social Security Trust Funds are deemed to be adequately financed on a pay-as-you-go basis if the asset level at the end of a fiscal year is sufficient to cover at least 1 year's worth of benefit payments in the absence of other income such as payroll taxes. The following table shows that the number of months of benefits that combined yearend OASDI assets can pay has grown from 15 months at the end of FY 1994 to 22 months at the end of FY 1998, a 47 percent increase.



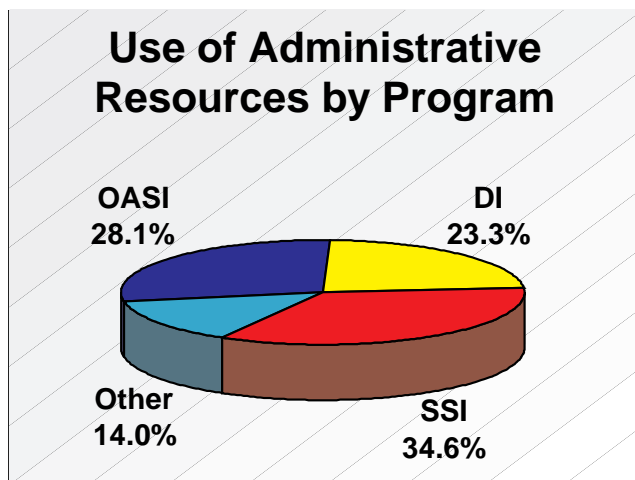
SSA's Share of Federal Operations

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the following chart. Our programs accounted for 25.2 percent of the \$1.6 trillion FY 1998 Federal disbursements and 29.6 percent of the \$1.7 trillion Federal receipts. In fact, our disbursements accounted for 5.5 percent of the nation's estimated FY 1998 \$7.5 trillion total gross domestic product.

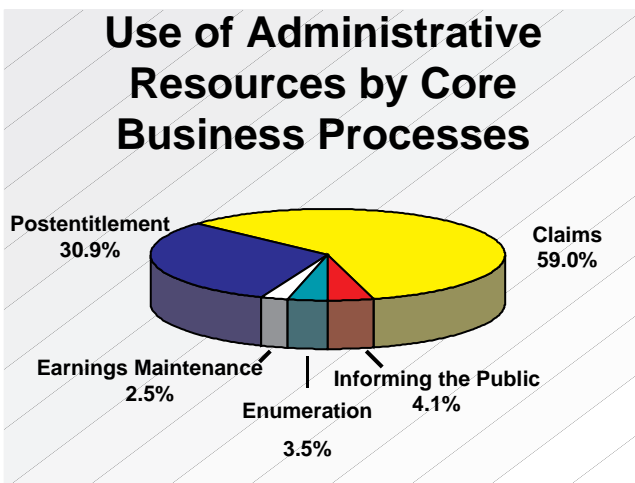


Use of Administrative Resources

SSA's total FY 1998 administrative budget was \$6.6 billion. The chart below displays the use of administrative resources in terms of the programs SSA administers or supports. Although the DI and SSI programs comprise less than 20 percent of the total benefit payments made by SSA, they consume over 55 percent of annual administrative resources. Claims for DI and SSI benefits are processed through State DDSs 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 payments to ensure continued entitlement to benefits.



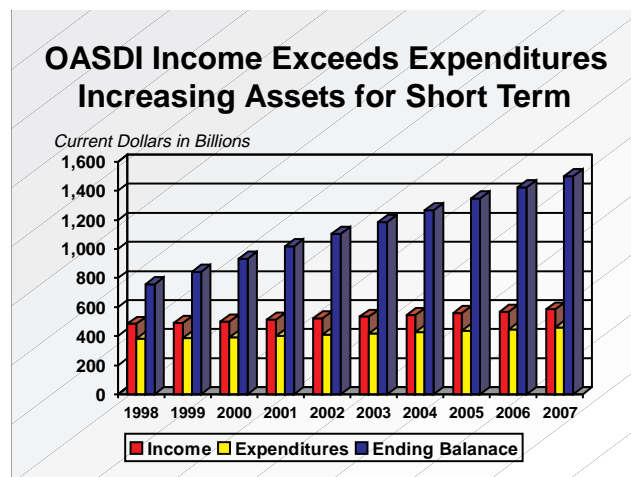
The Agency's administrative resources can also be discussed in terms of the work functions being performed in support of our programs. The chart below shows the percentage of resources consumed by SSA's five core business processes.



Short Term Impact on SSA's Financial Position

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of assets meet or exceed outlay estimates in each year of the next decade. Estimates in the 1998 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the next 10 years, having sufficient assets to pay full benefits until 2034 and 2019, respectively. The table below shows that while the OASDI expenditures and income are expected to increase by 20 and 21 percent, respectively over the ten-year period, Trust Fund assets are expected to grow by 98 percent.

Pages 7 and 8 provide a discussion of the long term solvency of the OASDI Trust Fund. Pages 50 through 54 discuss additional prospective information related to the adequacy of the trust fund assets, future contributions and expenditures.



Limitation on Financial Statements

The financial statements beginning on page 27 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990.

While the statements have been prepared from the books and records of SSA in accordance with formats prescribed by OMB, the statements are different from 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 a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Systems and Controls

FMFIA Assurance Statement Fiscal Year 1998

On the basis of SSA's comprehensive management control program, I am pleased to certify, with reasonable assurance that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in OMB's Bulletin Number 98-08. I also believe these same systems of accounting and internal controls provide reasonable assurance that the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act.


Commissioner of Social Security

SSA continually evaluates the efficiency of its operations by using information obtained from reviews that are conducted to ensure its systems and controls comply with the standards established by the Federal Managers' Financial Integrity Act, the Paperwork Reduction Act, the Computer Security Act and OMB Circulars A-123, A-127 and A-130. During the year, SSA conducts reviews of management and security controls in both SSA's administrative and programmatic processes and in accounting controls in financial management systems. These reviews include evaluation of such business processes as enumeration, earnings, claims, postentitlement, debt management and SSA's financial management systems.

The Agency has separate review programs for management controls in its administrative and programmatic processes and controls in its financial management systems. For management controls, the Agency requires that a minimum of 10 percent of field offices be reviewed each fiscal year. The field offices to be reviewed are selected by considering performance measures in selected critical processes and using the experience and judgment of the Regional Security Staffs. In July 1998, SSA hired a contractor to review its management control program from top to bottom and to make recommendations on how to improve the process

and its management controls. The contractor is required to visit the central office and at least 5 Regional Offices and 42 Field Offices in the first year.

The Agency prepares and annually updates a 5-year review plan for its financial management systems so that each financial management system is reviewed within a 5-year period by both the SSA system manager and by an independent contractor. The system manager conducts a desk evaluation of the system, while the contractor is required to conduct a detailed review, including transaction testing, of the system.

During FY 1998, SSA conducted reviews of 1,142 management control areas in 152 field offices and staff components. In addition, SSA's systems managers conducted four limited reviews of financial management systems, while an independent CPA firm conducted detailed financial systems reviews of the following systems: Debt Management, Recovery of Overpayments, Accounting and Reporting and Property Accounting.

During the last two years, OIG contracted for the audit of SSA's financial statements. The contractor's audit report for the audit of the FY 1997 financial statements and internal controls identified five reportable conditions. The FY 1998 audit concluded that two of the previous reportable conditions were no longer reportable conditions. The reportable conditions for FY 1998 were:

1. SSA can further strengthen controls to protect its information;
2. SSA needs to accelerate efforts to improve and fully test its plan for maintaining continuity of operations; and
3. SSA can improve controls over separation of duties.

We have closed or completed corrective actions on a majority of the recommendations made during the FY 1997 audit. We continue to work on those that remain. A synopsis of the current status follows:

Finding 1. Protection of Information: The auditors provided recommendations on how the Agency could better protect its data in both a mainframe and distributive environment. We agreed with nearly all of these recommendations and have closed or completed most of them. The audit report for FY 1998 noted significant progress in this area, particularly in the mainframe environment, but recommends more attention to the distributive environment. We will continue to work with the auditors to further improve this area.

Finding 2. Continuity of Operations: The recommendations in this area focused primarily on an updated contingency plan, covering both data center activities and activities performed by users of specific applications, to recover critical operations should interruptions occur; testing critical systems more frequently; and, testing combinations of multiple critical workloads simultaneously. The audit report for FY 1998 mentioned noteworthy progress in this area and also recognized SSA's plans to periodically analyze our operations, assign priorities to business functions and test recovery and backup for the high priority functions.

Finding 3. Software Development and Change Control: In the FY 1997 audit report, the auditors indicated that control and security measures for application system changes could be improved. As a result of our progress in this area, this issue is no longer considered a reportable condition in FY 1998.

Finding 4. Management Control Over Separation of Duties: There were three areas where the auditors felt we had inadequate separation of duties: field offices, systems operations and security administration. We generally agreed that we could improve in the areas of systems operations and security administration and have addressed most of these associated recommendations so far. We disagreed with some recommendations pertaining to the field offices. The auditors reconsidered these recommendations and provided revised recommendations in its FY 1998 audit report which emphasizes the use of performance measures to identify high-risk transactions for analysis and, when warranted, additional preventive controls. These new recommendations appear to be much less labor intensive. We will continue to work with the auditors to improve this area.

Finding 5. Quality Control: The auditors felt that SSA had made progress in this area and this finding was no longer included as a reportable condition.

Agency managers and staff analyze the deficiencies found through its reviews and GAO and OIG audits or other studies and using those reports and other information available to them as a result of normal operations determine whether the weaknesses should be classified as material as defined in OMB Circular A-123. This designation requires a judgment by Agency managers as to the relative risk and significance of the deficiencies. The matter is then referred to SSA's Executive Internal Control Council, whose membership includes the Principal Deputy Commissioner, the Inspector General, CFO and the Deputy Commissioners, for Agency-level approval. The Commissioner then makes the final decision as to whether the weakness is significant enough to be reported outside the Agency (i.e., included in the annual Accountability Report to the President and Congress).

The Agency has considered all the reports and other information available and has no new material weaknesses to report at this time.

SSA is making good progress with efforts to correct the remaining FMFIA title XVI weakness by September 30, 2000. During FY 1998, the Agency worked on a process to automatically transfer existing debts on closed records to new Supplemental Security records. This new process will ensure that outstanding debts will be pursued for recovery. SSA also continued efforts to develop a new accounting system to account for and report debt detections and clearances. The new accounting system will include new data input screens and transaction-based processing. We expect to have the FMFIA material weakness corrected by September 30, 2000.

Key Financial Management Officials



Yvette S. Jackson

Deputy Commissioner for Finance, Assessment and Management

Key official responsible for Budget, Finance, Procurement and Quality Assurance



Dale W. Sopper

Assistant Deputy Commissioner for Finance, Assessment and Management

Acting Chief Financial Officer



Thomas G. Staples

Associate Commissioner for Financial Policy and Operations

Deputy Chief Financial Officer

Principal Financial Statements and Notes

SSA has reasserted its commitment to excellence by receiving an unqualified opinion on our financial statements. These statements were prepared consistent with requirements of the Federal Accounting Standards Advisory Board (FASAB), OMB, the Chief Financial Officers Act and other relevant Federal statutes. Certain amounts disclosed in the principal financial statements are reported by program beginning on page 41.

Our principal financial statements have a noticeably different look than last year's statements. FASAB's Statement of Federal Financial Accounting Concepts Number 2, Entity and Display recommended new principal financial statements. Based on this Concept Statement, OMB Form and Content Bulletin 97-01 now requires the following statements: the Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and the Statement of Financing. In accordance with OMB guidance, the Statement of Financial Position contained in prior reports has been relabeled the Balance Sheet.

For FY 1998, the Balance Sheet displayed on page 27 reflects total assets of \$748 billion, a 15 percent increase over the previous year. This increase is attributable to the steady growth of the OASDI Trust Fund reserves which were invested to generate \$49 billion of interest income, an increase of almost \$6 billion compared to FY 1997. Of these \$748 billion in assets, almost 98 percent are investments that are only converted to cash when needed to pay benefits and other expenses. The investment portfolios, yields and maturities are detailed on pages 47 and 48.

The presentation of program expenses and exchange revenues is reflected in the Statement of Net Costs on page 28. This statement is designed to demonstrate how much of the services provided were financed by the taxpayers. The nature of the funding of SSA's programs is such that the programs are financed almost entirely by earmarked and general taxes. The Statement of Changes in Net Position displays SSA's non-exchange revenues and financing sources as well as the cumulative net position of the Agency. In prior years, the information presented in these two statements was found in the Statement of Operations and Changes in Net Position.

The third new principal statement is the Statement of Budgetary Resources presented on page 30. This statement provides an account of the budgetary resources made available to SSA, whether those resources have been obligated and other information related to outlays. Finally, the Statement of Financing reconciles SSA's budgetary resources to our net cost of operations. The highlights of SSA's financial position are also discussed in the MD&A section on pages 21 and 22.

Consolidated Balance Sheet as of September 30, 1998 and 1997

Assets	(Dollars in Millions)	
	1998	1997 Restated
Intragovernmental Entity Assets:		
Fund Balance with Treasury	\$ 1,109	\$ 2,341
Investments (Note 4)	730,277	631,007
Interest Receivable, Net (Note 5)	12,441	11,048
Accounts Receivable, Net	10	30
Other	215	20
Accounts Receivable, Net (Note 5)	2,418	2,262
Property, Plant and Equipment, Net	307	301
Other	139	203
Total Entity Assets	746,916	647,212
Non-Entity Assets:		
SSI Intragovernmental Receivable (Note 5)	336	384
SSI Receivable (Note 5)	1,312	1,037
Total Non-Entity Assets	1,648	1,421
Total Assets	748,564	648,633
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Accrued Railroad Retirement Interchange (Note 3)	3,830	3,708
Accounts Payable	269	343
Other Liabilities	615	296
Entitlement Benefits Due (Note 6)	35,545	34,291
Accounts Payable	669	622
Other Liabilities	272	177
Total Liabilities Covered by Budgetary Resources	41,200	39,437
Liabilities Not Covered by Budgetary Resources (Note 7)		
Intragovernmental Liabilities:		
SSI Receivables Owed to Treasury	1,648	1,421
Other Liabilities	181	145
Entitlement Benefits Due (Note 6)	943	1,016
Other Liabilities	442	466
Total Liabilities Not Covered by Budgetary Resources	3,214	3,048
Total Liabilities	44,414	42,485
Net Position (Note 8)		
Unexpended Appropriations	1,837	3,391
Cumulative Results of Operations	702,313	602,757
Total Net Position	704,150	606,148
Total Liabilities and Net Position	\$748,564	\$648,633

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

Consolidated Statement of Net Cost for the Years Ended September 30, 1998 and 1997

	(Dollars in Millions)	
	1998	1997 Restated
OASI Program		
Benefit Payments	\$325,004	\$ 313,674
Operating Expenses	2,211	2,148
Total Cost of OASI Program	327,215	315,822
Less: Exchange Revenue	5	0
Net Cost of OASI Program	327,210	315,822
DI Program		
Benefit Payments	47,690	44,454
Operating Expenses	1,863	1,506
Total Cost of DI Program	49,553	45,960
Less: Exchange Revenue	4	0
Net Cost of DI Program	49,549	45,960
SSI Program		
Benefit Payments	30,478	29,545
Operating Expenses	2,404	2,209
Total Cost of SSI Program	32,882	31,754
Less: Exchange Revenues (Note 9)		
SSI State Supplementation	2,984	2,917
SSI Administrative Fees Earned	181	145
Other Exchange Revenues	7	0
Net Cost of SSI Program	29,710	28,692
Black Lung Program		
Benefit Payments	583	623
Operating Expenses	5	4
Total Cost of Black Lung Program	588	627
Less: Exchange Revenues	0	0
Net Cost of Black Lung Program	588	627
Other Operating Expenses	1,102	997
Less: Other Exchange Revenues (Note 9)	9	19
Net Cost of Operations	\$408,150	\$392,079

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

Consolidated Statement of Changes in Net Position for the Years Ended September 30, 1998 and 1997

	(Dollars in Millions)	
	1998	1997 Restated
Net Cost of Operations	\$408,150	\$392,079
Financing Sources (other than Exchange Revenues)		
Appropriations Used	30,397	29,513
Tax Revenues (Note 10)	431,974	405,335
Imputed Financing (Note 13)	292	267
Interest, Donations and Other Revenues	49,016	43,172
Railroad Retirement Interchange	(3,941)	(3,766)
SSI Receivables Recovered	1,215	1,150
SSI Receivables Transferred to Treasury	(1,215)	(1,150)
SSI Administrative Fees Transferred to Treasury	(146)	(145)
Total Financing Sources	507,592	474,376
Net Results of Operations	99,442	82,297
Increase (Decrease) in Unexpended Appropriations	(1,440)	4,453
Change in Net Position	98,002	86,750
Net Position, Beginning Balance	606,148	519,398
Net Position, Ending Balance	\$704,150	\$606,148

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

Consolidated Statement of Budgetary Resources for the Years Ended September 30, 1998 and 1997

	(Dollars in Millions)	
	1998	1997 Restated
Budgetary Resources Made Available		
Budget Authority	\$510,836	\$478,413
Unobligated Balances - Beginning of the Period	632,809	551,280
Spending Authority from Offsetting Collections	3,039	2,941
Adjustments	(369)	(307)
Total Budgetary Resources Made Available	1,146,315	1,032,327
Status of Budgetary Resources (Note 12)		
Obligations Incurred	417,176	399,968
Unobligated Balances - Available	729,122	632,340
Unobligated Balances - Not Available	17	19
Total Status of Budgetary Resources	1,146,315	1,032,327
Outlays		
Obligations Incurred	417,176	399,968
Less: Spending Authority	3,056	2,960
Obligated Balances - Beginning of Period	39,402	38,938
Less: Obligated Balance - End of Period	40,942	39,402
Total Outlays	\$412,580	\$396,544

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

Consolidated Statement of Financing for the Years Ended September 30, 1998 and 1997

	(Dollars in Millions)	
	1998	1997 Restated
Obligations and Non-budgetary Resources		
Obligations Incurred	\$417,176	\$399,968
Other Spending Authority	(3,056)	(2,960)
Donations and Other Resources	0	0
Imputed Financing	292	267
Transfers In (Out)	(6,158)	(4,964)
Exchange Revenue (Note 9)	(167)	(77)
Non-Exchange Revenue	0	1
Total Obligations and Non-Budgetary Resources	408,087	392,235
Resources Not Funding Net Cost of Operations		
Change in Undelivered Orders	80	(39)
Capitalized Costs	(27)	(64)
Financing Sources that Fund Costs of Prior Periods	(97)	(36)
Total Resources Not Funding Net Cost of Operations	(44)	(139)
Costs Not Requiring Resources		
Depreciation and Amortization	132	128
Revaluation of Assets and Liabilities	(5)	6
Other	(48)	(166)
Total Costs Not Requiring Resources	79	(32)
Financing Sources Yet to Be Provided	28	15
Net Cost of Operations	\$408,150	\$392,079

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

SOCIAL SECURITY ADMINISTRATION

Notes To The Principal Financial Statements



Summary of Significant Accounting Policies

Reporting Entity

The Social Security Administration (SSA), as an independent agency of the United States Government, is responsible for administering the Nation's Old Age and Survivors, and Disability Insurance Programs (OASDI), the Supplemental Security Income (SSI) Program and Part B of the Black Lung (BL) Program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position and results of operations of SSA, as required by the Chief Financial Officers Act of 1990.

The financial statements have been prepared from the accounting records of SSA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards and SSA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by SSA pursuant to OMB directives, that are used to monitor and control SSA's use of budgetary resources. Certain FY 1997 line items have been restated to be consistent with provisions of OMB Bulletin 97-01 which are effective starting in FY 1998.

The consolidated financial statements include the accounts of all funds under SSA control, consisting of two trust funds, three general fund appropriations and five deposit funds. The trust funds are the Old Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. SSA's statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, BL-Part B and Other. The fund balance with Treasury shown on the Balance Sheet represents the total of all SSA's account balances with the Department of the Treasury.

Investments

Trust fund balances may only be invested "in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States" as provided by Section 201(d) of the Social Security Act. These investments are carried at amortized cost.

Property, Plant and Equipment

SSA's property and plant assets are considered assets of the OASI and the Hospital Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. All equipment is considered assets of the OASI Trust Fund. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of trust fund assets through the calculation of user charge credits. SSA capitalizes new property, plant and equipment costing over \$100,000.

Recognition of Financing Sources

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contribution Act [FICA] and Self Employment Contributions Act [SECA]), appropriations and gifts. Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes paid by the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), credit for military service, income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See NOTE 10: Tax Revenues).

Payments to the trust funds from appropriations are recognized as appropriated capital used in the period received for interest on trust fund unnegotiated checks, benefit payments for uninsured persons and pension reform costs. Appropriated capital used also includes Treasury payments and accruals for the SSI and BL programs.

Revenues from sales of goods and services to the public include payments SSA receives from those States

choosing to have SSA administer their State supplementation of Federal SSI benefits.

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

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Interest income is compounded semi-annually (June and December) and has been adjusted to include an accrual for interest earned from July 1 to September 30 and to exclude the prior year's accrual.

Other financing sources consist primarily of reimbursable services. Reimbursements are recognized as the services are performed (See NOTE 3: Inter-Governmental Financing Activities). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment and other long term assets as specified by law.

Administrative Expenses

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

Entitlement Benefits Due

Liabilities are accrued for OASI, DI and BL benefits to which recipients are entitled for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid pending receipt of a correct address, and adjudicated and unadjudicated hearings and appeals and civil litigation cases which were not paid at the close of the fiscal year (See NOTE 6: Entitlement Benefits Due).

The probable future cost SSA will incur for benefits it is committed to pay under OASDI programs is presented in detail in the Supplemental Financial and Management Information section of this report.

2 Centralized Federal Financing Activities

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

These statements are not intended to report SSA's proportionate share of the Federal deficit. Financing for general fund appropriations reported on the Consolidated Statement of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

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

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

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is

required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were \$154.4 and \$132.9 million for FY 1998 and 1997, respectively. SSA contributions to FERS were \$87.4 and \$87.7 million for FY 1998 and 1997, respectively. In addition, SSA contributions to the FERS savings plan were \$31.9 and \$29.1 million for FY 1998 and 1997, respectively. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since these data are only reported in total by the Office of Personnel Management.

3 Inter-Governmental Financing Activities

SSA, while performing its operations, provides services to other Federal and State agencies, and as provided for by law, other Federal and State agencies also perform services for SSA. SSA's statements include amounts reimbursed by other Federal and State agencies for services provided by SSA.

Federal

Some of the more significant Federal agencies and programs for which SSA performs administrative services on a reimbursable basis are: the Health Care Financing Administration's Medicare program, funded by the HI/SMI Trust Funds, the Department of Labor's Black Lung (Part A) program, and the Department of Agriculture's Food Stamp program. The following amounts were reimbursed to SSA from other Federal sources:

	<i>(In Millions)</i>	
	<u>1998</u>	<u>1997</u>
HI/SMI Trust Funds	\$943	\$862
All Others	11	16

The Railroad Retirement Board (RRB) expense and accrued liability are for the annual interchange required

to place the OASI and DI Trust Funds in the same position they would have been, if railroad employment had been covered by the Social Security program. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses. However, the payments are made to the qualifying railroad workers by the RRB on behalf of SSA. SSA reimbursed RRB in the amount of \$1.1 billion for both FY 1998 and 1997. SSA's expenses for administrative services performed by the Department of Treasury consist of \$309 and \$255 million for FY 1998 and FY 1997, respectively. Beginning in FY 1998, OMB Bulletin 97-01 requires that the annual RRB interchange be presented as a transfer out on the Statement of Changes in Net Position.

State

SSA's expenses for services include reimbursement to States for Disability Determination Services in the amount of \$1.3 and \$1.1 billion for FY 1998 and 1997, respectively.

4 Investments

Investments held for the trust funds mature at various dates ranging from the present to the year 2013. The interest rates on these investments range from 3.50 percent to 13.75 percent. U.S. Treasury special issues are special public debt obligations for purchase exclusively by the trust funds. Special issues are always purchased and redeemed at face value which is the same as their carrying value on the Balance Sheet.

	<i>(In Millions)</i>	
	<u>1998</u>	<u>1997</u>
Special Issue U.S. Treasury		
Securities	\$730,228	\$630,958
U.S. Treasury Bonds - carrying value	<u>49</u>	<u>49</u>
Total Investments	\$730,277	\$631,007

5

Interest and Accounts Receivables

Intragovernmental receivables consist primarily of accrued interest receivables on investments. These were \$12,441 and \$11,048 million on trust fund investments with the U.S. Treasury for the period June 30 through September 30, 1998 and 1997, respectively.

Accounts receivable consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement under the OASI, DI, SSI and BL programs.

The FY 1991 Appropriations Act, P.L. 101-517, requires that all collections from repayment of SSI overpayments be deposited in the general fund of the Treasury. These funds, upon deposit, are assets of the general fund of the Treasury and shall not be used by SSA as an SSI budgetary resource to pay SSI benefits and accordingly, are classified as non-entity assets on the Balance Sheet.

FY 1998 (In Millions)			SSI	SSI			All
	OASI	DI	Federal	State	BL	Other	Programs
Current	\$1,086	\$1,225	\$1,951	\$260	\$3	\$0	\$4,525
Non-Current	256	355	532	58	1	0	1,202
Gross Receivables	1,342	1,580	2,483	318	4	0	5,727
Allowance for Doubtful Accts.	(117)	(629)	(835)	(79)	(1)	—	(1,661)
Net Receivables	\$1,225	\$951	\$1,648	\$239	\$3	\$0	\$4,066

FY 1997 (In Millions)			SSI	SSI			All
	OASI	DI	Federal	State	BL	Other	Programs
Current	\$1,071	\$1,096	\$1,641	\$256	\$3	\$2	\$4,069
Non-Current	243	297	437	71	1	0	1,049
Gross Receivables	1,314	1,393	2,078	327	4	2	5,118
Allowance for Doubtful Accts.	(122)	(579)	(657)	(76)	(1)	—	(1,435)
Net Receivables	\$1,192	\$814	\$1,421	\$251	\$3	\$2	\$3,683

6

Entitlement Benefits Due

Entitlement benefits due and payable for SSA's major programs as of September 30, 1998 and 1997 are shown in the table below. These amounts include an estimate for unadjudicated cases that will be payable in the future. Accrued benefits for all programs are covered by budgetary resources except for the SSI program.

	<i>(In Millions)</i>	
	1998	1997
OASI	\$28,941	\$28,082
DI	6,557	6,158
SSI	943	1,016
BL	47	51
Total	\$36,488	\$35,307

7

Liabilities Not Covered by Budgetary Resources

Workers Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for SSA employees under FECA are administered by DOL and are ultimately paid by SSA. SSA recorded an estimated actuarial liability of \$188 and \$171 million for claims incurred as of September 30, 1998 and 1997, respectively, and expected to be paid in future periods. This actuarial liability was calculated using historical payment data to project future costs.

Other Unfunded Liabilities

SSA recognized an unfunded liability for leave earned but not taken, amounts billed by the Department of Labor (DOL) for FY 1997 and FY 1998 FECA payments, capital assets acquired under a lease purchase prior to FY 1991, vocational rehabilitation services, accrued benefits

and administrative cost in the SSI program and accrued interest payable, not billed. Total unfunded liabilities for FY 1998 and 1997 were \$3.2 and \$3.0 billion, respectively.

8

Net Position

SSA's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by Treasury, and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses for that account since its inception.

FASAB's Statement of Federal Financial Accounting Standard Number 5, Accounting for Liabilities of the Federal Government no longer requires that SSA recognize an actuarial liability for the present value of projected annual benefit payments to be paid to Black Lung program participants under the jurisdiction of SSA. The increase in unexpended appropriations in FY 1997 include a reversal of the accrual of the Black Lung actuarial liability.

9

Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. SSA's exchange revenue primarily consists of SSI State Supplementation. SSA has agreements with 25 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Total supplemental SSI benefits paid by SSA on behalf of the States were \$2,984 and \$2,917 for FY 1998 and 1997, respectively. SSA is reimbursed by the States in full and earned administration fee revenue in the amount of \$181 and \$145 million for FY 1998 and 1997 respectively.

In FY 1997, SSA charged a fee for the administration of these supplemental payments of \$5.00 per payment. As required by law, fees charged will incrementally increase over the FY 1998 to FY 2002 period from \$6.20 per payment in FY 1998 to \$8.50 in FY 2002. Also as required by law, starting in FY 2003, the administration

fee will be adjusted based on the Consumer Price Index unless SSA determines a different rate is appropriate.

In addition, SSA earned \$25 and \$19 million in other exchange revenue in FY 1998 and 1997, respectively. The goods and services provided in these transactions are priced so that charges do not exceed the Agency's cost.

10 Tax Revenues

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

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year or errors made and corrected with either IRS or SSA but not both. Revenues to the trust funds are reduced for excess employment taxes which are refunded by offset against income taxes.

SSA has permanent indefinite authority for two appropriations, Taxation of Social Security Benefits and FICA/SECA Tax Credits. Both appropriations are authorized by Public Law 98-21. They are for unspecified amounts of money and do not require action by Congress to authorize their use.

The amounts for estimated employment taxes, adjustments for actual taxes payable, and refunds as well as other tax revenues follows. Other tax revenues include certain military wage credits and income tax on benefits.

	<i>(In Millions)</i>	
	<u>1998</u>	<u>1997</u>
Estimated Employment Taxes Credited to SSA	\$425,441	\$400,928
Adjustments	(741)	(1,666)
Refunds	<u>(2,130)</u>	<u>(1,090)</u>
Employment Tax Revenues	422,570	398,172
Other Tax Revenues	<u>9,404</u>	<u>7,163</u>
Total Tax Revenues	\$431,974	\$405,335

11 Contingent Liabilities

SSA has certain claims and lawsuits pending against it. When pending claims will probably result in payment and these amounts are estimable, appropriate provision has been made in the accompanying financial statements.

As the result of a Supreme Court decision in *Zebley v. Sullivan* in 1990, SSA recognized an unfunded liability of \$1.9 billion in FY 1990 to pay SSI benefits which had previously been denied. During FY 1998, SSA reevaluated this liability and determined that \$10 million will be paid in the future for claims yet to be filed which had previously been denied.

SSA also has other class action suits which may affect major client populace, that may be lost, in whole or in part, in lower courts and or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. However, at this time SSA is unable to determine an estimate of loss for any class action suits. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

12 Status of Budgetary Resources

The following tables show the status of SSA's budgetary resources by program as of September 30, 1998 and 1997. Obligations incurred consist of expended authority, recoveries of prior year obligations and the change in undelivered orders. Undelivered orders as of September 30, 1998 and 1997 are \$649 and \$729 million, respectively.

During FY 1998, adjustments were made to SSA's budgetary resources to increase the indefinite authority for the SSI appropriation for \$2.2 billion. This reapportionment assured that adequate funding would be available for the remainder of the fiscal year.

13 Imputed Financing

The Statement of Net Costs recognizes post-employment benefit expenses of \$534 and \$427 million for FY 1998 and 1997, respectively. The Statement of Changes in Net Position recognizes an imputed financing source of \$292 and \$267 million for FY 1998 and 1997, respectively. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The imputed financing source represents annual service cost not paid by SSA.

1998	Unobligated	Unobligated	Expended	Change in	(In Millions)
Program	Appropriations Available	Appropriations Unavailable	Authority & Recoveries	Undelivered Orders	Total
OASI	\$652,269	\$0	\$332,695	\$(63)	\$984,901
DI	76,716	0	50,087	(2)	126,801
SSI	27	16	32,837	7	32,887
BL	9	1	589	0	599
Other	101	0	1,048	(22)	1,127
Total	\$729,122	\$17	\$417,256	\$(80)	\$1,146,315

1997	Unobligated	Unobligated	Expended	Change in	(In Millions)
Program	Appropriations Available	Appropriations Unavailable	Authority & Recoveries	Undelivered Orders	Total
OASI	\$566,455	\$0	\$320,296	\$30	\$886,781
DI	64,067	0	46,275	16	110,358
SSI	1,631	18	31,764	(35)	33,378
BL	11	1	628	0	640
Other	176	0	966	28	1,170
Total	\$632,340	\$19	\$399,929	\$39	\$1,032,327

14 Cost and Revenue by Budget Function

Shown below are SSA's gross costs, earned revenue and net costs displayed by budget function. Social security includes the costs and revenues associated with the OASI and DI programs. Income security includes the costs and revenues associated with the SSI and Black Lung programs. Medicare includes the costs and revenues that SSA incurs in performing work for the Health Care Financing Administration's Medicare program.

	<i>(In Millions)</i>		
	Gross	Earned	Net
	<u>Cost</u>	<u>Revenue</u>	<u>Cost</u>
Social Security	\$376,768	\$9	\$376,759
Income Security	33,470	3,172	30,298
Medicare	<u>1,102</u>	<u>9</u>	<u>1,093</u>
Total	\$411,340	\$3,190	\$408,150

Balance Sheet by Major Program as of September 30, 1998

Assets	(Dollars in Millions)					Consolidated
	OASI	DI	SSI	Black Lung	Other	
Intragovernmental Entity Assets:						
Fund Balance with Treasury	\$ 33	\$ (18)	\$ 978	\$58	\$ 58	\$ 1,109
Investments	653,282	76,995	0	0	0	730,277
Interest Receivable, Net	11,210	1,231	0	0	0	12,441
Accounts Receivable, Net	10	0	0	0	0	10
Other	0	215	0	0	0	215
Accounts Receivable, Net	1,225	951	239	3	0	2,418
Property, Plant and Equipment, Net	307	0	0	0	0	307
Other	136	0	3	0	0	139
Total Entity Assets	666,203	79,374	1,220	61	58	746,916
Non-Entity Assets:						
SSI Intragovernmental Receivable	0	0	0	0	336	336
SSI Governmental Receivable	0	0	0	0	1,312	1,312
Total Non-Entity Assets	0	0	0	0	1,648	1,648
Total Assets	666,203	79,374	1,220	61	1,706	748,564
Liabilities						
Liabilities Covered by Budgetary Resources						
Intragovernmental Liabilities:						
Accrued Railroad Retirement Interchange	3,718	112	0	0	0	3,830
Accounts Payable	47	18	190	1	13	269
Other Liabilities	594	8	12	0	1	615
Entitlement Benefits Due	28,941	6,557	0	47	0	35,545
Accounts Payable	21	17	619	0	12	669
Other Liabilities	55	45	133	0	39	272
Total Liab. Covered by Budgetary Resources	33,376	6,757	954	48	65	41,200
Liabilities Not Covered by Budgetary Resources						
Intragovernmental Liabilities:						
SSI Receivables Owed to Treasury	0	0	0	0	1,648	1,648
Other Liabilities	96	38	13	0	34	181
Entitlement Benefits Due	0	0	943	0	0	943
Other	114	93	167	0	68	442
Total Liab. Not Covered by Budgetary Resources	210	131	1,123	0	1,750	3,214
Total Liabilities	33,586	6,888	2,077	48	1,815	44,414
Net Position						
Unexpended Appropriations	(89)	(341)	266	13	1,988	1,837
Cumulative Results of Operations	632,706	72,827	(1,123)	0	(2,097)	702,313
Total Net Position	632,617	72,486	(857)	13	(109)	704,150
Total Liabilities and Net Position	\$ 666,203	\$79,374	\$1,220	\$61	\$1,706	\$748,564

Schedule of Changes in Net Position for the Year Ended September 30, 1998

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Net Costs of Operations	\$327,210	\$49,549	\$29,710	\$588	\$1,093	\$408,150
Financing Sources (other than Exchange Revenues)						
Appropriations Used	8	4	29,795	588	2	30,397
Tax Revenues	373,466	58,508	0	0	0	431,974
Imputed Financing	79	64	102	0	47	292
Interest, Donations and Other Revenue	43,394	4,646	0	0	976	49,016
Railroad Retirement Interchange	(3,763)	(178)	0	0	0	(3,941)
SSI Receivables Recovered	0	0	0	0	1,215	1,215
SSI Receivables Transferred to Treasury	0	0	0	0	(1,215)	(1,215)
SSI Administrative Fees Transf. to Treasury	0	0	(146)	0	0	(146)
Total Financing Sources	413,184	63,044	29,751	588	1,025	507,592
Net Results of Operations	85,974	13,495	41	0	(68)	99,442
Increase (Decrease) in Unexpended Approp.	0	0	(1,458)	(2)	20	(1,440)
Change in Net Position	85,974	13,495	(1,417)	(2)	(48)	98,002
Net Position, Beginning Balance	546,643	58,991	560	15	(61)	606,148
Net Position, Ending Balance	\$632,617	\$72,486	\$(857)	\$13	\$(109)	\$704,150

Schedule of Budgetary Resources for the Year Ended September 30, 1998

	(Dollars in Millions)					Consolidated
	OASI	DI	SSI	Black Lung	Other	
Budgetary Resources Made Available						
Budget Authority	\$ 417,457	\$63,239	\$28,231	\$586	\$1,323	\$510,836
Unobligated Balances - Beginning of Period	567,444	63,562	1,615	12	176	632,809
Spending Authority from Offsetting Collections	0	0	3,025	0	14	3,039
Adjustments	0	0	16	1	(386)	(369)
Total Budgetary Resources Made Available	984,901	126,801	32,887	599	1,127	1,146,315
Status of Budgetary Resources						
Obligations Incurred	332,632	50,085	32,844	589	1,026	417,176
Unobligated Balances - Available	652,269	76,716	27	9	101	729,122
Unobligated Balances - Not Available	0	0	16	1	0	17
Total Status of Budgetary Resources	984,901	126,801	32,887	599	1,127	1,146,315
Outlays						
Obligations Incurred	332,632	50,085	32,844	589	1,026	417,176
Less: Spending Authority	0	0	3,041	1	14	3,056
Obligated Balances - Beginning of Period	32,099	6,486	593	51	173	39,402
Less: Obligated Balance - End of Period	33,031	6,969	679	48	215	40,942
Total Outlays	\$331,700	\$49,602	\$29,717	\$591	\$970	\$412,580

Schedule of Financing for the Year Ended September 30, 1998

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Obligations and Nonbudgetary Resources						
Obligations Incurred	\$ 332,632	\$50,085	\$32,844	\$589	\$1,026	\$417,176
Other Spending Authority	0	0	(3,041)	(1)	(14)	(3,056)
Donations and Other Resources	0	0	0	0	0	0
Imputed Financing	79	64	102	0	47	292
Transfers In (Out)	(5,541)	(471)	(146)	0	0	(6,158)
Exchange Revenue	(33)	(136)	0	0	2	(167)
Non-Exchange Revenue	0	0	0	0	0	0
Total Obligations and Non-Budgetary Resources	327,137	49,542	29,759	588	1,061	408,087
Resources Not Funding Net Cost of Operations						
Change in Undelivered Orders	63	2	(7)	0	22	80
Capitalized Costs	(11)	(9)	0	0	(7)	(27)
Financing Sources that Fund Costs of Prior Periods	(2)	(2)	(92)	0	(1)	(97)
Total Resources Not Funding Net Cost of Operations	50	(9)	(99)	0	14	(44)
Costs Not Requiring Resources						
Depreciation and Amortization	36	29	46	0	21	132
Revaluation of Assets and Liabilities	(5)	0	0	0	0	(5)
Other	(18)	(21)	0	0	(9)	(48)
Total Costs Not Requiring Resources	13	8	46	0	12	79
Financing Sources Yet to Be Provided	10	8	4	0	6	28
Net Cost of Operations	\$327,210	\$49,549	\$29,710	\$588	\$1,093	\$408,150

Baseline Information and Program Performance Measures

	FY 1995	FY 1996	FY 1997	FY 1998
OASI PROGRAM				
<i>Baseline Information</i>				
Operating expenses (in millions)	\$2,002	\$1,968	\$2,148	\$2,211
Beneficiaries on the rolls (in millions)	37.5	37.6	37.8	37.9
Year trust fund will be exhausted	2031	2031	2031	2034
Long range actuarial surplus (deficit) expressed as percent of taxable payroll	(1.87)	(1.85)	(1.84)	(1.81)
% of beneficiaries' average earnings replaced when retiring at age 65	43.2%	43.1%	43.6%	41.7%
Population 65 or over receiving benefits	92.0%	92.0%	92.0%	92.0%
<i>Performance Measures</i>				
Initial claims processed (in millions)*	3.2	3.1	3.1	3.0
Initial claims processing times (in days)	14.0	13.5	14.5	15.7
% of available initial claims processed	98.7%	98.6%	98.7%	99.0%
% of applications completed before the first regular payment is due or within 14 days from effective date of filing, if later*	83.0%	84.3%	82.9%	82.6%
DI PROGRAM				
<i>Baseline Information</i>				
Operating expenses (in millions)	\$1,098	\$1,148	\$1,506	\$1,863
Beneficiaries on the rolls (in millions)	5.8	6.0	6.1	6.3
Year trust fund will be exhausted	2016	2015	2015	2019
Long range actuarial surplus (deficit) expressed as percent of taxable payroll	(.31)	(.34)	(.39)	(.38)
% of disabled workers' average earnings replaced upon onset of disability	43.5%	43.2%	43.2%	43.0%
<i>Performance Measures</i>				
Initial claims processed (in millions)	1.9	1.7	1.7	1.5
Initial claims processing times (in days)	83.8	77.9	86.3	90.1
% of available initial claims processed	88.9%	88.2%	92.9%	92.9%
% of initial claims processed within 6 months after onset or 60 days of effective filing date, whichever is later*	50.8%	57.5%	52.4%	51.3%

* FY 1998 GPRA performance measure

Baseline Information and Program Performance Measures, Continued

	FY 1995	FY 1996	FY 1997	FY 1998
SSI PROGRAM				
<i>Baseline Information</i>				
Operating expenses (in millions)	\$1,716	\$2,026	\$2,209	\$2,404
Recipients on the rolls (in millions)	6.5	6.6	6.6	6.6
% of poverty gap filled by SSI Federal benefit:				
- Individual	73.6%	72.9%	73.6%	73.6%
- Couple	82.2%	81.7%	82.1%	82.0%
% of SSI recipients also receiving OASDI benefits:				
- Aged recipients	63.2%	61.9%	61.8%	61.1%
- Blind/disabled recipients	31.1%	30.6%	30.6%	30.5%
<i>Performance Measures</i>				
Initial blind/disabled claims processed (in millions)	2.0	1.8	1.5	1.4
Initial blind/disabled claims processing times (in days)	109.2	94.4	108.4	108.8
% of available blind/disabled claims processed	84.2%	82.4%	80.2%	78.9%
% of disability claims paid or denied within 60 days of the filing date*	26.6%	29.5%	25.0%	24.4%
DI/SSI DISABILITY WORKLOADS				
<i>Baseline Information</i>				
Number of initial disability cases received by DDS	2,488,878	2,439,658	2,076,201	2,037,160
Number of total cases received by DDS	3,647,337	3,714,060	3,805,920	3,848,878
Number of initial disability cases pending in DDS at end of FY*	430,805	510,454	399,392	416,378
Number of total cases pending in DDS at end of FY	590,045	702,316	703,696	760,026
Number of hearing request pending in OHA at end of FY*	547,690	510,895	483,712	384,313
<i>Performance Measures</i>				
Number of initial disability cases processed by DDS*	2,611,622	2,360,034	2,187,263	2,024,524
Number of total cases processed by DDS	3,786,535	3,601,856	3,804,111	3,792,151
Total cases processed per workyear in DDS	281	278	269	265
% of accurate initial disability determinations by DDS	96.6%	96.9%	96.5%	96.2%
Number of hearings processed by OHA*	526,743	580,832	574,795	618,578
% of hearings with decision made and notices sent within 120 days after filing date**	13.3%	10.1%	10.0%	14.0%
Number of periodic review CDRs processed*	217,184	498,445	690,478	1,391,889
Number of medical reviews related to work issues processed	NA	19,239	20,224	19,614

* FY 1998 GPRA performance measure

** Actual data are for September of each fiscal year.

PROVIDING OFFICE

BUREAU OF PUBLIC DEBT
 PARKERSBURG, WV 26106-1328
 TELEPHONE: (304) 480-5150

STATEMENT OF ACCOUNT**ACCOUNT TITLE AND NUMBER**

OLD AGE AND SURVIVORS INSURANCE
 TRUST FUND, 2820X8006

DESCRIPTION OF HOLDINGS AS OF: 9/30/98
INVESTED BALANCE: \$653,281,692,000.00

(Dollars in Millions)

Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<i><u>Bonds Maturing June 30, 1999</u></i>		<i><u>Bonds Maturing June 30, 2000</u></i>		<i><u>Bonds Maturing June 30, 2001</u></i>		<i><u>Bonds Maturing June 30, 2002</u></i>	
\$1,492	13.750%	\$2,057	10.375%	\$2,241	9.250%	\$2,241	9.250%
565	10.375%	2,241	9.250%	7,100	8.750%	7,100	8.750%
2,241	9.250%	7,100	8.750%	1,302	8.625%	3,672	8.625%
7,100	8.750%	1,302	8.625%	2,371	8.375%	3,611	8.125%
1,302	8.625%	313	8.375%	3,611	8.125%	3,575	7.375%
313	8.375%	3,611	8.125%	3,575	7.375%	3,962	7.250%
3,611	8.125%	3,575	7.375%	3,962	7.250%	3,372	7.000%
3,575	7.375%	3,962	7.250%	3,372	7.000%	3,975	6.875%
3,962	7.250%	3,372	7.000%	3,975	6.875%	2,431	6.500%
1,453	7.000%	3,975	6.875%	2,431	6.500%	3,151	6.250%
		2,431	6.500%	3,151	6.250%	6,169	5.875%
		3,151	6.250%	6,169	5.875%		
		6,169	5.875%				
<i><u>Bonds Maturing June 30, 2003</u></i>		<i><u>Bonds Maturing June 30, 2004</u></i>		<i><u>Bonds Maturing June 30, 2005</u></i>		<i><u>Bonds Maturing June 30, 2006</u></i>	
\$ 5,913	9.250%	\$13,012	8.750%	\$13,012	8.750%	\$16,624	8.125%
7,100	8.750%	3,611	8.125%	3,611	8.125%	3,575	7.375%
3,611	8.125%	3,575	7.375%	3,575	7.375%	3,962	7.250%
3,575	7.375%	3,962	7.250%	3,962	7.250%	3,372	7.000%
3,962	7.250%	3,372	7.000%	3,372	7.000%	3,975	6.875%
3,372	7.000%	3,975	6.875%	3,975	6.875%	2,431	6.500%
3,975	6.875%	2,431	6.500%	2,431	6.500%	3,151	6.250%
2,431	6.500%	3,151	6.250%	3,151	6.250%	6,169	5.875%
3,151	6.250%	6,169	5.875%	6,169	5.875%		
6,169	5.875%						
<i><u>Bonds Maturing June 30, 2007</u></i>		<i><u>Bonds Maturing June 30, 2008</u></i>		<i><u>Bonds Maturing June 30, 2009</u></i>		<i><u>Bonds Maturing June 30, 2010</u></i>	
\$20,199	7.375%	\$3,962	7.250%	\$27,312	7.250%	\$3,372	7.000%
3,962	7.250%	3,372	7.000%	3,372	7.000%	3,975	6.875%
3,372	7.000%	3,975	6.875%	3,975	6.875%	29,743	6.500%
3,975	6.875%	2,431	6.500%	2,431	6.500%	6,169	5.875%
2,431	6.500%	23,350	6.250%	6,169	5.875%		
3,151	6.250%	6,169	5.875%				
6,169	5.875%						
<i><u>Bonds Maturing June 30, 2011</u></i>		<i><u>Bonds Maturing June 30, 2012</u></i>		<i><u>Bond Maturing June 30, 2013</u></i>		<i><u>Certificates of Indebtedness</u></i>	
\$33,114	7.000%	\$37,090	6.875%	\$43,259	5.875%	<i><u>Maturing June 30, 1999</u></i>	
3,975	6.875%	6,169	5.875%			\$5,698	5.750%
6,169	5.875%					16,346	5.375%

PROVIDING OFFICE

BUREAU OF PUBLIC DEBT
 PARKERSBURG, WV 26106-1328
 TELEPHONE: (304) 480-5150

STATEMENT OF ACCOUNT

ACCOUNT TITLE AND NUMBER

DISABILITY INSURANCE
 TRUST FUND, 2820X8007

DESCRIPTION OF HOLDINGS AS OF: 9/30/98 INVESTED BALANCE: \$76,995,527,000.00

(Dollars in Millions)

Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<u><i>Bonds Maturing June 30, 1999</i></u>		<u><i>Bonds Maturing June 30, 2000</i></u>		<u><i>Bonds Maturing June 30, 2001</i></u>		<u><i>Bonds Maturing June 30, 2002</i></u>	
\$1,116	7.000%	\$1,116	7.000%	\$1,116	7.000%	\$1,116	7.000%
265	6.875%	265	6.875%	265	6.875%	265	6.875%
1,059	6.500%	2,148	6.500%	2,148	6.500%	2,148	6.500%
		916	5.875%	916	5.875%	916	5.875%
<u><i>Bonds Maturing June 30, 2003</i></u>		<u><i>Bonds Maturing June 30, 2004</i></u>		<u><i>Bonds Maturing June 30, 2005</i></u>		<u><i>Bonds Maturing June 30, 2006</i></u>	
\$174	8.750%	\$719	8.750%	\$ 719	8.750%	\$ 869	8.125%
1,116	7.000%	151	8.125%	151	8.125%	48	7.375%
265	6.875%	48	7.375%	48	7.375%	1,116	7.000%
2,148	6.500%	1,116	7.000%	1,116	7.000%	265	6.875%
916	5.875%	265	6.875%	265	6.875%	2,148	6.500%
		2,148	6.500%	2,148	6.500%	916	5.875%
		916	5.875%	916	5.875%		
<u><i>Bonds Maturing June 30, 2007</i></u>		<u><i>Bonds Maturing June 30, 2008</i></u>		<u><i>Bonds Maturing June 30, 2009</i></u>		<u><i>Bonds Maturing June 30, 2010</i></u>	
\$917	7.375%	\$1,116	7.000%	\$4,181	7.000%	\$4,446	6.875%
1,116	7.000%	265	6.875%	265	6.875%	916	5.875%
265	6.875%	3,064	6.500%	916	5.875%		
2,148	6.500%	916	5.875%				
916	5.875%						
<u><i>Bonds Maturing June 30, 2011</i></u>		<u><i>Bonds Maturing June 30, 2012</i></u>		<u><i>Bond Maturing June 30, 2013</i></u>		<u><i>Certificates of Indebtedness Maturing June 30, 1999</i></u>	
\$4,446	6.875%	\$4,446	6.875%	\$5,362	5.875%	\$406	5.750%
916	5.875%	916	5.875%			2,526	5.375%
<u><i>Marketable U.S. Treasury Bonds</i></u>							
\$5 of 3.500% bonds due November 15, 1998							
\$4 of 8.250% bonds due May 15, 2000 - 2005							
\$10 of 7.625% bonds due February 15, 2002 - 2007							
\$30 of 11.750% bonds due February 15, 2005 - 2010							

Supplemental Information

Adequacy of Trust Fund Financing

	Calendar Year					
	1948	1958	1968	1978	1988	1998
° Trends in factors affecting revenues						
— Taxable wage base for coverage:						
Social Security	\$3,000	\$4,200	\$7,800	\$17,700	\$45,000	\$68,400
Medicare (HI)	NA	NA	7,800	17,700	45,000	No Limit
— Tax contribution & distribution rates:						
° FICA tax rate (employers and employees, each)						
OASI (initiated 1937)	1.00%	2.00%	3.325%	4.275%	5.53%	5.35%
DI (initiated 1957)	NA	.25	.475	.775	.53	.85
HI (initiated 1966)	<u>NA</u>	<u>NA</u>	<u>.60</u>	<u>1.00</u>	<u>1.45</u>	<u>1.45</u>
Combined	1.00%	2.25%	4.40%	6.05%	7.51%	7.65%
° SECA tax rate						
OASI (initiated 1951)	NA	3.00%	5.0875%	6.01%	11.06%	10.70%
DI (initiated 1957)	NA	.375	.7125	1.09	1.06	1.70
HI (initiated 1966)	<u>NA</u>	<u>NA</u>	<u>.60</u>	<u>1.00</u>	<u>2.90</u>	<u>2.90</u>
Combined	NA	3.375%	6.40%	8.10%	15.02%	15.30%
— Percent of benefits taxed	NA	NA	NA	NA	50.0% ¹	85.0% ²
° Trends in factors affecting outlays						
— No. of beneficiaries (in millions) ³	2.3	12.4	24.6	34.6	38.6	44.5 ⁴
Retirees/dependents	1.4	9.1	16.3	22.1	27.3	31.0 ⁴
Survivors of deceased workers	0.9	3.0	6.0	7.6	7.2	7.2 ⁴
Disabled workers/dependents	NA	0.3	2.3	4.9	4.1	6.3 ⁴
— Benefit payment COLA increase ⁵	NA	NA	NA	6.5%	4.2%	2.1%
— No. of workers per beneficiary ⁶	21.2	5.6	3.6	3.2	3.4	3.3 ⁴
— Retirement age						
Full benefits	65 yrs	65 yrs.	65 yrs.	65 yrs.	65 yrs.	65 yrs.
Reduced benefits	NA ⁷	62 yrs. ⁷	62 yrs.	62 yrs.	62 yrs.	62 yrs.

1 Earnings over \$25,000 for an individual or \$32,000 for a couple.

2 Earnings over \$34,000 for an individual and \$44,000 for a couple; earnings between \$25,000 and \$34,000 for an individual and between \$32,000 and \$44,000 for a couple are taxed at 50%.

3 The first old-age and survivors benefit checks were issued in 1940 and the first disability benefit checks in 1957.

Number of beneficiaries are those in current-payment status for December 31.

4 Estimated, based on the intermediate economic and demographic assumptions in the 1998 Trustees Report.

5 Prior to 1975 benefit increases were at the discretion of Congress. Data represents the increase in the benefit check received during the calendar year.

6 Per OASI beneficiary in 1948; per OASDI beneficiary in 1958, 1968, 1978, 1988 & 1998.

7 Reduced benefits were not offered until 1956 for women and 1961 for men.

Chief Actuary's "Statement of Actuarial Opinion"



It is my opinion that (1) the techniques and methodology used herein to evaluate the financial and actuarial status of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds are generally accepted within the actuarial profession; and (2) the assumptions used and the resulting actuarial estimates are, in the aggregate, reasonable for the purpose of evaluating the financial and actuarial status of the trust funds, taking into consideration the experience and expectations of the program.

Harry C. Ballantyne
Associate of the Society of Actuaries,
Member of the American Academy of Actuaries,
Chief Actuary, Social Security Administration

**Taken from the 1998 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.*

Adequacy of Trust Fund Assets

○ Trend of estimates for	OASI	DI	COMBINED
year of trust fund exhaustion			
— 1994 Trustees Report	2036	1995	2029
— 1995 Trustees Report	2031	2016	2030
— 1996 Trustees Report	2031	2015	2029
— 1997 Trustees Report	2031	2015	2029
— 1998 Trustees Report	2034	2019	2032
○ Trend of estimates for long range (75 years) actuarial surplus (deficit) expressed as percent of taxable payroll			
— 1994 Trustees Report	(1.46)	(.66)	(2.13)
— 1995 Trustees Report	(1.87)	(.31)	(2.17)
— 1996 Trustees Report	(1.85)	(.34)	(2.19)
— 1997 Trustees Report	(1.84)	(.39)	(2.23)
— 1998 Trustees Report	(1.81)	(.38)	(2.19)

Future Contributions and Expenditures of the OASI and DI Trust Funds

Covered workers contribute a percentage of their earnings, up to an annual maximum taxable amount, into the OASI and DI Trust Funds. Contributions also include general fund appropriations for military service and self-employment income tax credits. Beneficiaries pay Federal income taxes on up to 85 percent of their Social Security benefits if the sum of their adjusted gross income, tax-exempt interest income and one-half of their Social Security benefits exceeds certain fixed threshold amounts. Amounts equivalent to such income taxes are transferred from the general fund to the trust funds.

Workers who subsequently become insured receive benefits, along with their eligible spouses and children, after they retire or become disabled. In addition, eligible spouses and children receive benefits after the death of an insured worker. For FY 1998 and 1997, OASI net benefits were \$325.0 and \$312.9 billion and DI benefits were \$47.7 and \$45.4 billion, respectively.

Expenses required to administer the OASI and DI programs are paid from the two trust funds. The Railroad Retirement Board (RRB) program pays benefits to its beneficiaries equivalent to amounts that would be paid if railroad employment were covered under the OASI and DI programs plus additional benefits unique to that program, and it collects contributions in a similar manner. Funds are transferred annually between the Social Security trust funds and the RRB's Social Security Equivalent Benefit Account so as to put the trust funds into the same position in which they would have been if railroad employment had been covered under Social Security.

The following statements of Present Value of Actuarial Estimates show present values as of September 30, 1998, for the contributions and expenditures mentioned above. In determining the present values, contributions and expenditures are estimated for a period of 75 years into the future. The estimates include contributions and expenditures relating to future new entrants as well as to present covered workers. The present values are computed on the basis of the economic and demographic assumptions described as intermediate (alternative II) in the 1998 Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds (House Document 105-243 dated April 30, 1998). Because the timing of SSA's Accountability Report precedes the issuance of the 1999 Report of the Board of Trustees, it is impossible for the

estimates published in this Accountability Report to reflect the assumptions from the 1999 Trustees Report.

Although three alternative sets of assumptions are shown in the 1998 Trustees Report, the estimates shown in this report are based on alternative II because it is the set that is typically used when estimating the effects of legislative changes proposed during the year. In particular, these estimates are based on interest rates ranging from 5.4 percent to 6.4 percent for 1998 - 2007 and 6.3 thereafter. For alternative II, the assumed average annual unemployment rate (on a non-age-sex-adjusted basis) increased from 4.8 percent in 1998 to 6.0 percent by 2006. In spite of the changing age structure of the population, the equivalent age-sex-adjusted average annual unemployment rate for 2007 (adjusted to the estimated total labor force on July 1, 1995) is also about 6.0 percent, which is assumed thereafter. The annual rate of increase in the average wage in covered employment is assumed to be 3.3 percent in 1998, and to show a generally rising trend before reaching its ultimate rate of 4.4 percent beginning in 2015. The annual rate of increase in the Consumer Price Index is assumed to increase from a low of 1.4 percent for 1998 to the ultimate rate of 3.5 percent by 2006.

The assumed ultimate total fertility rate of 1.9 children per woman is attained in 2022, after a gradual decrease from the estimated 1997 level of 2.0 children per woman. The age-sex-adjusted death rate is assumed to decrease gradually during the entire projection period, with a reduction of 35 percent from the 1997 level by 2072. The assumed level of total net annual immigration of 900,000 persons per year, reached by the year 2000, is the combination of 600,000 net legal immigrants per year and 300,000 net other-than-legal immigrants per year.

Based on these intermediate assumptions, projections of trust fund balances show sufficient funds to make benefit payments until 2019 for the DI Trust Fund (four years later than shown last year) and 2034 for the OASI Trust Fund (three years later than shown last year).

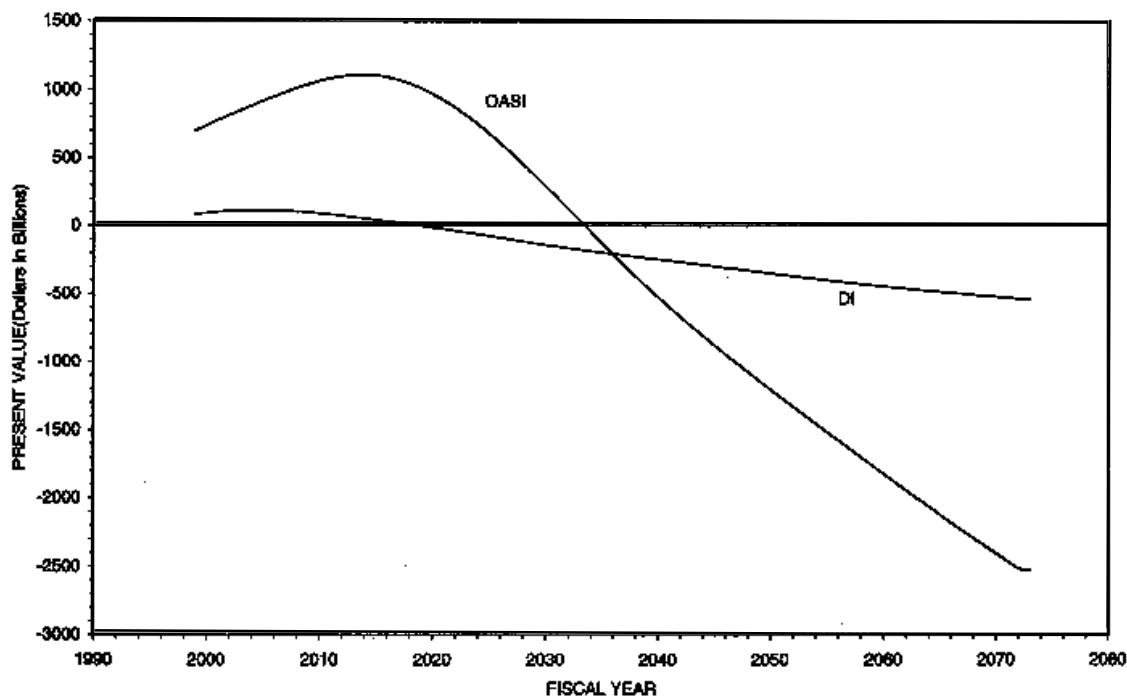
The present values of estimated net assets by trust fund and year, based upon the 1998 Trustees Report, are presented graphically below. As shown, the present value of estimated future DI net assets increases from 1999 to 2005, at which time it reaches \$114.1 billion; it steadily decreases starting in 2006, when yearly expenditures begin to exceed tax income. The DI Trust Fund will be exhausted in 2019. The present value of estimated future OASI net assets increases from 1999 to 2014, at which time it reaches \$1,114.0 billion; it steadily decreases thereafter until it is exhausted by 2034. When the projected yearly expenditures for OASI and DI begin to exceed tax income, the shortfall is assumed to be made up by redemption for cash of the special issue investment securities held by the trust funds. Also, if the OASDI fund ratio for any year is less than 20 percent and wages (as measured by the CPI-W, the Consumer Price Index for Urban Wage Earners and Clerical Workers), the automatic benefit increase for that year will be based on the wage growth rather than price inflation. The OASDI fund ratio is the combined assets of the OASI and DI Trust Funds at the beginning of the year expressed as a percentage of the combined expenditures of those funds during the year.

Each year, the assumptions upon which these projections are based and the projection methods are reviewed and revised as needed. This year, several significant changes were made to the assumptions. The methods, themselves, were not changed significantly.

In the demographic area, changes were made as follows: Projected death rates were decreased slightly, reflecting the latest data, which was lower than expected for 1995 and 1996. Projected fertility rates were increased slightly through 2010, consistent with recent data showing higher birth rates than estimated earlier. The net effect of these changes was detrimental to the actuarial balance.

In the economic area, changes were made as follows: Recent real growth in Gross Domestic Product and in average wages has been more rapid than expected. This has contributed to a more optimistic projection of economic growth in the short-range future. Also, the assumed ultimate real interest rate has been increased from 2.7 percent to 2.8. The net effect of these changes is favorable to the actuarial balance.

Present Value (As of September 30, 1998) of Estimated Net Assets by Trust Fund, Fiscal Years 1999-2073



Old Age and Survivors Insurance Trust Fund Statement of Present Value as of September 30, 1998 of 75-Year Actuarial Estimates by Fiscal Year

(In Billions)\1

	1999	2000	2001	2002	2003	Thereafter	Total
Contributions							
Contribution Income	\$365.8	\$353.4	\$344.1	\$336.8	\$330.4	\$13,846.0	\$15,576.6
Income from Taxation of Benefits	8.0	7.4	7.7	7.8	7.9	768.0	806.8
Total Contributions	373.8	360.8	351.8	344.6	338.3	14,614.0	16,383.3
Expenditures							
Benefit Payments:							
Retired Workers	230.0	223.9	219.3	215.6	212.4	14,458.0	15,559.1
Spouses and Children of Retired Workers	20.4	19.7	19.2	18.8	18.4	773.2	869.8
Survivors of Deceased Workers	73.6	71.5	69.8	68.4	67.1	2,645.4	2,995.7
Subtotal	324.0	315.0	308.3	302.7	297.8	17,876.7	19,424.6
Administrative Expenses	2.1	1.9	1.8	1.7	1.7	63.7	72.9
Railroad Retirement Interchange	3.6	3.3	3.1	2.9	2.8	54.1	69.8
Total Expenditures	329.7	320.3	313.2	307.4	302.3	17,994.5	19,567.3
Excess of Contributions Over Expenditures							
Annual	44.1	40.6	38.6	37.2	36.0	(3,380.5)	(3,183.9)
Cumulative	44.1	84.7	123.3	160.5	196.6	(3,183.9)	
Net Assets\2	\$697.1	\$737.6	\$776.2	\$813.5	\$849.5	\$(2,531.0)	

\1 The actuarial totals do not necessarily equal the sum of the individual items because of rounding. The totals in the "Thereafter" and "Total" columns are not intended to imply that the projection of events 75 years into the future can be made with the same precision as the five immediate fiscal years.

\2 Net assets include cash and investments available in the Federal Old Age and Survivors Insurance Trust Fund as of September 30, 1998.

Program expenditures would include accrued and undelivered orders.

Disability Insurance Trust Fund Statement of Present Value as of September 30, 1998 of 75-Year Actuarial Estimates by Fiscal Year

(In Billions)\1

	1999	2000	2001	2002	2003	Thereafter	Total
Contributions							
Contribution Income	\$58.1	\$58.9	\$58.4	\$57.2	\$56.1	\$2,351.2	\$2,640.0
Income from Taxation of Benefits	.5	.5	.5	.5	.5	46.5	49.0
Total Contributions	58.6	59.4	58.9	57.7	56.7	2,397.7	2,689.0
Expenditures							
Benefit Payments:							
Disabled Workers	45.3	45.1	45.4	46.1	46.9	2,817.9	3,046.7
Spouses and Children of Disabled Workers	4.5	4.3	4.2	4.1	4.1	187.6	208.8
Subtotal	49.8	49.4	49.6	50.2	51.0	3,005.4	3,255.4
Administrative Expenses	1.3	1.3	1.3	1.2	1.2	46.5	52.9
Railroad Retirement Interchange	.1	.1	.1	.1	.1	(1.5)	(1.1)
Total Expenditures	51.3	50.9	50.9	51.5	52.3	3,050.4	3,307.2
Excess of Contributions Over Expenditures							
Annual	7.4	8.6	8.0	6.2	4.3	(652.8)	(618.3)
Cumulative	7.4	15.9	24.0	30.1	34.5	(618.3)	(618.3)
Net Assets\2	\$84.1	\$92.6	\$100.7	\$106.9	\$111.2	\$(541.6)	

\1 The actuarial totals do not necessarily equal the sum of the individual items because of rounding. The totals in the "Thereafter" and "Total" columns are not intended to imply that the projection of events 75 years into the future can be made with the same precision as the five immediate fiscal years.

\2 Net assets include cash and investments available in the Federal Disability Insurance Trust Fund as of September 30, 1998.

Program expenditures would include accrued and undelivered orders.

Management Follow-up to OIG Recommendations

SSA's follow-up to actions on audit findings and recommendations are essential to improving the effectiveness and efficiency of SSA's program operations. For FY 1998, SSA began the year with 16 reports carried over from FY 1997 which contained approximately \$1 million in costs that management determined should not be charged to the Agency's programs (disallowed costs) and \$59 million which could be used more efficiently (funds put to better use). During the year, SSA has monitored and analyzed 161 audits with 312 recommendations. These audits contained approximately \$8 million in disallowed costs and approximately \$75 million in funds which could be put to better use.

Management completed action on 6 audit reports containing 12 recommendations relating to DDS initial disability claims processing. As a result, over \$7.8 million was recovered in disallowed costs. In addition, SSA completed action on 3 recommendations

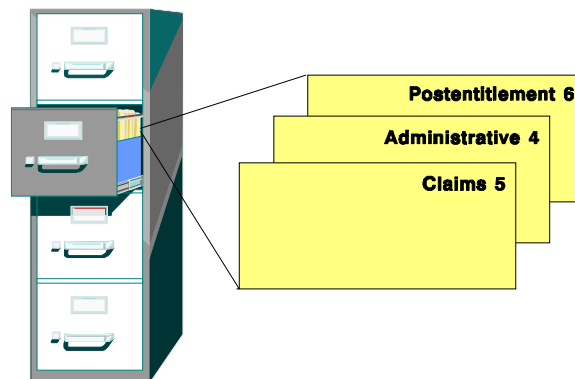
related to the postentitlement process, 1 recommendation related to the claims process and 2 recommendations related to administrative actions which will put over \$2.5 million to use more efficiently.

	# of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	# of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
Beginning of FY	5	\$1,028,667	11	\$59,039,334
New Audits During FY	7	\$8,114,812	5	\$15,795,125
Implemented Action	(6)	<u>\$(7,857,007)</u>	(3)	<u>\$(2,578,277)</u>
End of FY	6	\$1,286,472	13	\$72,256,182

SSA is currently tracking 19 audits containing 30 recommendations for which final action has not been taken. These audits contain over \$1.2 million in disallowed costs and recommended actions which when implemented could result in up to \$72.3 million being better used. The Agency is working to bring to close the 15 audits (see graphic below) more than one year old as well as continuing to work on the remaining 4.

15 Audits Over One Year Old Requiring Final Action

(Categorized by Business Process)



Commercial Payment Practices

SSA continues to introduce modern technology and business practices to enhance its payment delivery. During FY 1998, SSA continued to expand and enhance payments made through SSA's automated accounts payable system. Specifically, SSA's automated accounts payable system is designed to meet the requirements of the Prompt Payment Act (PPA) and its amendments. It includes the capability to monitor the status of invoices through the payment process and calculate payment due dates to ensure that the invoice is paid on the most advantageous date and that the vendor is compensated for a delay in payment of over 30 days.

In accordance with the Debt Collection Improvement Act of 1996, which mandates that all federal payments, except tax refunds, must be made by electronic funds transfer (EFT) after January 1, 1999, SSA has increased their electronic payments to 81 percent of total payments and 90 percent of total dollar payments. This represents a 10 percent increase in electronic payments from the prior FY including a 16% increase in charge card use.

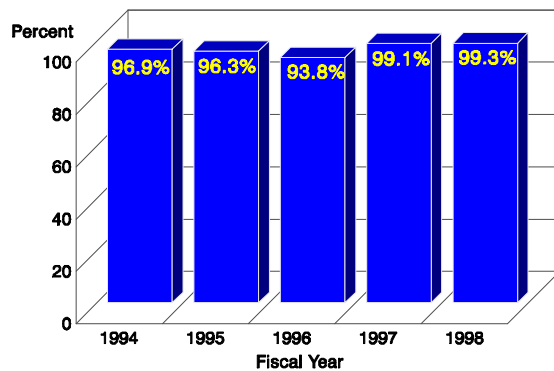
In working toward an expanded electronic, paperless environment, SSA continues to enhance its Electronic Commerce capability which permits vendors to deal with SSA's procurement and payment operations using electronic data interchange technology. A pilot initiated during FY 1997 was successful and is currently being expanded.

The PPA and its implementing regulations are focused on ensuring timely and accurate payment of vendor invoices by Federal agencies. The Act requires payment within 30 days of receipt of a proper invoice or goods or

services, whichever is later. If the payment is late, an interest penalty must be paid.

During FY 1998, continued progress was made toward eliminating interest penalties, with SSA having made 99.3% of payments on-time. SSA managed to decrease the number of interest payments while increasing the number of invoices paid subject to the PPA. Of the .7% of late payments, only .1% were paid with interest. SSA's ultimate goal is to eliminate all interest penalties. Establishment of a central customer service group and implementing Treasury's Payment Advice Internet Delivery system has contributed toward SSA's goal of being responsive to vendors by allowing vendors to check the status of their EFT payments either by telephone or through the Internet.

**Prompt Payment Act
On-Time Percentage**



SSA's Prompt Payment Activities

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Payments Made on Time	312,428	301,527	374,378	539,376	618,499
◦ Interest Penalties Paid as a Percent of Total Payments	0.05%	0.04%	0.06%	0.003%	0.002%
◦ Early Payments	0	0	0	0	0
◦ Late Payments with Interest Paid	8,376	5,178	19,636	1,045	878
◦ Late Payments with Interest Not Due*	1,692	4,513	5,061	3,747	3,345
◦ Late Payments with Interest Due But Not Paid**	0	1,754	0	0	0
◦ Total Invoices Subject to PPA	322,496	312,972	399,075	544,168	622,722
◦ Amount of Payments Subject to the PPA (000's)	\$327,226	\$467,019	\$560,088	\$677,131	\$692,769
◦ Amount of Interest Penalties Paid (000's)	\$167	\$185	\$312	\$21	\$14

* Interest was not due because interest was less than \$1.

** Interest was not paid due to vendor request.

Anti-Fraud Activities

SSA is committed to a policy of zero tolerance for fraud, waste and abuse (see page 9 for more information). Section 206(g) of the Social Security Independence and Program Improvements Act, Public Law 103-296, requires SSA to report annually on the extent to which cases of entitlement to monthly OASI, DI and SSI benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

Entitlement Reviews

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

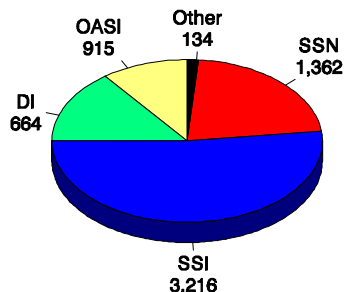
- OASI and SSI quality assurance reviews (page 79)
- Disability quality reviews (page 76)
- SSI redeterminations (page 80)
- CDRs (pages 16 & 79)

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. SSA processed approximately 8 million alerts generated by these activities, resulting in savings of over \$5.1 billion in FY 1998.

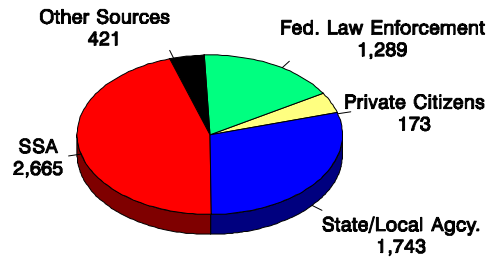
Anti-Fraud Activities

In FY 1998, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The following charts summarize OIG's involvement in fraud activities throughout the FY.

Total Fraud Cases by Category
Fiscal Year 1998

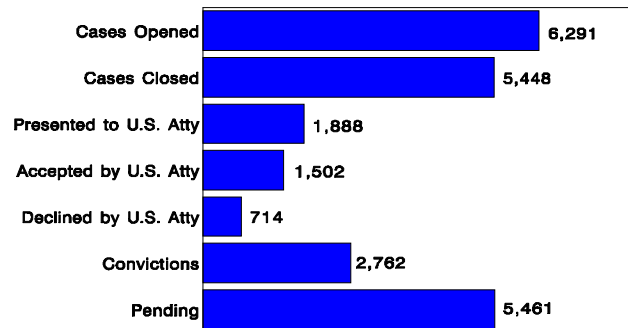


Source of All Fraud Cases Referrals
Fiscal Year 1998



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

Disposition of All Fraud Cases
Fiscal Year 1998



SSA is using its authority to impose civil monetary penalties against persons or third parties who make false statements or representations in connection with benefit claims and against those who misuse certain symbols, words and emblems that are related to SSA. This authority targets cases which would not be prosecuted in the past due to the heavy workloads of the U.S. court system. SSA has received civil monetary penalty collections in the amounts of \$7,174 and \$2,000 in FYs 1998 and 1997, respectively.

Debt Management

SSA is continuously working to improve and expand upon its debt management capabilities. For example, SSA has been working to enhance and strengthen its debt collection operation by adopting the use of debt collection tools authorized by the Domestic Employment Reform Act of 1994 (DERA) and the Debt Collection Improvement Act of 1996 (DCIA). DERA authorized the use of administrative offset, private collection agencies and credit bureau reporting to collect OASDI debts owed by former beneficiaries where the incorrect payment was issued after the debtor turned age 18 and where the incorrect payment has been determined to be uncollectible under regulations. DCIA removed the sunset date which governed SSA's use of the debt collection tools that were contained in DERA. It authorized the use of Federal salary offset and interest charging/indexing with the same restrictions established under DERA. It also allows for administrative wage garnishment to collect delinquent debts.

In 1998, SSA implemented three improvements to SSA's debt collection program: implementation of two new collection tools authorized by DERA, administrative offset and credit bureau reporting, and the expansion of the tax refund offset program (TRO) to include delinquent SSI debtors. Administrative offset was implemented under the provisions of the Treasury Offset Program (TOP) which is a governmentwide matching operation that enables agencies to collect their delinquent debts from Federal payments. Since FY 1997, Treasury has been in the process of integrating TRO into the TOP process, an ongoing monthly operation. During

FY 1997, SSA developed the system, policy and procedure to enable the use of TOP in 1998. Currently, SSA is working with Treasury to continue this transition.

In addition, SSA is seeking legislation that will allow the use of the debt collection tools provided by DERA and DCIA to be used for SSI delinquent debtors. Currently, the use of these tools, with the exception of administrative wage garnishment, is precluded by statute.

Lastly, SSA has a material weakness in SSI debt management which was reported to Congress in 1991 under the Federal Managers' Financial Integrity Act. SSA intends to correct the weakness by implementing the SSI 5-year plan. The plan prescribes implementing corrective actions on both reengineering and modernization tracks in concert with initiatives contained in the SSI 5-year plan. This initiative supports the Agency goals and objectives in the Strategic Plan by providing more complete and accurate information, reducing error rates and improving processing times through increased automation.

The collection data shown below and on the following page include all the program debt owed to SSA. Collection data shown in the GPRA Annual Performance Report on page 66 only includes legally defined overpayments, in which beneficiaries have certain due process rights.

FY 1998 Quarterly Data (In Millions)				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
◦ Total receivables	\$4,928.4	\$5,068.6	\$5,317.9	\$5,727.3
◦ Total collections	537.3	1,061.0	1,569.0	1,902.3
◦ Total writeoffs	159.9	289.7	445.3	595.1
◦ Tax Refund Offset collections	10.7	17.5	22.3	41.0
◦ Aging schedule of delinquent debt:				
— 180 days or less	\$368.0	\$372.0	\$387.0	\$390.7
— 181 to 365 days	174.3	174.9	186.2	170.4
— Longer than 365 days	<u>241.8</u>	<u>243.6</u>	<u>262.6</u>	<u>273.6</u>
— Total delinquent debt	\$784.1	\$790.5	\$835.8	\$834.7

SSA's Debt Management Activities

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Total debt outstanding end of FY (<i>in millions</i>)	\$4,154.0	\$4,543.2	\$4,973.8	\$5,119.1	\$5,727.3
◦ % of outstanding debt:					
— Delinquent	5.8%	5.8%	6.6%	14.5%	14.6%
— Estimated to be uncollectible	26.1%	26.3%	27.5%	28.0%	29.0%
◦ New debt as a % of benefit outlays	0.8%	0.7%	0.8%	0.8%	0.8%
◦ % of debt collected	39.1%	37.8%	35.6%	38.9%	33.2%
◦ Cost to collect \$1	\$0.13	\$0.13	\$0.12	\$0.09	\$0.11
◦ % change in collections from prior FY	(2.1%)	5.7%	3.1%	12.4%	(11.9%)
◦ % change in delinquencies from prior FY	(25.6%)	9.9%	24.5%	125.1%	12.1%
◦ Debt clearance rate	33.4%	32.1%	30.0%	36.1%	30.1%
◦ Collections as % of clearances	80.2%	79.2%	79.7%	69.2%	76.2%
◦ Total writeoffs of debt (<i>in millions</i>)	\$400.6	\$452.2	\$450.8	\$887.6*	\$595.1
◦ Average number of months to clear receivables:					
— OASI	8	11	11	12	13
— DI	28	27	26	29	29
— SSI	27	29	28	25	23

* Increase due to a January 1997 Commissioner decision to write off \$345 million of erroneous and uncollectible title XVI debt.

GPR A Performance Report

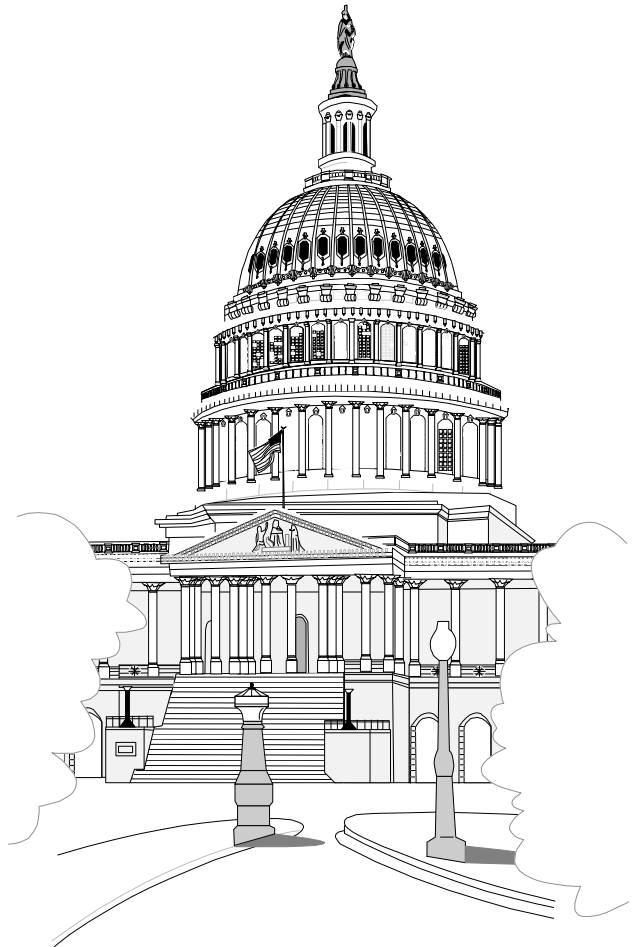
The Government Performance and Results Act (GPR A) of 1993 requires agencies to develop and institutionalize processes to plan for and measure mission performance in the basic management cycle. Planning, execution and measurement are integral parts of the traditional management feedback loop. GPR A defines specific efforts, at the highest level, that Federal agencies must undertake to address this measurement process.

In response to the mandates of GPR A, SSA has developed a framework of performance measures (PM) that better defines service from the perspective of our customers. That framework is SSA's strategic plan, "Keeping the Promise," released in September 1997 and provides the basis for SSA's GPR A Annual Performance Plan. SSA's FY 1999 Annual Performance Plan supports the goals set forth in SSA's strategic plan, serves as a link between the strategic plan and SSA's budget and contains FY 1998 goals. Although not a requirement until FY 1999, SSA has elected to report its progress in meeting those FY 1998 goals.

Outcome measures included in SSA's FY 1998 GPR A Performance Report represent a critical bridge to accomplishment of SSA's longer-term strategic objectives. Some of these measures have appeared in annual Business Plans previously published by SSA. Others are new ones formulated as the new strategic plan was crafted. Still others represent "milestones" the Agency is striving to reach during the period covered by the performance plan and report.

The Performance Report is categorized under the five strategic goals in the Agency's strategic plan. Quantitative performance measures as well as "milestone" measures are shown under their respective strategic goal as defined in the Annual Performance Plan. In addition to showing the actual data and goals for FY 1998 performance measures, actual performance data for FY 1996 and 1997 are also included.

SSA's performance measures are verified and validated through several methods. First, SSA's systems, from which management information is derived, are routinely reviewed by an independent contractor. Also, the Agency's Office of Quality Assurance conducts frequent studies to ensure the integrity of the data provided by SSA's systems is maintained. Another method of verifying and validating our performance measures is through various program audits conducted by our Office of the Inspector General. Finally, as part of the FY 1998 financial statement audit, the Agency's key performance measures as outlined on pages 13 through 19 were subjected to certain procedures as outlined in OMB Bulletin 98-08.



FY 1998 GPRA Performance Report

GOAL: *To promote valued, strong and responsive social security programs and conduct effective policy development, research, and program evaluation*

Return to work

1. *Increase the opportunities that disabled beneficiaries have to receive vocational rehabilitation services by contracting with alternate providers.*

FY 1998 Goal — *Establish and begin evaluating a contract methodology.*

FY 1998 Actual — *Under two Request for Proposals (RFP) to solicit businesses to contract with SSA as alternate participants in providing rehabilitation and employment services, we have awarded contracts to over 375 alternate participants. More are expected. Recently, we conducted several large-scaled training sessions for existing alternate participants; and participated in a number of bidder's conferences to educate and recruit additional businesses as alternative participants. Earlier this year, we contracted with Virginia Commonwealth University to help with management assistance, further recruitment, and data gathering for evaluation purposes.*

Adequacy/Equity

2. *Conduct the Disability Evaluation Study (study fielded by FY 2000; final report issued by FY 2001).*

FY 1998 Goal — *Award contract to design and conduct study.*

FY 1998 Actual — *RFP was published on January 15, 1998. Proposals were submitted to SSA by March 31, 1998. Because the review contract proposals will now include an outside panel of experts, we expect that the contract will be awarded during the first quarter of FY 1999.*

Build Capacity

3. *Establish an on-going retirement policy research consortium.*

FY 1998 Goal — *Establish the retirement policy research consortium.*

FY 1998 Actual — *On September 30, 1998, the Agency entered into cooperative agreements with Boston College and the University of Michigan, forming SSA's first Retirement Research Consortium (see page 13 and 14 for details).*

FY 1998 GPRA Performance Report

4. *Expand our income modeling capabilities to include all sources of retirement income.*

FY 1998 Goal — *Expand our income modeling capabilities to include all sources of retirement income.*

FY 1998 Actual — *We have significantly improved SSA's retirement modeling capacity in FY 1998. First, SSA has worked to improve the accuracy of projections for retirees through the year 2020 in its near-term model. We have a task order contract with the Urban Institute (collaborating with the Brookings Institution) to further develop the model's ability to project the three pillars of retirement income: Social Security benefits, pensions and income from earnings or assets. The second task order contract for the near-term model enhances the model's projection of demographic changes including marriage and divorce trends and mortality rates.*

SSA is also evaluating a model for future use by both our actuaries and statistical researchers. The model, which is called CORSIM, is a dynamic microsimulation model based on the 1960 decennial census. Corsim is being reviewed as a potential tool in SSA's long-range projections. SSA has purchased another model for potential use. SSASIM2 is a statistical model designed to evaluate the distributional effects of proposed solvency reforms.

Preserve Social Security for the Long Run

5. *Complete analysis of the operational implications of major proposals by the Advisory Council for long-term financing.*

FY 1998 Goal — *Complete analysis of the operational implications of major proposals by the Advisory Council for long-term financing.*

FY 1998 Actual — *Analysis is ongoing as issue areas continue to be developed.*

6. *Conduct planned research and policy evaluation necessary to assist the Administration and Congress in devising proposals to strengthen and enhance the Social Security program.*

FY 1998 Goal — *Expand the Agency's capabilities to conduct planned research and policy evaluation studies.*

FY 1998 Actual — *SSA conducted various activities in FY 1998 designed to assist the Administration and Congress in devising proposals to strengthen and enhance the Social Security programs. (See page 14 for a discussion of actual FY 1998 activities.)*

FY 1998 GPRA Performance Report

GOAL: *To deliver customer-responsive, world-class service*

7. Increase the customer base for SSA Online and bring a modified online PEBES response to full-scale operation.

FY 1998 Goal — Increase the customer base for SSA Online by 50 percent and bring a modified online PEBES response to full-scale operation.

FY 1998 Actual — The target set for FY 1998 for increasing the customer base for Social Security Online was 2.23 million visitors. The actual number of visitors for FY 1998 was 2.28 million visitors or 102 percent of our target.

8. Complete a business case analysis for future online services and bring up two new online services.

FY 1998 Goal — Complete a business case analysis for future online services and bring up two new online services.

FY 1998 Actual — The business case analysis for future online services was finalized in January 1998. The two new online services, the Request for 1099 Replacement and the Request for Benefit Verification are still in stages of implementation. We are scheduled to request Executive Staff approval to implement in December 1998. Application development was completed in August 1998. SSA is now preparing the risk analysis. The projects were presented to the privacy and security experts for review. Focus groups are planned for the first quarter of FY 1999; and will be scheduled prior to the December 1998 meeting with the Executive Staff.

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		FY 1996 Actual	FY 1997 Actual	FY 1998 Plan	FY 1998 Actual	FY 1999 Plan
Access						
9.	Percent of callers who successfully access the 800-number within 5 minutes of their first call	83.0%	96.2%	95%	95.3%	95%
10.	Percent of callers who get through to the 800-number on their first attempt	N/A	92.7%	90%	91.1%	90%
11.	Percent of public with an appointment waiting 10 min. or less	84.8%	84.9%	85%	87.4%	85%
12.	Percent of public without an appointment waiting 30 min. or less	70.0%	72.7%	70%	71.9%	70%

FY 1998 GPRA Performance Report

	<i>FY 1996 Actual</i>	<i>FY 1997 Actual</i>	<i>FY 1998 Plan</i>	<i>FY 1998 Actual</i>	<i>FY 1999 Plan</i>
<i>Processing Times</i>					
<u>Disability and Appeals Processing</u>					
13. Initial disability claims processing times (days)	89	99	<i>100</i>	<i>100</i>	<i>100</i>
14. Percent of DI claims decided within 6 months after onset or within 60 days after effective filing date, whichever is later	57.5%	52.4%	<i>50%</i>	<i>51.3%</i>	<i>53%</i>
15. Percent of SSI disability claims decided within 60 days of filing	29.5%	25.0%	<i>23%</i>	<i>24.4%</i>	<i>26%</i>
16. Hearings processing time (days) ¹	392	397	<i>338</i>	<i>341</i>	<i>284</i>
17. Percent of hearings decisions made and notices sent within 120 days of filing ¹	10.1%	10.0%	<i>13%</i>	<i>14.0%</i>	<i>15%</i>
<u>Other Claims Processing</u>					
18. Percent of OASI claims processed by the time the first regular payment is due or within 14 days from effective filing date, if later	84.3%	82.9%	<i>83%</i>	<i>82.6%</i>	<i>83%</i>
19. Percent of initial SSI aged claims processed within 14 days of filing	66.4%	59.5%	<i>66%</i>	<i>54.2%</i> ²	<i>66%</i>
<u>Social Security Number Cards</u>					
20. Percent of original and replacement Social Security cards issued within 5 days of receiving all necessary documentation	96.9%	98.2%	<i>97%</i>	<i>99.7%</i>	<i>97%</i>
<u>Customer Satisfaction</u>					
21. Percent of public rating SSA service as "good" or "very good"	79%	85%	<i>85%</i>	<i>82%</i> ³	<i>87%</i>
22. Percent of public "satisfied" or "very satisfied" with the courteousness of SSA staff	85%	85%	<i>90%</i>	<i>87%</i>	<i>90%</i>
23. Percent of public who are "satisfied" or "very satisfied" with the clarity of SSA mail	78%	82%	<i>82%</i>	<i>81%</i>	<i>82%</i>

FY 1998 GPRA Performance Report

GOAL: *To make SSA program management the best in business, with zero tolerance for fraud and abuse*

24. *Complete comprehensive action plan to improve management of the SSI program.*

FY 1998 Goal — *Complete comprehensive action plan to improve management of the SSI program.*

FY 1998 Actual — *SSA has completed the comprehensive SSI Management Report. The report highlights SSI program-related accomplishments, current improvement initiatives and our expectations for the future, along with a plan for meeting those expectations. Additional information related to our SSI Management Improvement initiative can be found on pages 10 and 11 of this report.*

	FY 1996 Actual	FY 1997 Actual	FY 1998 Plan	FY 1998 Actual	FY 1999 Plan
Position Agency to Meet Emerging Workloads					
<u>Disability and Appeals Workloads</u>					
25. Number of initial disability claims processed	2,360,034	2,187,263	2,110,400	2,024,524 ⁴	2,117,900
26. Initial disability claims pending	510,454	399,392	410,188	416,378	410,188
27. Number of hearings processed	580,832	574,795	650,000	618,578 ⁵	650,000
28. Hearings Pending	510,895	483,712	393,085	384,313	311,599
<u>Other Workloads (Claims, Postentitlement, Enumeration, Telephone Service, Earnings Record Maintenance)</u>					
29. OASI claims processed	3,058,745	3,129,238	3,134,700	3,020,268 ⁶	3,142,600
30. SSI aged claims processed	161,649	125,680	150,500	135,442 ²	145,500
31. SSI non-disability redeterminations	1,762,967	1,772,818	1,819,400	1,852,842	2,091,600
32. Representative payee actions	6,936,772	6,295,379	6,983,800	7,063,595	6,948,400
33. SSN requests processed	15,944,788	15,523,338	16,600,000	16,200,000	16,600,000
34. 800-number telephone calls handled	48,000,000	55,500,000	55,500,000	54,700,000	55,500,000
35. Annual earnings items	239,958,058	249,123,545	253,000,000	266,011,984	254,500,000

FY 1998 GPRA Performance Report

	<i>FY 1996 Actual</i>	<i>FY 1997 Actual</i>	<i>FY 1998 Plan</i>	<i>FY 1998 Actual</i>	<i>FY 1999 Plan</i>
Posting Earnings Data					
36. Percent of earnings posted to individuals' records by September 30	97.3%	97.8%	98%	97.7% ⁷	98%
37. Percent of earnings posted correctly	99.0%	99.0%	99%	99.0%	99%
Accuracy					
38. Dollar accuracy of OASI payment outlays:					
Percent without overpayments	99.8%	99.9%	99.8%	NA	99.8%
Percent without underpayments	99.8%	99.9%	99.8%	NA	99.8%
39. DDS decisional accuracy	96.9%	96.5%	97%	96.2%	97%
40. Percent of SSN issued accurately ⁸	99.6%	99.9%	99.8%	NA	99.8%
41. Percent of 800-number calls handled accurately:					
Payment Accuracy	94.4%	95.2%	95%	93.1% ⁹	95%
Service Accuracy	80.8%	84.3%	90%	81.8% ¹⁰	90%
Continuing Disability Reviews (CDRs)					
42. Number of periodic CDRs processed	498,445	690,478	1,245,000	1,391,889	1,637,000
43. Percent of multi-year CDR plan completed	6.1%	13.5%	26%	27.7%	44%
Debt Collection					
44. Annual increase in debt collected	8.1%	13.0%	7%	-3.4% ¹¹	7%
45. Overpayment dollars collected (In thousands)	\$1,502,700	\$1,698,000	\$1,810,000	\$1,642,600 ¹¹	\$1,936,000

FY 1998 GPRA Performance Report

	<i>FY 1996 Actual</i>	<i>FY 1997 Actual</i>	<i>FY 1998 Plan</i>	<i>FY 1998 Actual</i>	<i>FY 1999 Plan</i>
Anti-Fraud Activities					
46. Number of allegations that will be opened as investigations	1,354	5,455	<i>5,100</i>	6,291	<i>5,700</i>
47. Dollar amounts reported from investigative activities	\$9,339,904	\$28,000,000	<i>\$31,000,000</i>	\$61,674,512	<i>\$35,000,000</i>
48. Number of criminal convictions	570	2,507	<i>1,800</i>	2,762	<i>1,800</i>

GOAL: *To be an employer that values and invests in each employee*

Tools and Training

49. *Implement formal management development programs.*

FY 1998 Goal — *Implement Senior Executive Service Candidate Development Program.*

FY 1998 Actual — *SSA implemented its Senior Executive Service candidate development program with the selection of 36 participants in June 1998. Orientation sessions for the candidates and their mentors were completed in September 1998. Some initial developmental assignments commenced immediately, while others are planned to begin in early FY 1999. The program will conclude in September 2000.*

FY 1998 Goal — *Implement Advanced Leadership Program.*

FY 1998 Actual — *SSA announced its Advance Leadership Program, formerly known as the Mid-level Management Program in mid 1998. Applicants were screened and participated in assessment center activities during September 1998. Final selections were made in October 1998 with developmental assignments beginning immediately after an orientation and preparation of individual development plans. There will be 25 participants.*

FY 1998 GPRA Performance Report

50. Complete Agency plan for transitioning to the workforce of the future.

FY 1998 Goal — Publish Retirement Wave Study.

FY 1998 Actual — During FY 1998 SSA developed a statistical, analytic tool to predict Agency and component-level retirement/attrition. The initial report detailed the percent of the SSA-wide workforce eligible to retire along with overall retirement predictions through the year 2020. Subsequently, retirement prediction packages were developed for the Office of Operation's 10 regions, the Office of Central Operations and the Office Hearings and Appeals. These subsequent reports contain overall retirement predictions as well as predictions by major occupations. Predictive packages for SSA's Deputy Commissioner level and the major Associate Commissioner level components will also be completed, detailing overall retirement losses and losses by major occupations. These reports will form the basis for development of a SSA Transition Plan to the workforce of the future. This transition plan will be completed in FY 1999.

	FY 1996 Actual	FY 1997 Actual	FY 1998 Plan	FY 1998 Actual	FY 1999 Plan
51. Percent of front-line employees with intelligent workstations connected to a local area network	27.4%	50.2%	94%	85.9% ¹²	100%
52. Percent of office receiving interactive Video Training/Interactive Distance Learning (IVT/IDL) connectivity as planned	NA	26%	86%	65% ¹³	100%
53. Percent of managerial staff participating in management/leadership development experiences	NA	NA	50%	40% ¹⁴	50%
Physical Environment					
54. Percent of employees reporting they are satisfied with the level of security in their facility	NA	64%	64%	NA ¹⁵	70%

GOAL: To strengthen public understanding of the social security programs

Increasing Public Knowledge

55. Percent of individuals issued SSA-initiated PEBES as required by law	100%	100%	100%	100%	100%
56. Number of PEBES issued upon request and automatically by SSA	9,020,650	15,690,571	23,000,000	24,102,756	33,000,000
57. Percent of public who perceive they are "very well" informed or "fairly well" informed about Social Security	59.0%	56.0%	59%	56% ¹⁶	59%

1998 GPRA Performance Report

Footnotes

- 1) Actual data are for September of each fiscal year.
- 2) Discussion of actual performance can be found on page 73.
- 3) FY 1998 actual data represents respondents who rated service as good, very good or excellent.
- 4) The number of DI and SSI blind/disabled initial claims receipts decreased by over 94,000 claims from FY 1997 to FY 1998.
- 5) The number of hearings receipts decreased by over 28,000 cases from FY 1997 to FY 1998.
- 6) The number of OASI initial claims receipts decreased by nearly 120,000 cases from FY 1997 to FY 1998.
- 7) Estimate
- 8) Data reported on a calendar year basis.
- 9) FY 1998 data represents the 6-month period ending March 31, 1998. Preliminary data for the entire fiscal year indicates that SSA met the performance target.
- 10) Service accuracy has consistently been in the low 80's for several years. The primary reason for this has been errors regarding calls where agents either have to decide whether certain information can be provided to callers/and or whether we can accept information being provided by callers. We are taking steps to improve our quality in this area by installing software in the agent's computers that will guide them through a series of questions to ensure they release/accept information properly. We expect this will have a positive impact on service quality.
- 11) Failure to meet the goal is largely attributable to improvements in the administration of the annual earnings test. These improvements prevented title II debts associated with earnings estimates. Since earnings related debts are highly collectible, the collections that would normally result from these detections were eliminated.
- 12) Goal not met due in part to start up problems in some offices' IWS/LAN installations. SSA fully expects to meet its FY 1999 goal of 100 percent.
- 13) Installation work temporarily suspended due to loss of Galaxy 10 satellite and need to reposition currently installed sites (over 500) to Telestar 4.
- 14) The actual performance target was not achieved in FY 1998 due to delays in the vendor procurement process and scheduling requirements of a nationwide implementation plan. The overall goal for this measure is to provide a high quality management/leadership development experience to 100 percent of SSA managers by the end of FY 1999.
- 15) This measure is based on a biennial survey. The 64 percent goal in FY 1998 is based on the last survey published in FY 1997.
- 16) This indicator of the public's understanding of Social Security is based on an annual survey compiled by the American Council of Life Insurance. This indicator will be replaced by baseline data collected in a survey conducted by SSA.

Programmatic Information

This section discusses how effectively and efficiently SSA performs its day-to-day business processes and service delivery functions. Included are performance measures to assess the effectiveness in achieving intended results relating to service delivery goals and objectives outlined in the Agency's strategic plan published in FY 1997 and workload and unit cost data to measure the efficiency of operations. NA indicates that actual data are unavailable for that particular fiscal period. When current dollars are presented to restate prior period costs at the 1998 cost levels, the conversion from "actual dollars" to current dollars is calculated based on the change in the cost of an average SSA workyear. The "deflator" factors used to adjust prior period costs are 1.086166 for 1997, 1.090633 for 1996, 1.167862 for 1995 and 1.226278 for 1994.

Enumeration Process

Service Delivery

The public's lifetime earnings records are used to determine eligibility and benefit amounts. As such, they must be maintained and safeguarded. Social Security numbers (SSN) are crucial to the accuracy and protection of these earnings records. The issuance of new and replacement numbers must be prompt and efficient. SSA's percentage of applicants notified of their SSNs within the timeframes outlined in the service delivery objectives has remained very high over the last several years. Requests for SSNs are processed timely, without sacrificing the integrity of the numbers issued.

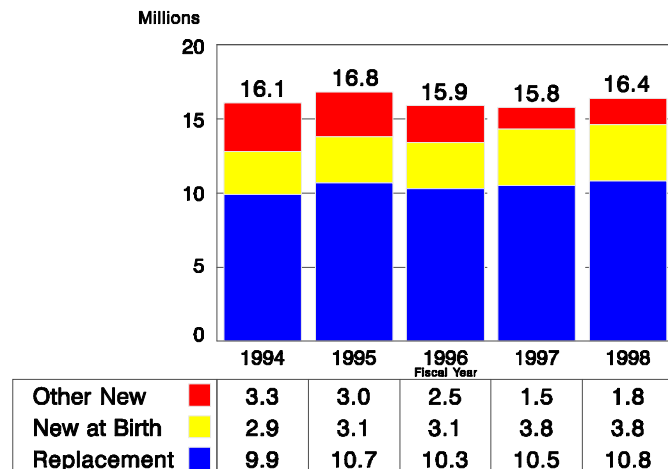
	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of applicants that can be notified orally of their SSN within 24 hours of completing an application	86.6%	91.2%	92.2%	94.4%	98.9%
◦ % of SSN cards issued within 5 days of completing an application	94.6%	97.0%	96.9%	98.2%	99.7%
◦ Average processing time (days)	1.0	0.6	0.6	0.4	0.1
◦ % of SSNs issued accurately *	99.9%	99.8%	99.6%	99.9%	NA

* Represents performance for January to December.

Operational Efficiency

SSA has issued approximately 369.9 million SSNs since the program began in 1936. Resources required by SSA for the enumeration function were substantially impacted by IRS' initiative to strengthen Federal income tax enforcement. Workloads increased when parents contacted SSA to obtain SSNs for their children to support deductions on Federal income tax returns filed in January 1988 (5 years or older), January 1990 (2 years or older), January 1992 (1 year or older) and January 1995 (all ages). To soften the resource impact of the IRS initiative, SSA implemented a process in 1989 to enumerate children at birth. SSA's planned system improvements in integrated telecommunications linkages, including those with States and the Immigration and Naturalization Service, coupled with online searching of master files will permit an SSN to be assigned immediately and improve future efficiency.

SSN Cards Issued



	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Workyears	2,534	2,560	2,577	2,811	2,902
◦ Production Per Workyear	6,370	6,575	6,187	5,539	5,584
◦ Unit Costs (Current Dollars)	\$12.68	\$12.53	\$13.65	\$14.75	\$14.01

Earnings Process

Service Delivery

Data shown as FY 1998 performance relates to the processing of tax year 1997 data. SSA annually estimates the number of annual wage reports (AWRs) and the amount of self-employment income that will be posted for a particular tax year. These estimates are used to monitor current year processing. Once all wage and self-employment income information is processed, these measures are recalculated using actual data. The percent of reported earnings posted accurately continues to remain high with 99.0 percent posted accurately. The percent of self-employment income posted within 9 months of the close of the tax year has increased from 61.4 percent in 1996 to an estimated 94.6 percent in 1998.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of reported earnings posted accurately to individuals' earnings record	98.8%	98.7%	99.0%	99.0%	99.0%
◦ % of AWRs posted within:					
— 6 mos. following close of tax year	62.1%	83.9%	86.2%	86.9%	82.3%*
— 9 mos. following close of tax year	97.4%	97.4%	97.3%	97.8%	97.7%*
◦ Number of months to post 98.5 percent of AWRs for tax year	10.5	10.1	10.3	9.8	10.4*
◦ % of self-employment income posted within					
— 9 mos. following close of tax year	83.2%	84.9%	61.4%	80.4%	94.6%*
— 12 mos. following close of tax year	99.5%	98.1%	99.7%	99.5%	NA

* Estimates

Operational Efficiency

SSA's efficiency in maintaining the public's lifetime earnings records has increased steadily over the past 4 years. Over this time, the unit cost to process earnings items has decreased. This trend is expected to continue as more employers report wage information electronically as opposed to paper reporting. Production per workyear has increased from 142,641 in FY 1994 to 217,440 in FY 1998, a 52 percent increase.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Earnings Processed	221,949,522	235,314,733	239,958,058	249,123,545	266,011,984
— Workyears	1,556	1,595	1,540	1,303	1,223
— Production Per Workyear	142,641	147,515	155,842	191,210	217,440
— Unit Costs (Current Dollars)	\$0.62	\$0.57	\$0.49	\$0.42	\$0.35

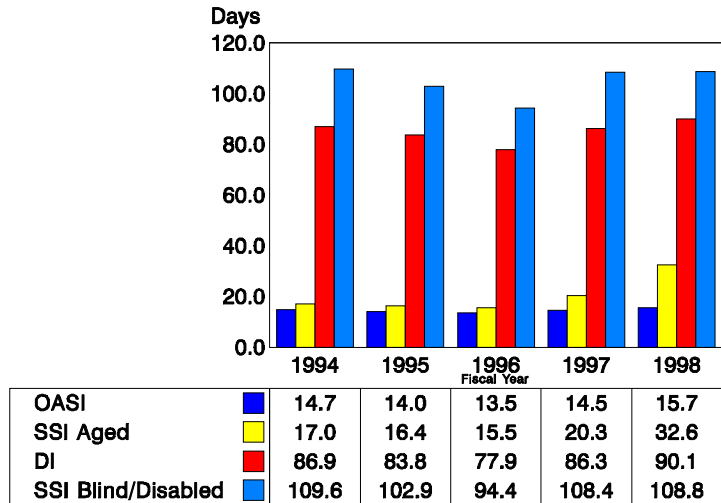
Claims Process

Service Delivery

One of the major elements in providing "World-Class Service" to our customers is to ensure their claims for benefits are processed as accurately and efficiently as possible. OASI claims processing times had shown steady improvement until FY 1997. Processing time increased from 13.5 days in FY 1996 to 14.5 days in FY 1997. In FY 1998, processing time increased to 15.7 days. The increase in claims processing time can be attributed to a nationwide focus on a number of postentitlement workloads, which diverted our resources from the initial claims process.

SSI Aged claims processing time increased significantly in FY 1998 over FY 1997. Welfare Reform legislation negatively impacted the processing time beginning in FY 1997 and revisions to this piece of legislation continued to affect the processing times in FY 1998. SSI Aged processing time was skewed for the majority of FY 1998 by inclusion of disability time for the non-citizen SSI aged alien cases, that required a disability determination.

Initial Claims Processing Times



There have been increases in the processing times for both SSI Blind/Disabled and DI initial claims during FYs 1997 and 1998. While no single factor can be identified as the reason for the increases, a combination of factors appears to be the basis for the increased times. The effects of Welfare Reform legislation were felt in both disability initial claims processing times in FY 1997 and continued into FY 1998. Priority processing was placed on continuing disability reviews and SSI non-disability redeterminations. Additionally, SSA devoted resources to updating and improving the modernized claims system as well as the introduction of new postentitlement event screens.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of OASI applications completed before the first regular payment is due or within 14 days from the effective date of filing, if later	81.1%	83.0%	84.3%	82.9%	82.6%
◦ % of initial SSI Aged claims either paid or denied within 14 days of the filing date	63.2%	65.4%	66.4%	59.5%	54.2%
◦ % of continuing monthly payments made on the scheduled delivery date:					
OASDI	99.9%	99.9%	99.9%	99.9%	99.9%
SSI	99.9%	99.9%	99.9%	99.9%	99.9%

The "Initial Payment Accuracy Rate" is the measure of accuracy of the first payment made to newly awarded OASI and SSI claimants. It is calculated by dividing the amount of payments made correctly by the total amount that should have been paid. In FY 1996, most OASI errors were attributable to earnings records, benefit rate computations, date of birth, application-related issues and relationship/dependency issues. The increase in accuracy for FY 1997 was due primarily to a reduction in dollar errors involving earnings records, computations and application issues. In SSI, initial payment accuracy declined 1.1 percent - this difference is .8 percent greater than any decline in the current 5-year period. Although this difference is not statistically significant, the potential for a significant downward trend exists.

Initial payment accuracy rate:	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	95.2%	94.7%	93.7%	95.6%	NA
— SSI	93.7%	93.7%	93.4%	92.5%	NA

The Index of Dollar Accuracy is based on a statistically reliable sample of the workloads reviewed. It measures the dollar accuracy of adjudicative decisions over the retrospective, current and prospective lifetime of the payment. For OASI, the Index of Dollar Accuracy rate represents total dollars paid divided by dollars that should have been paid over the life cycle of the award. For SSI, it expresses the relationship of field office processed initial claims and redetermination dollars paid to dollars that should have been paid over the expected life of the award or redetermination. The lifetime of the SSI award continues until termination or redetermination. The percent of lifetime dollars paid correctly for OASI initial awards has remained consistently high for the past several years. The changes in the SSI index of dollar accuracy rate from one year to the next are not statistically significant; however, the decline in accuracy over the past 5 years is statistically significant.

% of lifetime dollars from a claims award or redetermination that are paid correctly:	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	99.8%	99.8%	99.7%	99.8%	NA
— SSI	95.9%	94.8%	93.4%	93.0%	NA
— Awards	95.3%	94.6%	93.6%	90.4%	NA
— Redeterminations	96.2%	95.0%	93.2%	94.3%	NA

Operational Efficiency

Workload Receipts	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	3,183,573	3,140,331	3,044,834	3,112,022	2,992,786
— DI	1,858,231	1,783,757	1,670,897	1,529,513	1,487,545
— SSI Aged	204,424	181,629	165,169	128,492	138,570
— SSI Blind/Disabled	<u>2,037,639</u>	<u>1,918,162</u>	<u>1,757,791</u>	<u>1,496,408</u>	<u>1,444,351</u>
— Total	7,283,867	7,023,879	6,638,691	6,266,435	6,063,252
— Year-to-Year Change	-1.7%	-3.6%	-5.5%	-5.6%	-3.2%
Workload Processed	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	3,205,793	3,162,881	3,058,745	3,129,238	3,020,268
— DI	1,888,807	1,881,802	1,711,281	1,662,353	1,536,900
— SSI Aged	204,402	181,329	161,649	125,680	135,442
— SSI Blind/Disabled	<u>2,052,347</u>	<u>2,016,790</u>	<u>1,759,870</u>	<u>1,498,520</u>	<u>1,429,247</u>
— Total	7,351,349	7,242,802	6,691,545	6,415,791	6,121,857
— Year-to-Year Change	-1.5%	-1.5%	-7.6%	-4.1%	-4.6%

◦ End-of-Year Pendings	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	64,060	57,751	59,410	56,844	55,505
— DI	334,166	269,938	260,769	167,081	259,018
— SSI Aged	3,613	3,471	6,349	8,138	8,469
— SSI Blind/Disabled	<u>475,765</u>	<u>377,965</u>	<u>372,022</u>	<u>367,625</u>	<u>328,260</u>
— Total	877,604	709,125	698,550	599,688	651,252
◦ End-of-Year Pendings as a % of Current Year's Dispositions					
— OASI	2.0%	1.8%	1.9%	1.8%	1.8%
— DI	17.7%	14.3%	15.2%	10.1%	16.9%
— SSI Aged	1.8%	1.9%	3.9%	6.5%	6.3%
— SSI Disabled	23.2%	18.7%	21.1%	24.5%	23.0%
◦ Workyears	23,338	20,717	19,436	19,560	17,263
◦ Production Per Workyear	315	350	344	328	355
◦ Unit Cost (Current Dollars)					
— OASI	\$236.12	\$219.97	\$214.60	\$218.56	\$193.75
— DI	620.18	574.58	584.91	591.13	576.45
— SSI Aged	292.23	271.12	292.09	337.85	290.70
— SSI Disabled	527.05	491.05	496.37	563.69	516.09
— Overall Average	417.58	388.87	385.28	398.04	367.23

Disability Determination Services (DDS)

Service Delivery

The decisional accuracy of disability claims reflects the percentage of accurate determinations issued by the State DDSs. The decisional accuracy of disability determinations for DI and SSI initial claims has remained relatively constant for the last 5 years, despite increased workloads. Decisions to allow disability continue to be more accurate than denials.

◦ % of accurate disability determinations by State agencies (DI and SSI combined):	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Overall Decisional Average	96.8%	96.6%	96.9%	96.5%	96.2%
— Allowances	97.7%	97.9%	98.0%	97.7%	97.8%
— Denials	96.3%	95.9%	96.4%	95.9%	95.3%

The following tables illustrate the DDS performance accuracy for disability determinations. Performance accuracy rates reflect the estimated percentages of initial disability determinations and reconsideration disability determinations that do not have to be returned to the DDS for development of additional documentation or correction of the disability determination. Accuracy of initial disability determinations have remained relatively constant over the last 5 years.

◦ Performance accuracy initial disability determinations:	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Overall Average	94.4%	94.2%	94.5%	94.0%	93.7%
— Allowances	95.8%	96.0%	96.5%	95.9%	96.1%
— Denials	93.7%	93.4%	93.6%	93.1%	92.3%

○ Performance accuracy reconsideration disability determinations:	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Overall Average	92.7%	91.7%	92.7%	92.3%	91.6%
— Allowances	95.8%	96.2%	95.6%	94.0%	95.6%
— Denials	92.3%	91.0%	92.3%	92.0%	90.9%

The following table reflects net accuracy of initial disability determinations. Net accuracy is the percentage of correct DDS disability determinations. The net accuracy rate is based on the net error rate (defined as the number of corrected deficient cases with changed disability decisions plus the number of deficient cases that are not corrected within 90 days from the end of the period covered by the report) divided by the number of cases reviewed. "Net accuracy of initial disability determinations" differs from the "percent of accurate disability determinations by State agencies" in that the latter measure is not adjusted to include the results of the cases that are returned to the DDSs for correction of the decision or for development of additional documentation. Net accuracy of initial disability determinations has remained fairly stable over the past 4 years.

○ Net Accuracy of Initial Disability Determinations	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Overall Average	96.8%	96.6%	96.7%	96.5%	NA
— Allowances	97.6%	97.8%	97.9%	97.6%	NA
— Denials	96.4%	96.1%	96.1%	95.9%	NA

SSA is mandated by statute to review at least 50 percent of the favorable disability insurance determinations made by State DDSs. These reviews of initial and reconsideration allowances are conducted prior to effectuation of the DDS determination. We also perform preeffectuation reviews of DDS determinations of continuing eligibility. SSA uses a profiling system to select cases for review. This helps to ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect.

○ Preeffectuation Reviews	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— % of accurate decisions to allow or continue benefits by State DDSs	97.4%	98.0%	97.7%	96.4%	96.4%
— Number of cases reviewed	270,363	271,363	238,751	249,321	241,611
— Number of cases returned to DDS due to error or inadequate documentation	6,991	5,498	5,536	9,013	8,729

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

○ Quality Assurance Review	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— % of accurate decisions to allow or continue benefits by State DDSs	96.0%	96.0%	96.2%	95.8%	96.1%
— Number of cases reviewed	26,957	26,536	27,150	42,402	42,303
— Number of cases returned to DDS due to error or inadequate documentation	1,079	1,078	1,030	1,801	1,638

Operational Efficiency

The volume of initial claims remains a challenge for SSA as this business process consumes over 34 percent of SSA's administrative resources. Although the DDSs received 40,000 fewer initial disability cases in FY 1998, cases still pending at the end of the year increased by almost 17,000 cases. In part, this is caused by the record number of continuing disability reviews conducted in FY 1998.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Workload Receipts					
— Initial Disability Cases	2,609,498	2,488,878	2,439,658	2,076,201	2,037,160
— Total Cases	3,611,377	3,647,337	3,714,060	3,805,920	3,848,878
◦ Workload Processed					
— Initial Disability Cases	2,615,809	2,611,622	2,360,034	2,187,263	2,024,524
— Total Cases	3,607,482	3,786,535	3,601,856	3,804,111	3,792,151
◦ End-of-Year Pending					
— Initial Disability Cases	549,167	430,805	510,454	399,392	416,378
— Total Cases	721,307	590,045	702,316	703,696	760,026
◦ Production Per Workyear	272	281	278	269	265

Due Process Operations

Service Delivery

The following measure focuses on the reconsiderations of initial claims (which constitute the majority of all reconsideration actions). The Agency's vision for redesigning the disability process encompasses the timely processing of reconsiderations. Once fully implemented, the accurate and more efficient processing of initial claims should result in a decrease in the number of initial claims reversed as a result of filing a reconsideration. However, should a reconsideration be filed, it is expected that the beneficiary receive a prompt reply. The Agency's percentage of reconsiderations processed within 60 days after filing has fluctuated over the last four years; with FY 1998 representing the lowest percentage to date. The decrease in the timely processing of reconsiderations for FYs 1997 and 1998 is consistent with the overall decline in the Agency's performance for processing initial claims timely.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of requests for reconsideration of denied disability claims completed within 60 days of filing	57.4%	53.8%	57.9%	53.2%	50.9%

Significant improvements in hearings processing times were achieved during FY 1998. A favorable trend started in March and continued through September. The September average processing time in FY 1998 was 341 days, a 14 percent improvement over the September FY 1997 processing time, and just 3 days short of the goal of 338 days. Average processing time for SSA cases only (i.e., excluding Medicare cases) was 326 days, exceeding the goal by 12 days. (Beginning in FY 1999, data for SSA cases only will be reported.) With the projected continued decline in total pending and pending per ALJ, we expect processing times to continue to fall throughout FY 1999.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Hearings processing time (days)*	337	357	392	397	341

* Represents average processing time for September of the fiscal year.

In FY 1998, the processing time for the appeals workload increased dramatically to an average of 430 days. The average processing time was 90 days higher than in FY 1997. Additional resources have been directed to the appeals workload. The Appeals Council hired additional adjudicators to process claims and has implemented streamlining procedures on an ongoing basis. Investigation of other approaches to manage the workload continues. These initiatives have had a positive impact and have slowed the rate of growth of the pending level. However, record productivity was still not enough to counterbalance increased receipts and the corresponding greater percentage of aged cases within the total pending. As a result, the processing time increased.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Appeals processing time (days)	126	149	276	340	430

This is the fifth year that the percentage of Appeals Council reviews that have decisions made and notices sent within 90 days after filing the appeal was tracked. At the beginning of the year, one percent of reviews were processed within 90 days. This figure remained constant throughout the year. Heavy receipts continued and, as a result, both the overall pending and the number of aged cases increased. The Council implemented numerous case streamlining initiatives throughout the year. Although such actions resulted in increased productivity, the effort was not enough to reduce the pending level. As a result, the number of reviews processed within 90 days remained at one percent.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of reviews with decisions made and notices sent within 90 days after filing	40.4%	24.5%	3.5%	1.0%	1.0%

Operational Efficiency

OHA continued its record high productivity in FY 1998, disposing of 618,578 cases, which included 6,595 SSI Childhood redetermination cases. With receipts of 519,179, OHA ended the fiscal year with a pending hearings workload of 384,313, a reduction of 99,399 cases during FY 1998, marking the third straight year that dispositions have outpaced receipts. Since the end of FY 1995, the hearings pending workload has been reduced by 163,377 cases, from 547,690 to 384,313. Of the current 384,313 pending cases, 11,711 are pending in AO sites.

◦ Workload Receipts	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Hearings	539,871	588,596	544,036	547,612	519,179
— Appeals	83,843	84,472	111,776	128,970	129,033
◦ Workload Processed					
— Reconsiderations	1,152,322	1,176,754	1,065,348	1,052,732	1,054,512
— Hearings	417,333	526,743	580,832	574,795	618,578
— Appeals	82,308	66,129	69,377	104,876	119,271
◦ End-of-Year Pendencies					
— Hearings	480,102	547,690	510,895	483,712	384,313
— Appeals	27,093	45,063	93,511	117,605	127,367
◦ End-of-year Pendencies as % of Current Year's Dispositions					
— Hearings	115.0%	104.0%	88.0%	84.2%	62.1%
— Appeals	32.9%	68.1%	134.8%	112.1%	106.8%
◦ Workyears (total)	10,500	11,739	12,375	12,773	13,218
◦ Production per Workyear (total)	157	151	139	136	136

◦ Unit Costs (Current Dollars)	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Reconsiderations	\$353.30	\$359.64	\$372.25	\$399.40	\$384.20
— Hearings	1,377.98	1,305.91	1,306.78	1,349.06	1,384.77
— Appeals	657.89	723.21	631.50	475.38	454.33
— Overall Average	684.36	707.61	754.97	772.77	784.54

Postentitlement Process

Service Delivery

At prescribed intervals, SSA conducts reviews of disability beneficiaries to determine their continuing eligibility for benefits. In addition to these periodic CDRs, for FY 1996 through FY 1998 the Social Security Independence and Program Improvements Act of 1994 requires that SSA annually process a minimum of 100,000 SSI CDRs.

◦ CDR performance accuracy	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Overall Average	96.2%	95.6%	95.9%	94.7%	94.8%
— Continuances	96.7%	96.1%	96.2%	95.1%	95.7%
— Cessations	94.1%	94.1%	94.7%	94.0%	91.5%

The measure of the dollar accuracy of the monthly OASI payments made in a year is referred to as the “dollar accuracy of payment outlays.” The accuracy rate is obtained by comparing the total amount of error in the monthly payments (both excess payment and insufficient payment) to the total payments for the year measured. The accuracy in OASI benefit payments has remained at a consistently high level over the last five years and exceeds the SSA PM goal.

◦ % of benefit payment outlays paid during a FY that are free of error	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
OASI Dollar Accuracy					
— Overpayments	99.9%	99.9%	99.8%	99.9%	NA
— Underpayments	99.9%	99.9%	99.8%	99.9%	NA

The dollar accuracy rate of continuing SSI payments is based on a statistically reliable sample of workloads reviewed. It is the percent of all SSI benefit payment outlays paid during the fiscal year that is free of error. The rate represents the percent of dollars issued free from overpayment, ineligibility or underpayment. The table below shows that dollar accuracy in the SSI program has remained relatively stable over the past 4 years.

◦ % of benefit payment outlays paid during a FY that are free of error	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
SSI Dollar Accuracy					
— Overpayments	95.7%	95.7%	94.5%	94.7%	NA
— Underpayments	98.7%	98.6%	98.8%	98.8%	NA

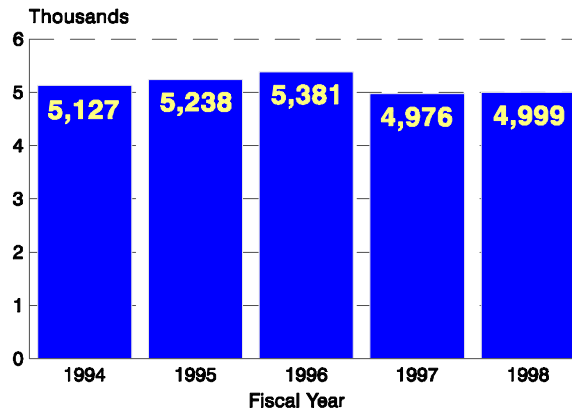
Operational Efficiency

SSA's efficiency in maintaining the rolls for an increasing beneficiary population has remained fairly consistent over the past 5 years. Over this time, DI and SSI workloads have increased by 31 percent and 20 percent, respectively.

SSA regularly reviews SSI cases to ensure that non-disability factors of eligibility continue to be met and that payments are correct. During FY 1998, SSA conducted 1,852,842 SSI redeterminations, more than 80,000 cases than were processed in FY 1997.

Workloads Processed	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	61,183,205	62,792,654	64,324,391	65,677,579	64,970,602
— DI	10,741,681	11,348,819	12,353,466	13,095,777	14,101,384
— SSI	<u>18,101,383</u>	<u>21,408,956</u>	<u>22,590,307</u>	<u>22,175,293</u>	<u>21,783,670</u>
— Total	90,026,269	95,550,429	99,268,164	100,948,649	100,855,656
◦ Workyears	17,560	18,240	18,449	20,289	20,175
◦ Redeterminations Conducted	1,900,147	1,597,453	1,762,967	1,772,818	1,852,842

Postentitlement Process Production Per Workyear



Unit Costs (Current Dollars)	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— OASI	\$10.20	\$9.81	\$9.62	\$9.87	\$9.44
— DI	26.39	27.83	29.85	34.40	36.77
— SSI	31.02	30.06	31.53	37.68	39.94
— Overall Average					
– Per Work Unit	16.31	16.49	17.12	19.16	19.85
– Per Beneficiary	30.28	31.88	33.76	38.46	39.59

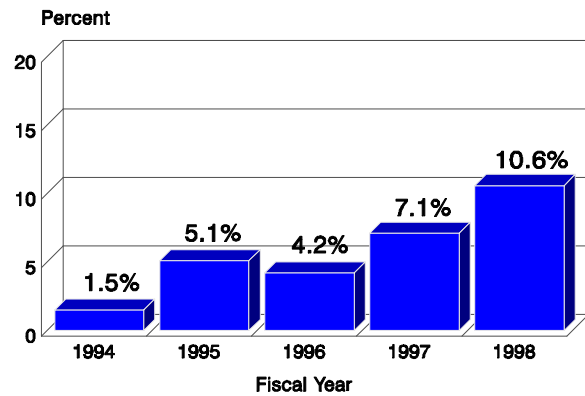
Informing the Public

Service Delivery

Informing the public about Social Security programs, and educating them about the value and operation of these programs, is a basic Agency responsibility. The public needs an accurate understanding of the basic principles of the social insurance programs, of the value of these programs to themselves and society as a whole, and an appreciation of the role Social Security programs play in the nation's income security system.

SSA publishes leaflets, newsletters, booklets and other informational materials about its programs, policies and procedures so that the public can be fully informed about the Social Security programs. SSA also produces informational materials in audio, video and computer media. SSA publishes over 100 consumer leaflets, booklets and fact sheets to inform the public about Social Security programs and policies. SSA also produces about 20 administrative publications, many of which are included as stuffers with notices sent to Social Security beneficiaries.

Percent of Covered Workers Receiving PEBES Statements



Operational Efficiency

Legislation requires SSA to annually issue "SSA-initiated" Personal Earnings and Benefit Estimate Statements (SIPEBES) to all eligible individuals who attain age 60 during FYs 1996 through 1999 and to eligible individuals age 25 or over beginning in FY 2000. The SIPEBES are printed and mailed for SSA by a contractor. As earnings corrections and other workloads are generated from the annual SIPEBES issuance, the earnings process will demand a greater portion of SSA's resources. However, this increased resource demand should be tempered somewhat by further productivity improvements that will be realized from systems enhancements currently being implemented.

° Earnings Statements	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
— Total Number Issued	3,452,323	10,773,169	9,047,589	15,702,739	24,109,695
— Workyears	234	235	251	357	267
— Unit Costs (Current Dollars)*	\$4.97	\$1.80	\$2.14	\$1.83	\$0.89

* SSA began issuing SIPEBES in FY 1995, those costs are reflected in the FY 1995-1998 unit costs.

Face-to-Face Service

Service Delivery

There are many aspects involved in becoming an Agency that truly provides "World-Class Service". Providing prompt, courteous service is crucial. An indicator of this type of service is the length of time visitors spend in field offices waiting for service. The following information indicates SSA had consistently reduced its national field office waiting times (wait time to first contact) in each FY from 1994-1997. However, in FY 1998, there was a slight increase in wait time of 1.1 minutes over FY 1997. In the segment of "visitors with appointments", two of the three areas steadily improved from FY 1994 through FY 1996. In FY 1997, the percent seen within 15 minutes slipped by 1.3 minutes, but recovered in FY 1998 by 2.2 minutes. Prior to FY 1997, the "average wait time" in this segment had also consistently improved. FY 1997's wait time slipped by only .2 minutes but improved in FY 1998. In the category of "visitors without appointments", SSA has not exhibited a clear pattern of improvement in two of the three areas. The percent seen within 60 minutes had shown continuous improvement until FY 1998 when the percent dropped by 1.7 minutes.

◦ National field office waiting times	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Wait time to first contact (<i>in minutes</i>)	13.3	12.7	12.5	11.4	12.5
◦ Visitors with appointments					
Average wait time (<i>in minutes</i>)	6.9	6.8	5.8	5.6	5.8
% seen within 10 minutes	83.1%	83.8%	84.8%	84.9%	87.4%
% seen within 15 minutes	88.0%	88.6%	91.6%	90.3%	92.5%
◦ Visitors without appointments					
Average wait time (<i>in minutes</i>)	27.5	25.2	25.4	23.9	25.8
% seen within 30 minutes	69.8%	72.7%	70.0%	72.7%	71.9%
% seen within 60 minutes	88.1%	90.3%	91.0%	91.6%	89.9%

Results of SSA's FY 1998 Annual Customer Satisfaction Survey show that customers continue to give high ratings for the service provided by SSA staff, in spite of a decline in the rating for overall satisfaction. The great majority of respondents were also satisfied with the office location and hours of business. However, office waiting time, waiting area comfort and the amount of privacy afforded in the office all received much lower ratings than other aspects of field office service, but were not significantly different from the previous year's findings. The table below displays levels of satisfaction with various aspects of field office service rated in the survey and compares them with results from FY 1997 and FY 1996.

Satisfaction with Aspects of Field Office Service

ASPECT OF SERVICE	FY 1996	FY 1997	FY 1998
Office Location	87%	86%	89%
Office Hours	88%	89%	89%
Office Privacy	69%	73%	72%
Waiting Time	71%	70%	71%
Waiting Area Comfort	73%	73%	76%
Staff Helpfulness	84%	83%	83%
Staff Courtesy	85%	84%	87%
Staff Knowledge	83%	83%	83%
Clarity of Information	80%	82%	82%

800 Number Telephone Service

Service Delivery

In addition to providing personal face-to-face service, SSA offers a single nationwide toll-free number (1-800-SSA-1213) weekdays from 7 a.m. to 7 p.m. in each time zone. Service is available for the hearing-impaired community during the same hours using a telecommunication device for the deaf. Automated services are also available at all times including after normal business hours, on weekends and holidays. Using the automated services, callers can request applications for Social Security numbers, Personal Earnings and Benefit Estimate Statements, verification of monthly benefit amounts and recorded information on local field offices and Medicare carriers and intermediaries.

A measure of the effectiveness of the 800 number, called the access rate, measures the percent of individual callers who successfully reach the 800 number. Following are two methods of measuring the access rate.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of individuals who successfully access the National 800 number within 5 minutes of their initial call	82.2%	73.5%	83.0%	96.2%	95.3%
◦ % of individuals who successfully reach the National 800 number the first time they call	NA	NA	NA	92.7%	91.1%

The slight declines in performance for FY 1998 as compared to FY 1997 are attributable to agents having to be off of the phone for training on new legislative initiatives, installation of and training on new computer equipment, an increase in call demand and processing of critical non-telephone workloads.

SSA conducts an ongoing evaluation of the national 800 number service. National 800 number accuracy rates are derived from the remote monitoring of calls handled by teleservice representatives and program service center SPIKE employees (individuals who answer 800 number calls during high volume periods).

The payment accuracy rates represent the percentage of all calls free of teleservice failures which have a reasonable potential to improperly affect payment of or eligibility to benefits. There are two measures of payment accuracy: 1) payment accuracy based on the universe of all calls, and 2) payment accuracy based only on calls with the potential to affect payment of or eligibility to benefits. The service accuracy rate represents the percentage of calls free of teleservice failures in service delivery which do not have a reasonable potential to improperly affect payment or eligibility to benefits. Service errors involve situations which can: 1) result in inconvenience to the public; 2) cause additional SSA workloads; or 3) result in situations where information is released from SSA records or reports which affect SSA records are accepted before obtaining all identifying information required by SSA.

The following information shows that after remaining relatively stable, payment accuracy declined significantly for the 6 months ending March 1998. The lower payment accuracy rates were attributed to declines in both teleservice representatives' and SPIKE employees' performance. Except for the surge in service accuracy during the 6 month period ending March 1997, national 800 number service accuracy rates have generally fallen in the lower 80 percent range.

To improve quality, SSA has developed systems software that is intended to help call answerers correctly respond to most frequently asked questions. SSA continues to make enhancements to the software to promote its usage as quality improvement enablers in order to meet SSA's 800 number PM goals. Data obtained from SSA's service observation activities are also used to determine ongoing training initiatives.

	FY 1995	FY 1996	FY 1997	FY 1998*
◦ Portion of National 800 number calls handled accurately				
— % of responses leading to correct payments (payment accuracy - all calls)	96.8%	96.7%	97.1%	95.9%
— % of responses leading to correct payments (payment accuracy- payment affecting calls)	94.2%	94.4%	95.2%	93.1%
— % of responses which did not result in inconvenience to the caller or cause additional SSA workloads (service accuracy)	82.0%	80.8%	84.3%	81.8%

* Current year data represents the 6-month period ending March 31, 1998

When asked about their experiences with SSA's 800 number service, 97 percent of the callers rated the Agency's representatives as courteous or very courteous. Satisfaction with the service provided via the 800 number was expressed by 83 percent of the callers. Staff courtesy and service satisfaction data is based on caller recontact survey results for the months of February.

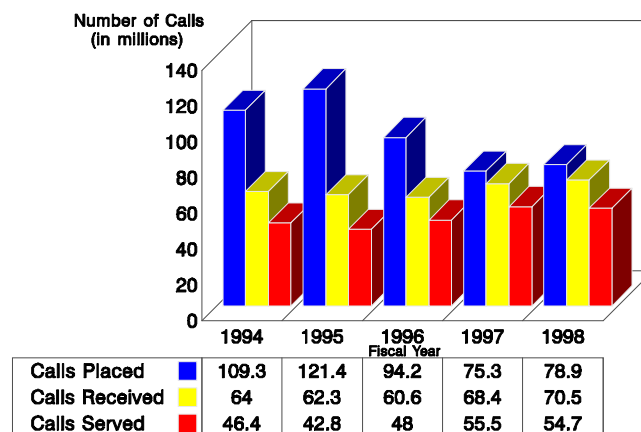
	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ Staff Courtesy	99%	97%	97%	98%	97%
◦ Service Satisfaction	94%	90%	91%	89%	83%*

* The February 1998 survey questionnaire applied the Agency's new "world-class" 6-point scale, replacing the previous 5-point scale. Eighty-three percent of the February 1998 survey respondents rated the 800 number service they received that day as "Excellent", "Very Good" or "Good."

Operational Efficiency

Calls placed in the chart below represent the actual number of calls placed to the 800 number including busy signals. Calls received consists of all callers that get through and either conduct business or hang up while on hold. Calls served represent all callers that conduct business with SSA. There was an increase in the number of calls placed and calls received in FY 1998 compared to FY 1997, but a slight decline in the number of calls served. This is attributable to agents having to be off of the phone for training and processing of critical non-telephone workloads.

SSA's 800 Number Workloads



Mail

The public can initiate requests for all information and services by writing to SSA. Though members of the public do not often make their first contact with SSA through the mail, SSA's need to make contact on a large scale means that SSA frequently interacts with customers by mail. General program information is mailed to requesters and notices are sent to explain eligibility and payment decisions and to inform clients of their rights and responsibilities. Overall, 81 percent of respondents to SSA's Customer Satisfaction Survey were satisfied with the clarity of written material they received from SSA.

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
◦ % of public who were "satisfied" or "very satisfied" with the clarity of information mailed to them by SSA	70%*	73%*	78%*	82%	81%

* For FYs 1994-1996, customers were asked whether the information mailed to them by SSA was "easy" or "very easy" to understand.

Office of the Inspector General

Message From the Acting Inspector General



I am pleased to present the opinion on the Social Security Administration's financial statements and the Office of the Inspector General's Report to the Congress for FY 1998. We continue our cooperative effort with the Agency to streamline and consolidate these reports within the Agency's Accountability Report. These reports satisfy the requirements of the Federal Managers' Financial Integrity Act and the Inspector General Act of 1978, as amended.

In FY 1998, our Office of Audit issued 56 reports with recommendations that about \$2.1 billion in Federal funds could be put to better use. Our Office of Investigations worked with other Federal agencies and local law enforcement departments to obtain 6,291 criminal convictions that resulted in over \$94 million in scheduled restitution, judgments, recoveries, fines, and savings. As in previous years, the dollars gained as a result of our work exceed our \$48,424,000 FY 1998 budget.

I intend for the Office of the Inspector General to maintain independence and objectivity and foster a positive cooperative relationship with the Commissioner and Social Security Administration management. I will balance our need for independence with an equal responsibility to be considered a fair and valued resource to the Social Security Administration. As we continue our work to contribute to the solvency efforts by preventing fraud against the Social Security Administration's programs, we look forward to the continued support of the Commissioner and the Congress.

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

James G. Huse, Jr.
Acting Inspector General

**Audit of the
Social Security Administration's
Fiscal Year 1998
Financial Statements**



SOCIAL SECURITY

Office of the Inspector General

November 20, 1998

To Kenneth S. Apfel
Commissioner of Social Security

This letter transmits the PricewaterhouseCoopers LLP report on the audit of the Fiscal Year (FY) 1998 financial statements of the Social Security Administration (SSA) and the results of the Office of the Inspector General's (OIG) review thereon. PricewaterhouseCooper's report includes the firm's opinion on SSA's FY 1998 financial statements, its report on SSA management's assertion about the effectiveness of internal controls, and its report on SSA's compliance with laws and regulations.

Audit of Financial Statements, Effectiveness of Internal Controls, and Compliance with Laws and Regulations

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements. The audit is to be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, and other applicable requirements. Under a contract monitored by OIG, PricewaterhouseCoopers (formerly known as Price Waterhouse), an independent certified public accounting firm, performed the audit of SSA's FY 1998 financial statements. PricewaterhouseCoopers also audited the FY 1997 financial statements, presented in SSA's Accountability Report for Fiscal Year 1998 for comparative purposes.

PricewaterhouseCoopers issued an unqualified opinion on SSA's FY 1998 financial statements and an unqualified opinion on SSA's assertion that its systems of accounting and internal control are in compliance with the internal control objective in OMB Bulletin No. 98-08. However, the audit identified three reportable conditions in SSA's internal controls. The control weaknesses identified are:

1. SSA can further strengthen controls to protect its information;
2. SSA needs to accelerate efforts to improve and fully test its plan for maintaining continuity of operations; and
3. SSA can improve controls over separation of duties.

In its FY 1997 report, PricewaterhouseCoopers recommended SSA report the above reportable conditions as material internal control weaknesses under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Reportable conditions are matters that, in the auditor's judgement, should be communicated because they represent significant deficiencies in the design or function of internal controls with potential adverse effects on SSA's ability to meet its internal control objectives. Except for a change in reporting requirements in OMB Bulletin No. 98-08 from the prior audit bulletins, the circumstances supporting last year's recommendation have not changed significantly. While OMB Bulletin 98-08 does not require auditors to recommend that reportable conditions be reported as material weaknesses under FMFIA, we still believe these deficiencies warrant inclusion in SSA's FMFIA report as material internal control weaknesses of the Agency.

PricewaterhouseCoopers also reported instances of noncompliance with laws and regulations as follows:

1. SSA did not perform periodic continuing disability reviews for Title II beneficiaries as required by Section 221(i) of the Social Security Act; and
2. The cumulative effect of the three internal control weaknesses listed above resulted in a non-compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

OIG Evaluation of PricewaterhouseCooper's Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PricewaterhouseCooper's audit of SSA's FY 1998 financial statements by:

- Reviewing PricewaterhouseCooper's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal controls;
- Reviewing PricewaterhouseCooper's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 98-08;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

Based on the results of our review, we determined that PricewaterhouseCoopers planned, executed and reported the results of its audit of SSA's FY 1998 financial statements in accordance with applicable standards. Therefore, it is our opinion that PricewaterhouseCooper's work generally provides a reasonable basis for the firm's opinion on SSA's FY 1998 financial statements and SSA management's assertion on the effectiveness of its internal controls and the agency's compliance with laws and regulations. Based on our review of PricewaterhouseCooper's audit, we concur with the finding of reportable conditions related to internal control weaknesses, and instances of noncompliance with Section 221(i) of the Social Security Act and the FFMIA.



James G. Huse, Jr
Acting Inspector General

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235

REPORT OF INDEPENDENT ACCOUNTANTS

To Kenneth S. Apfel
Commissioner of Social Security Administration

In our audit of the Social Security Administration (SSA) for fiscal year 1998, we found that:

- The principal financial statements were fairly stated in all material respects;
- Management fairly stated that SSA's systems of accounting and the internal control in place as of September 30, 1998 are in compliance with the internal control objectives in Office of Management and Budget (OMB) Bulletin No. 98-08, *Audits of Federal Financial Statements*, requiring that transactions be properly recorded, processed, and summarized to permit the preparation of the principal statements in accordance with Federal accounting standards, and the safeguarding of assets against loss from unauthorized acquisition, use or disposal; and
- Our testing identified two reportable instances of noncompliance with the laws and regulations we tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 1998 and 1997, and the related consolidated statements of net cost, changes in net position, financing, and budgetary resources for the fiscal years then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 98-08. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

These financial statements were prepared on the basis of accounting described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the consolidated financial statements audited by us and appearing on pages 27 through 39 of this report present fairly, in all material respects, the financial position of SSA as of September 30, 1998 and 1997, and its consolidated net cost, changes in net position, budgetary resources and reconciliation of net costs to budgetary obligations for the fiscal years then ended, on the basis of accounting described in Note 1.



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

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 98-08 requiring management to establish internal accounting and administrative controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the principal statements in accordance with Federal accounting standards, and the safeguarding of assets against loss from unauthorized acquisition, use or disposal.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants (AICPA), *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 98-08 and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 1998.

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

In our opinion, management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 98-08 requiring that transactions be properly recorded, processed, and summarized to permit the preparation of the principal statements in accordance with Federal accounting standards, and the safeguarding of assets against loss from unauthorized acquisition, use or disposal, is fairly stated, in all material respects.

In addition, with respect to the internal control related to those performance measures determined by management to be key and reported in the Overview and Supplemental Financial and Management Information, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions and determined whether it has been placed in operation, as required by OMB Bulletin No. 98-08. Our procedures were not designed to provide assurance on the internal control over reported performance measures, and accordingly, we do not provide an opinion on such control.

However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the AICPA and by OMB Bulletin No. 98-08. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to meet the internal control objectives described above. The reportable conditions we noted were: SSA can further strengthen controls to protect its information; SSA needs to accelerate efforts to improve and fully test its plan for maintaining continuity of operations; and SSA can improve controls over separation of duties.

A material weakness, as defined by the AICPA and OMB Bulletin No. 98-08, is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the principal financial statements being audited or to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We believe that none of the three reportable conditions that follows is a material weakness as defined by the AICPA and OMB Bulletin No. 98-08. Two of the issues raised in our 1997 report are no longer reportable conditions: SSA needs to improve its software application development and change control policies and procedures; and SSA's quality control activities need improvement.

1. SSA Can Further Strengthen Controls to Protect Its Information

SSA has made noteworthy progress in addressing the information protection weaknesses raised in prior years, especially those impacting its mainframe computer processing environment. Specifically, the agency has:

- Strengthened mainframe system security by decreasing certain vulnerabilities in the mainframe operating system configuration, developing policies and procedures for better password controls, and placing access to several key system resources under the control of SSA's mainframe security software package;
- Substantially improved network monitoring procedures and practices by implementing an ongoing process to identify unauthorized modems and immediately removing access for any such unauthorized modems discovered;
- Enhanced security awareness through an increased emphasis on user training and the issuance of employee bulletins; and
- Increased its focus on entity-wide security in the distributed computing environment. SSA is currently developing an in-house automated tool that will help integrate security controls throughout the entity.

Our audit in 1998 found that SSA's systems environment remains threatened by weaknesses in several components of its information protection control structure. Because disclosure of detailed information about these weaknesses might further compromise controls, we are providing no further details here. Instead, the specifics are presented in a separate, limited-distribution management letter. The general areas where weaknesses were noted are:

- The entity-wide security program and associated weaknesses in local area network (LAN) and distributed systems security;
- SSA's mainframe computer security (controlling access to sensitive information);
- Physical access controls; and
- Certification and accreditation of certain general support and major application systems.

Until corrected, these weaknesses will continue to increase the risks of unauthorized access to, and modification or disclosure of, sensitive SSA information. In turn, unauthorized access to sensitive data can result in the loss of data, loss of Trust Fund resources, and compromised privacy of information associated with SSA's enumeration, earnings, retirement, and disability processes and programs.

Recommendations

We recommend that SSA accelerate its efforts to enhance information protection by further strengthening its entity-wide security as it relates to implementation of physical and technical computer security mechanisms and controls throughout the organization. In general, the needed corrective actions include:

- Enhancing and institutionalizing the entity-wide security program;
- Further strengthening LAN and distributed systems security;
- Improving mainframe security monitoring practices;

- Reviewing and certifying system access for all users;
- Enhancing procedures for removing system access when employees are transferred or leave SSA;
- Continuing to focus on strengthening physical access controls;
- Completing certification and accreditation of SSA systems; and
- Developing and implementing an ongoing program for measuring user compliance with SSA security policies and procedures.

More specific recommendations are included in a separate, limited-distribution management letter.

2. SSA Needs to Accelerate Efforts to Improve and Fully Test Its Plan for Maintaining Continuity of Operations

During 1998, SSA made noteworthy progress in strengthening its contingency/disaster recovery strategy for ensuring continuity of computer processing operations. For example, SSA's Principal Deputy Commissioner has directed the formation of an agency-wide inter-component workgroup, under the leadership of the Deputy Commissioner for Operations, to oversee the updating of its existing Business Impact Analysis for assessing the threats posed by a major disruption. In addition, the agency has drafted a plan for moving computer operations from its designated "hot site" (a facility that already has computer equipment and an acceptable computing environment in place to provide processing capability on short notice) to a "cold site" in the event of a longer-term disruption of processing operations, but this plan is not yet fully developed. During its most recent (June 1998) annual disaster recovery test, SSA successfully tested 10 of the current 13 critical workloads, and has begun the procurement process for further expanding its test capability (from 64 hours to 120 hours in 1999) and extending the test period so that all critical workloads can be tested by the year 2000. Finally, SSA has further updated its Emergency Response Procedures for the National Computer Center and confirmed plans to test those procedures on a quarterly basis.

While SSA has many components of a contingency/disaster recovery plan in place, we identified a number of deficiencies in those components that, in our view, would impair SSA's ability to respond effectively to a disruption in business operations as a result of a disaster or other long-term emergency. First, SSA's existing Business Impact Analysis is outdated and thus cannot be used to validate critical workloads. Second, the "cold site" implementation plan, to be used in the event of an extended outage, has not been finalized or appropriately tested. Third, while SSA has successfully tested 10 of the current 13 critical workloads, we still emphasize the need to test all critical workloads together. Finally, SSA has not adopted procedures to continuously test its contingency/disaster recovery plan and update related documentation.

While we are encouraged by the attention and level of effort SSA has directed to this issue thus far, SSA remains vulnerable should a near-term disaster occur. The agency needs to implement the following recommendations to sufficiently reduce the risks posed to continuity of operations by the previously identified deficiencies.

Recommendations

We recommend that SSA:

- Complete the Business Impact Analysis update and use the results to validate all critical workloads;
- Finalize and test as appropriate the draft “cold site” implementation plan;
- Expedite the current schedule for achieving successful testing of all critical workloads; and
- Continue to periodically test all contingency planning procedures and update the associated documentation accordingly.

3. SSA Can Improve Controls Over Separation of Duties

SSA’s modernization and streamlining efforts to improve service delivery have reduced controls by giving staff the ability to perform incompatible, and thus typically segregated, functions, particularly in customer service staff positions and in the data operations environment. For example, field office staff in many cases have the responsibility and access capabilities to perform all functions related to a claims case, including initiating and adjudicating claims, establishing Social Security numbers, amending earnings records, processing death records, and other transactions. Security administrators likewise have both security and operational responsibility and associated access capability in many cases. SSA’s simplified process for creating, modifying and administering access profiles for employees does not reinforce adequate control and oversight by managers of the key processes, or require a formal assessment of the risk associated with combining multiple sets of access permissions for a given individual.

To enhance its ability to meet its customer service goals, SSA has chosen to mitigate these risks through a combination of compensating controls. For example, for key transactions and processes that it considers to be at higher risk of error, SSA requires 2-PIN approval in which two different employees review and confirm these high-risk automated transactions using their personal identification number (PIN) for accessing the system. In addition, SSA has implemented reporting systems designed to detect risky or unusual transactions and produce exception reports.

SSA has made progress in implementing key recommendations from prior audit reports to further strengthen compensating controls. In 1998, SSA expanded use of the 2-PIN control process. Also, SSA is closer to initial implementation of its Comprehensive Integrity Review Process System (CIRPS). Upon implementation, and used proactively, CIRPS could enable substantial expansion and improvement of claims and security/integrity reviews, and significantly augment Audit Trail System (ATS) as a tool for detecting errors or unauthorized activity.

While these actions have improved SSA’s compensating controls, they still do not sufficiently mitigate the risk associated with inadequate separation of duties. For example, according to customer service staff, the current 2-PIN process is viewed more as an impediment to efficient operations than as a preventive control. As a result, second PINs are often provided without sufficient scrutiny, and the 2-PIN process is frequently a peer-to-peer review. Similarly, weaknesses still exist in several of the most significant compensating control mechanisms, such as the ATS, that in our view substantially reduce their reliability.

Recommendations

We recommend that SSA:

- Strengthen the use of the 2-PIN control process. Second-PIN providers should receive additional training on how to exercise the appropriate oversight to reduce the risk of error, fraud, waste, and abuse. In addition, for the most sensitive transactions and functions, the provision of a second PIN should be provided by higher-level SSA personnel or personnel from a separate organizational unit, which may be in a remote location.
- Maximize the benefits offered by detective tools such as ATS and CIRPS, by using them proactively. To do so, SSA should first develop tolerance level standards and metrics for high-risk transactions and risky transaction combinations. Next, SSA should actively detect and measure the occurrence of high-risk transactions, such as, by job function and field office size and assess their significance using an analytical model. Finally, SSA should create formal mechanisms to provide feedback on these results and incorporate that feedback into the process for making internal control decisions. The results of these measurement and analysis activities may indicate that SSA needs to improve the current methodology for creating, modifying, and administering access control software profiles. If so, process-wide oversight should be made a part of the methodology, enabling more proactive profile management and formal acknowledgement of risk acceptance.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08.

The management of SSA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of SSA's compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 98-08.

- SSA is not in full compliance with Section 221(i) of the Social Security Act which requires periodic Continuing Disability Reviews (CDRs) for Title II beneficiaries. SSA's management estimated the total backlog of Title II cases yet to be reviewed for continuing eligibility at 1.6 million cases. If CDRs are not performed timely, beneficiaries who are no longer eligible for disability may inappropriately continue to receive benefits, including Medicare benefits.
- Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08. We found weaknesses in information protection, business continuity planning and separation of duties, as described above. We believe these weaknesses are significant departures from certain of the requirements of OMB Circulars A-127,

Financial Management Systems, and A-130, *Management of Federal Information Resources*, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA. SSA should assign a high priority to the corrective actions consistent with the requirements of OMB Circular No. A-50 Revised, on audit follow-up.

Except as noted in the previous paragraph, the results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 98-08.

OBJECTIVES, SCOPE AND METHODOLOGY

SSA management is responsible for:

- Preparing the annual financial statements in conformity with the basis of accounting described in Note 1;
- Establishing, maintaining, and assessing internal control that provide reasonable, but not absolute, assurance that the broad control objectives of OMB Bulletin No. 98-08 are met; and
- Complying with applicable laws and regulations.

Our responsibilities are to:

- Express an opinion on SSA's principal financial statements;
- Obtain reasonable assurance about whether management's assertion about the effectiveness of the internal control is fairly stated, in all material respects, based upon the internal control objectives in OMB Bulletin No. 98-08, *Audits of Federal Financial Statements*, requiring that transactions be properly recorded, processed, and summarized to permit the preparation of the principal statements in accordance with Federal accounting standards, and the safeguarding of assets against loss from unauthorized acquisition, use or disposal; and
- Test SSA's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements.

In order to fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of the internal control related to safeguarding assets, compliance with laws and regulations including execution of transactions in accordance with budget authority, financial reporting, and certain performance measures determined by management to be key and reported in the Overview of SSA and Supplemental Financial and Management Information;
- Tested relevant internal control over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of the internal control; and
- Tested compliance with selected provisions of laws and regulations.



We did not evaluate all the internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our report on management's assertion about the effectiveness of the internal control.

* * * * *

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

This report is intended for the information of the management and the Inspector General of SSA, OMB and the Congress. However, this report is a matter of public record and its distribution is not limited.

PriceWaterhouseCoopers LLP

Arlington, Virginia
November 20, 1998

APPENDIX



SOCIAL SECURITY
Office of the Commissioner

November 13, 1998

PricewaterhouseCoopers
1616 N. Fort Myer Drive
Arlington, Virginia 22209

Ladies and Gentlemen:

We have reviewed the 1998 draft report on management's assertion about the effectiveness of the Social Security Administration's (SSA) internal controls and compliance with laws and regulations and generally agree with all findings and recommendations except as noted in our attached comments.

We are pleased that sufficient improvement was made in the software development and quality assurance areas so that they were not reported again in this year's report. We were also pleased that you reported significant progress in the three reportable conditions addressed in this report. We will continue to work with you to correct the remaining conditions as quickly as possible. Please direct any questions on our comments to Steven L. Schaeffer at extension 53927.

Sincerely,

John R. Dyer
Acting Principal Deputy Commissioner
of Social Security

Enclosure

cc:

Pamela J. Gardiner (OIG)
Debbie Sebastian (GAO)

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

**Comments of the Social Security Administration (SSA) on
PricewaterhouseCoopers' Draft Report on Management's Assertion
About the Effectiveness of SSA's Internal Controls and Compliance
with Laws and Regulations**

General Comments

Thank you for the opportunity to comment on your draft report on the effectiveness of SSA's internal controls and compliance with laws and regulations. We welcome your opinion that management's assertion that SSA's systems of accounting and internal controls are in compliance with the internal control objective in Office of Management and Budget (OMB) Bulletin 98-08 is fairly stated in all material respects.

We are pleased that there were no new reportable conditions identified since last year's audit and that sufficient progress was made in the areas of software development and change control and quality assurance to no longer identify those two reportable conditions from fiscal year (FY) 1997 as reportable conditions in FY 1998. We will continue to make improvements in those two areas until all of our plans for corrective action have been implemented.

We are also pleased that you reported significant progress in the three reportable conditions addressed in this report, i.e., protection of data, continuity of operations and separation of duties. At this point, we have completed corrective action on the majority of the recommendations in these three areas from last year's report and will continue making improvements until all planned actions are completed.

Report on Management's Assertion About the Effectiveness of Internal Controls

Finding 1, SSA Can Further Strengthen Controls to Protect Its Information

Recommendations:

We recommend that SSA accelerate its efforts to enhance information protection by further strengthening its entity-wide security as it relates to implementation of physical and technical computer security mechanisms and controls throughout the organization. In general, the needed corrective actions include:

- o **Enhancing and institutionalizing the entity-wide security program;**

SSA Comment

SSA agrees with this recommendation and has made substantial progress in this area in the last year, including: the issuance of new password guidelines requiring the password length to be a minimum of six characters and implementation of the software changes necessary to enforce this new policy; the conversion of the Financial ACcounting System (FACTS) to the Integrated Database Management System enabling it to be fully controlled by TOP SECRET; the coverage of the national FALCON region under TOP SECRET; and, the expansion and improvement of the Agency's security awareness program, including frequent reminders of employees' responsibilities. SSA will continue to enhance and institutionalize the entity-wide security program through a series of actions, including:

1. Implement Enterprise Security Interface (ESI) throughout the enterprise which will integrate user authentication and functional level security for WIN-NT distributed applications with the mainframe TOP SECRET security policies and rules. The ESI rollout is on target and will be accomplished on a flow basis over the next 1-2 years.
2. Install a commercial enterprise management software product, CA-UNICENTER TNG, on all UNIX platforms.
3. Convert Processing Center FALCON regions to TOP SECRET in the next 1-2 years.

o Further strengthening Local Area Network and distributed systems security;

SSA Comment

SSA agrees with this recommendation and will continue to make improvements, with emphasis on controlling unauthorized access.

In the last year, SSA has made significant progress in improving this area, particularly in the reassessment of dial-in access to systems resources and the development of safeguards in this area. Modems not approved by the Agency have been removed and a nationwide registration, approval and monitoring procedure was implemented in the last year. In addition, SSA took action to ensure that all users disable the automatic logon features in the WIN-NT configuration, that all passwords meet SSA's new standards and that workstation passwords are changed regularly. SP3 was implemented for the WIN-NT network on installed platforms and it will be included in all future installations. The current VISN system now employs a dial-in history file and an audit trail log of password encrypted files sent to each customer. A firewall and other architectural modifications have been made to the Bulletin Board system.

As mentioned earlier, SSA plans to further improve the security of its distributed environment by implementing ESI over the next 1-2 years and installing a commercial management software product on all UNIX platforms. Additionally, SSA will install "stealth" devices at each of the major network nodes that connect to the enterprise environment to detect hacker attacks. These devices will provide an additional level of monitoring and real-time alerts in the event that a break-in occurred from one of the remote offices.

o Improving mainframe security monitoring practices;

SSA Comment

SSA agrees with this recommendation and will work with the auditors to improve our mainframe security monitoring practices. SSA is planning a mechanism which will focus the security violation reports and make them available to the appropriate level manager. Requirements have been developed and submitted for program development.

o Reviewing and certifying system access for all users;

SSA Comment

SSA agrees with the recommendation and will continue to make improvements in this area. SSA currently has in place a process to review and certify systems access for all users, but recognizes that improvements are possible. SSA established a workgroup led by the Office of Systems to develop and implement a standardized security profile structure for all users. Subsequent to the auditor's recommendation, we have also reviewed systems access for users in selected categories, i.e., users with security administration authority, programmers and users who have separated or transferred.

o Enhancing procedures for removing system access when employees are transferred or leave SSA;

SSA Comment

SSA agrees with this recommendation and will continue to improve our procedures for removing system access when employees are transferred or leave SSA. SSA had a mechanism in place since the early 1990's to interface its TOP SECRET access file with its Human Resources Management Information System. However, based on the auditor's recommendation we have taken steps to improve the procedures in this area. A requirement which will improve our interface in the areas noted has been submitted to the Office of Systems. The enhancement is in the requirements and development stage.

o Continuing to focus on strengthening physical access controls;

SSA Comment

SSA agrees with this recommendation and will continue to focus on strengthening physical security, particularly in the National Computer Center (NCC). SSA has reemphasized guard procedures for checking building access and property passes and in challenging unauthorized persons in restricted areas. SSA has also made improvements in exterior lighting, perimeter fencing, and trimming of foliage along the fence. In addition, SSA is updating its camera coverage within the NCC.

- o **Completing certification and accreditation of SSA systems;
and**

SSA Comment

SSA agrees with this recommendation and recertified all of its sensitive systems, including TOP SECRET, in January 1998. SSA management and the Office of the Inspector General will continue to periodically review TOP SECRET to ensure it remains effective. As recommended in last year's audit, SSA designated FACTS, FALCON, Death Alert, Control and Update System and the Audit Trail System (ATS) as sensitive systems, designated systems managers for each system and expects to have sensitive system security plans prepared and approved by June 1999.

- o **Developing and implementing an ongoing program for measuring user compliance with SSA security policies and procedures.**

SSA Comment

SSA agrees with this recommendation and has a number of existing and planned programs to measure user compliance with security policies and procedures. We currently monitor compliance through General Accounting Office/OIG audits, financial systems reviews, management control reviews, integrity reviews and other studies/reviews.

SSA is developing the Comprehensive Integrity Review Process (CIRP) which will consolidate integrity review functions into a single automated facility where transactions will be screened against specific criteria, including cross-application criteria. SSA has already implemented a CIRP release pertaining to Alpha-Index, Detailed Earnings Query to determine if requests relate to relatives, co-workers, managers, agency or regional executive staff, local or nationally prominent celebrities and employees' own records. The Agency also implemented the Identification (ID) Query Review which selects those ID queries that cannot be related to a known SSA workload. The next release due in March 1999 will pertain to enumeration actions and later releases will pertain to title II and XVI transactions.

Finding 2, SSA Needs to Accelerate Efforts to Improve and Fully Test Its Plan for Maintaining Continuity of Operations

Recommendations:

- o **Complete the Business Impact Analysis update and use the results to validate all critical workloads.**

SSA Comment

SSA agrees with this recommendation and has formed a workgroup to conduct a business impact analysis which includes the review and confirmation of critical workloads and priorities. The workgroup will review and consider the current Agency Contingency (Disaster Recovery) Plan, the Agency Strategic Plan, the Agency Business Plan, the Information Systems Plan and the Governmentwide Study on Infrastructure.

The workgroup plans to produce a report in January 1999 which will describe: current recovery measures; the results of the analysis, including recommended changes to the critical workloads and priorities; and, the Agency's review process which will include a major comprehensive review every 6 years and an interim 3-year review of a lesser nature.

- o **Finalize and test as appropriately the draft "cold site" implementation plan.**

SSA Comment

SSA agrees with this recommendation and plans to populate the cold site, if needed, during the 6-week period at the hot site. We are expanding the Disaster Recovery Plan for NCC Operations to reflect the strategy and procedures for equipping the cold site, but do not intend to test that portion of the plan, i.e., acquiring and installing replacement equipment and setting up a functioning computer center in the cold site. Rather, the goal is to have the necessary plan and steps in place to accomplish this. SSA has a high degree of confidence that the cold site can be fully equipped either by SSA or by a contractor in a very short period of time.

The Agency Contingency Plan (Disaster Recovery Plan) and pertinent test plans and capacity issues will be resolved and documented by June 30, 1999.

- o **Expedite the current schedule for achieving successful testing of all critical workloads.**

SSA Comment

SSA agrees with this recommendation and has developed an applications test plan in August 1998 that ensures that each critical workload will be tested at least once within a 3-year cycle. We will develop capacity requirements to enable testing of all critical workloads together in a subsequent test. SSA plans for a 5-day test in 1999 and two 4-day tests both in 2000 and 2001.

- o **Continue to periodically test all contingency planning procedures and update the associated documentation accordingly.**

SSA Comment

SSA agrees with this recommendation and has completed an update of the Emergency Response Procedure (ERP), including revising team procedures, staff names and call lists in September 1998. We also completed a review of the ERP to the COMDISCO contract in July 1998. SSA plans to review, test and reissue procedures quarterly in the future.

Finding 3, SSA Can Improve Controls Over Separation of Duties

Recommendations:

- o **Strengthen the use of the 2-Personal Identification Number (PIN) control process. Second-PIN providers should receive additional training on how to exercise the appropriate oversight to reduce the risk of error, fraud, waste, and abuse. In addition, for the most sensitive transactions and functions, the provision of a second PIN should be provided by higher-level SSA personnel or personnel from a separate organizational unit, which may be in a remote location.**

SSA Comment

SSA partially agrees with this recommendation and will strengthen the use of the 2-PIN control process and will remind field office employees of the responsibilities and duties associated with a second PIN action.

We request that the auditor reconsider the recommendation that for the most sensitive transactions and functions, the provision of a second PIN be provided by higher-level SSA personnel or personnel from a separate organizational unit, which may be in a remote location. We believe that the current streamlined measures followed in the field offices provide excellent service to the public in a timely manner and also includes adequate management controls. Currently, we give our field office managers the flexibility to designate persons to help with the different approval processes with the stipulation that the designee cannot have performed an action on the case he/she is approving.

- o **Maximize the benefits offered by detective tools such as ATS and CIRP, by using them proactively. To do so, SSA should first develop tolerance level standards and metrics for high-risk transactions and risky transaction combinations. Next, SSA should actively detect and measure the occurrence of high-risk transactions, such as, by job function and field office size and assess their significance using an analytical model. Finally, SSA should create formal mechanisms to provide feedback on these results and incorporate that feedback into the process for making internal control decisions. The results of these measurement and analysis activities may indicate that SSA needs to improve the current methodology for creating, modifying, and administering access control software profiles. If so, process-wide oversight should be made a part of the methodology, enabling more proactive profile management and formal acknowledgement of risk acceptance.**

SSA Comment

We agree with this recommendation and will work with the auditor to develop the process. We request that the auditor provide us specific examples to follow to implement the recommendation.

Concerning the comment on access control software profiles, SSA recently added this to its Security Integrity 5-Year Plan but it has not yet been scheduled.

Report on Compliance with Laws and Regulations

Recommendations:

- o **SSA is not in full compliance of Section 221(i) of the Social Security Act which requires periodic Continuing Disability Reviews (CDRs) for Title II beneficiaries. SSA's management estimated the total backlog of Title II cases yet to be reviewed for continuing eligibility at XXXXX million cases. If CDRs are not performed timely, beneficiaries who are no longer eligible for disability may inappropriately continue to receive benefits, including Medicare benefits.**

SSA Comment

SSA agrees with this recommendation and is currently determining the current backlog of CDRs and will provide that information to you as soon as it is available. We did over 146,889 more CDRs than originally planned in FY 1998 and, as a result, are updating our 7-year plan.

While we agree that SSA has not been in full compliance with Section 221(I) of the Social Security Act, we believe that SSA's efforts to become compliant should be recognized. We recommend that the following language be added to the end of the first bullet:

"Recognizing its responsibility to meet the requirements of the law, SSA has a plan to eliminate the backlog of title II CDRs. SSA now has completed its third year of the plan and is on target to eliminate the backlog by FY 2000."

- o **Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08. We found**

weaknesses in information protection, business continuity planning and separation of duties, as described above. We

believe these weaknesses are significant departures from certain of the requirements of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

SSA Comment

SSA partially agrees with this finding, specifically that part concerning the three findings mentioned earlier in the report pertaining to protection of information, continuity of operations and separation of duties. The Agency is continuing to make improvements in those areas as shown in this letter.

We do not agree, however, that these are instances of substantial noncompliance. As the auditor's report indicated, SSA has made noteworthy progress in correcting the conditions reported in those three areas. We believe we have progressed sufficiently to be in substantial compliance in all three areas. Further, we believe that SSA is overall in substantial compliance with FFMIA. Nonetheless, SSA will continue to make improvements as stated herein.

**Office of the Inspector General
Social Security Administration**

Inspector General's Report to the Congress



Mission/Vision Statement

Mission

We improve the Social Security Administration's programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

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Significant Activities

Office of the Inspector General Expands Operations
Social Security Administration Fraud Hotline
Office of the Inspector General Pursues Civil Remedies

Office of the Inspector General Expands Operations

In May 1998, the *Federal Register* published the Office of the Inspector General's (OIG) expanded organizational structure. The OIG established four new field offices to conduct investigations in strategically located cities nationwide. With the addition of these field offices, we expect to increase our efficiency in detecting fraud, waste, and abuse.

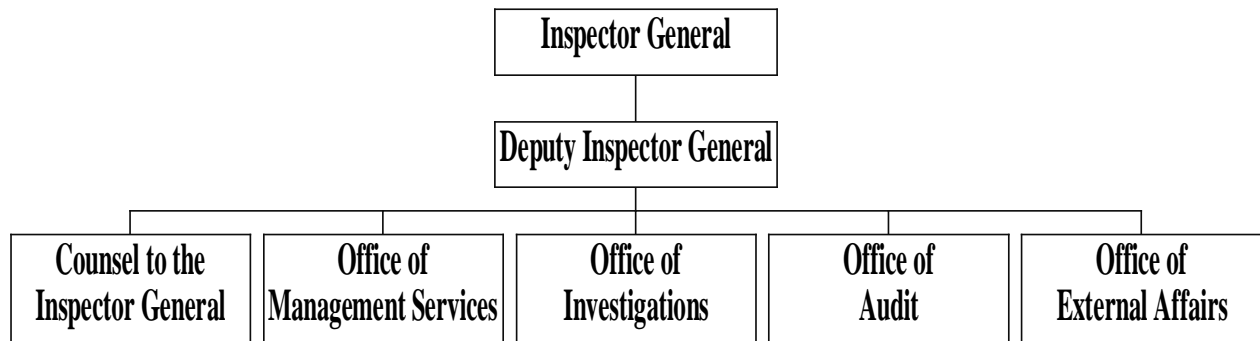
We also created an Allegation Management Division to handle the ever-increasing number of inquiries/allegations the Social Security Administration (SSA) Fraud Hotline receives. To keep pace with the growing number of allegations received, the Principal Deputy Commissioner agreed to increase the SSA Fraud Hotline's staffing levels.

We also formed an Office of External Affairs whose function is twofold: quality assurance and public affairs. The Quality Assurance Team performs internal reviews to ensure that OIG offices hold themselves to the same rigorous standards that we expect from SSA. The Public Affairs Team communicates OIG's planned and current activities and their results to the Commissioner and the Congress as well as other entities. This Team works with SSA to ensure that our message concerning "Zero Tolerance for Fraud" is seamless. The OIG's current organizational chart is depicted below.

Social Security Administration Fraud Hotline

The SSA Fraud Hotline, which is overseen by OIG's Office of Investigations' Allegation Management Division, is the focal point for receiving allegations of fraud, waste, and abuse against SSA's programs and operations. The Hotline receives allegations and complaints from numerous sources and by different methods.

In FY 1998, the Hotline staff processed nearly 30,000 allegations. This represents a 60-percent increase in productivity from FY 1997, which is directly attributable to a new streamlined, paperless process. All allegations are entered into a data base. Referrals are made by electronic mail to SSA's Field Divisions and components. All follow-up and accounting actions take place in the same electronic environment. The internal controls built into the data base ensure that appropriate actions are taken in a timely manner and that monetary savings, restitution, and scheduled recoveries are accurately reflected.



Office of the Inspector General Pursues Civil Remedies

Section 1140

Under section 1140 of the Social Security Act, civil monetary penalties may be imposed against entities that use SSA's program words, letters, symbols, or emblems in advertisements, or other such communications in a manner that conveys the false impression that such items were approved, authorized, or endorsed by SSA. The Commissioner has delegated authority to implement the civil monetary penalty program under section 1140 to the Inspector General. During this fiscal year, the Office of Counsel to the Inspector General (OCIG) reviewed 502 complaints and issued 33 cease and desist letters.

Section 1129

Under section 1129 of the Social Security Act, and as authorized by the Attorney General pursuant to agreed procedures, civil monetary penalties may be imposed against individuals who make certain material false statements or omissions (after October 1, 1994) to receive benefits under the Social Security Act. The Commissioner has delegated the authority to implement the civil monetary penalty program under section 1129 to the Inspector General. During this fiscal year, OCIG reviewed 24 new cases referred from the Office of Investigations, imposed \$30,000 in penalties, and imposed \$21,705 in assessments.

Review of Legislation

OCIG monitored, tracked, and commented on several significant legislative proposals. Specifically, OCIG and the Deputy Commissioner for Finance, Assessment and Management reviewed various identity fraud proposals which were introduced in the 105th Congress. OCIG prepared analytical synopses for the Commissioner of Social Security on the identity fraud issue.

OCIG also prepared an extensive legislative proposal on statutory law enforcement authority. This proposal would codify several law enforcement authorities that are presently exercised by OIG Special Agents, pursuant to an existing Memorandum of Understanding with the Department of Justice. While OIG Special Agents have the authority to carry firearms, make arrests, and serve search warrants in certain instances under the Memorandum of Understanding. Further, it would clarify law enforcement authority for OIG Special Agents and contribute greatly to OIG's ability to carry out its mission under the Inspector General Act of 1978, as amended.

Office of Audit

Financial Audits
SSI—A High-Risk Program
Benefit Payments
Internal Controls
Performance Monitoring
Human Resources

The Office of Audit conducts comprehensive financial and performance audits of SSA's programs and operations and makes recommendations to ensure that program objectives are achieved effectively and efficiently. The Office of Audit also conducts management and program evaluations that focus on issues of concern to SSA, the Congress, and the public. These evaluations identify and recommend ways to prevent program fraud and minimize inefficiency. The Office of Audit is organized into issue area teams that specialize in SSA's programs and operations.

The Office of Audit also participated in six SSA task forces and workgroups providing up-front expertise. This enables us to review, analyze, and comment on proposed modifications to procedures before they are implemented. This proactive approach improves SSA's decision-making process because it makes SSA officials aware of our concerns and therefore they can make more informed decisions. One of the largest is the Payment Accuracy Task Force, whose accomplishments are highlighted in this report.

During FY 1998, the Office of Audit also issued 56 reports that covered such topics as financial audits, Supplemental Security Income (SSI), benefit payments, internal controls, performance monitoring, and human resources.

FINANCIAL AUDITS

The Chief Financial Officers Act of 1990 (Public Law 101-576) requires that Inspectors General or an independent external auditor, as determined by the Inspector General, audit SSA's financial statements in accordance with *Government Auditing Standards*.

FY 1997 Financial Statement Audit

Federal agencies are required to comply with the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act of 1996, and pertinent Office of Management and Budget (OMB) Circulars and Bulletins. Under a contract monitored by OIG, Price Waterhouse (now known as PricewaterhouseCoopers), an independent certified public accounting firm, audited SSA's FY 1997 financial statements.

Price Waterhouse issued an unqualified opinion stating that the principal financial statements were fairly stated in all material respects, and that management fairly stated that SSA's systems of accounting and internal controls were in compliance with OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements*. However, Price Waterhouse did identify significant deficiencies in SSA's general controls environment that undermine the overall integrity of data processed through SSA's automated systems.

Specifically, SSA needs to

- improve controls to protect its information,
- fully test its plan for maintaining continuity of operations,
- improve its software application development and change control policies and procedures, and
- strengthen controls over insufficient separation of duties and limit broad systems access.

In addition, Price Waterhouse determined that quality control activities need to be improved. SSA plans to implement corrective actions and determine whether the identified deficiencies should be reported as material weaknesses under FMFIA, as recommended by Price Waterhouse. To date, SSA has not agreed that these are material weaknesses. We continue to discuss these issues with SSA, and we reaffirm our position that the weaknesses warrant reporting under FMFIA.

We also conduct audits of States that receive Federal funds for making the initial and continuing disability determinations for eligibility for the Disability Insurance and SSI programs. We conduct these audits to ensure that Federal funds are spent according to statute, regulations, and SSA's written guidelines. They also ensure that internal controls are in place and are implemented, as required by OMB Circulars and Bulletins.

Audit of Tennessee's Disability Determination Services' Administrative Costs for FYs 1993 Through 1995

The Tennessee State Disability Determination Service (DDS) claimed \$79,911,653 in administrative costs for disability determinations as of June 30, 1996, for the fiscal years ended September 30, 1993 through 1995. Obligations the DDS reported to SSA should be reduced by \$2,012,196 to adjust for overstated disbursements and unliquidated obligations. We made three sets of recommendations related to monetary findings, internal controls for the Tennessee State DDS and SSA's oversight of the State DDS.

We recommended that SSA require that the State DDS refund with interest \$467,985 in questioned costs and decrease unliquidated obligations by \$1,544,211 for computer system upgrades that were not supported by purchase orders.

We recommended that the Tennessee State DDS develop controls that would enable SSA to determine that the DDS' services do not exceed rates paid by other agencies for the same service. We also recommend that the DDS strengthen internal controls over payroll time and attendance records and overtime logs and workload reports.

Our third set of recommendations provides that SSA improve its oversight of DDS cost allocations and monitoring of equipment.

SSI—A HIGH-RISK PROGRAM

The General Accounting Office has declared the SSI program high-risk. Congress enacted the *Personal Responsibility and Work Opportunity Reconciliation Act of 1996* (commonly known as the Welfare Reform Act), which requires that SSA conduct continuing disability reviews (CDR) for large segments of the population of SSI recipients. The Welfare Reform Act also authorized appropriations for CDRs and redeterminations for FYs 1997 and 1998. Also, via several legislative mandates, SSA is to report annually on its progress in reducing the number of fraudulent SSI claims through the CDR process. Below are summaries of three reviews that discuss our work in this area.

Special Joint Vulnerability Review of the SSI Program

We initiated this audit after the Georgia State DDS notified SSA that it was concerned that four generations of a family of SSI recipients may have been coached to malingering during initial consultative examinations and CDRs. As a result, SSA personnel, OIG's Offices of Investigations and Audit, and State DDS staff members formed a team to evaluate the alleged irregularities. We conducted the audit to identify vulnerabilities in the disability determination process that subject the entire SSI disability program to abuse.

The Office of Audit analyzed 66 case files from the suspect CDRs, which resulted in the cessation of SSI benefits. The 66 recipients received \$1.06 million in SSI disability benefits through June 1995, including over \$431,000 in benefits to 24 individuals who malingered on current examinations.

The CDRs revealed two primary areas of vulnerability in the SSI disability review process: consultative examinations and malingering. One of our recommendations proposed that closer attention be paid to a DDS' strong reliance on a single provider of consultative examinations. In this case, one psychologist performed the initial consultative examinations on 38 of the family members and 13 of the malingerers. Since SSA is legally required to first consider using the treating

physician to conduct the consultative examination, SSA did not agree with our recommendation that DDSs avoid using the same professionals who are not independent because they treated and/or continue to treat claimants for their medical/emotional conditions.

The Office of Audit provided seven other recommendations that focused on the need for

- additional reviews of extended family members,
- closer monitoring and disclosure of questionable medical reports disqualified consultative examination providers,
- more information in medical reports relating to applicant performance on psychological tests to detect malingering.

Since we completed our analysis, SSA has identified and ceased paying benefits to an additional 90 members of the Georgia family. The Office of the Chief Actuary estimates the savings to the SSI program range from \$1.7 million to \$2.5 million.

Review of SSA's FY 1996 Annual Report on CDRs

Based on legislation that affected individuals who are receiving disability benefits, SSA is required to report annually on the status of the number and cost of CDRs. CDRs are performed to determine whether a disabled individual is still eligible for benefits. We performed this review to determine whether SSA had met all of the reporting requirements.

SSA's FY 1996 report did not disclose the amount SSA spent during the year to perform the CDRs as specifically required by the *Contract With America Advancement Act*. SSA also failed to separate the statistics on benefit cessation and continuing eligibility data. Rather, the information was provided in aggregate form, combining Disability Insurance and SSI program statistics.

We recommended that SSA include the specific information required by law in future CDR annual reports and differentiate between the information for the Disability Insurance and SSI reviews. We also recommended that SSA consider providing the Congress with additional information that may be useful in measuring the results of the CDRs although the data are not required by legislation.

SSA agreed that specific information relating to the annual cost of conducting the CDRs should be included in its annual report to the Congress. The data were inadvertently omitted from the FY 1996 CDR report, but detailed cost information was subsequently sent to the Congress. In future reports, SSA will provide data on the status of CDR cessations and will include other additional information that would be useful to the Congress.

SSA's Process to Segregate CDR Costs

We conducted this review to assess SSA's process for collecting and allocating CDR administrative costs. SSA established a process that builds on the current cost accounting system by adding steps to capture start-up costs related to the CDR and welfare reform workload and ongoing costs related to specific welfare reform workloads. Although SSA had developed an adequate process to collect and allocate aggregate CDR/welfare reform administrative costs, SSA attempts to break out FY 1997 costs between the specific CDR and welfare reform activities did not produce reliable data.

We recommended, and SSA agreed, that the best approach is to report both CDR and welfare reform administrative costs in the same report to the Congress. SSA can present the entire earmarked disability review workload, qualify sections where allocation has been difficult, and present more reliable costs than would be the case if CDR costs were presented apart from the welfare reform costs.

BENEFIT PAYMENTS

One method of measuring the performance of SSA's programs is through payment accuracy. The slightest error in payment accuracy can represent enormous costs to SSA and the American people. We have issued a number of reports concerning incorrect payments since SSA became an independent agency in 1995. These reports indicate a need to correct overpayments and underpayments that involve millions of dollars.

Another measure of performance is consistency in determining eligibility for benefit payment amounts. One of the reviews illustrates an inconsistencies in the first months of eligibility for different categories of retirees and in the common law definition of age attainment. This review also illustrates inconsistency in the payment of benefits dependent on the day of the month an individual was born. The inconsistencies will cost SSA over \$1.4 billion over a 5-year period. These reviews are discussed below.

Benchmarking Payment Accuracy Performance Measures

We conducted this evaluation in response to the Government Performance and Results Act (GPRA) and Executive Order 12862, *Setting Customer Service Standards*, which requires that Federal agencies benchmark their customer service standards against those that are considered the best in business. Our objective was to benchmark private business and Government measurement of payment accuracy and compare these practices with SSA's process for determining payment accuracy. SSA conducts annual payment accuracy reviews of the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs.

We found that SSA's payment accuracy review process is similar to the 31 organizations (22 Federal agencies and 9 private establishments) we contacted. However, we did make four recommendations that could help SSA measure payment accuracy more efficiently and effectively.

1. SSA should report case payment accuracy rates, which would indicate how SSA is faring in its goal to provide world-class service.
2. SSA should report both underpayments and overpayments, not a combination of both. By differentiating between the two, SSA could calculate the total amount that was paid incorrectly.
3. SSA should eliminate life-cycle accuracy rates as a performance measure. This information is useful in indicating which reasons for errors have the greatest effect over time, but it is not a reliable performance measure of current payment accuracy.
4. SSA's large sample size may not be necessary. In relation to other organizations interviewed, SSA uses significantly more staff hours to measure payment accuracy because of its sample size.

SSA did not agree with our first three recommendations stating that adding a case payment accuracy rate or differentiating between underpayments and overpayments would misrepresent the extent of errors in the payment process. However, SSA is decreasing its sample sizes and will continue to do so as long as statistical precision is not compromised.

Payment Accuracy—*SSI Earned Income*

The OIG/SSA Payment Accuracy Task Force completed its second initiative, a review of SSI earned income errors that affect the accuracy of SSI payments. Historically, earned income issues have accounted for the largest dollar amount of payment errors in the SSI program. The Task Force thoroughly reviewed of previous OIG, General Accounting Office, and SSA reports related to SSI earned income, reviewed SSA's Payment Accuracy Studies (Index of Dollar Accuracy and Stewardship reports), and interviewed over 90 SSA field office personnel to obtain feedback on the causes of earned income errors. The Task Force developed 12 recommendations to address earned income errors that are caused by nonreporting recipients and by field offices. Most earned income payment errors are unavoidable because individuals do not report changes in their earned income to SSA. The Task Force recommended some proactive measures that SSA can take to effectively reduce the number and financial magnitude of overpayments and underpayments.

Inconsistent Beneficiary Entitlement Periods

We assessed the financial impact of two inconsistencies in the entitlement periods for retirement and survivors' benefits. The first inconsistency results from legislation that produced differences in the first month of entitlement for different categories of retirees. For example, workers must be age 62 for a full month to be entitled to reduced benefits. However, surviving spouses are entitled to reduced benefits in the month they turn 60. Thus, surviving spouses receive an extra month of benefits when compared to workers who apply for early retirement.

The second inconsistency results from the common law definition of age attainment, which holds that an individual attains a given age on the day before his or her birthday. This definition results in different months of age attainment for individuals born in the same month because individuals born on the first day of the month are deemed to have attained their birthday on the last day of the previous month. Use of the common law definition

provides windfalls to some retirees and penalties to others.

We recommended that SSA propose legislation to define the first month of entitlement as the month after the individual's birthday and age attainment as occurring on a person's birthday. Collectively, the cost of these inconsistencies is expected to be about \$1.47 billion over the next 5 years. SSA disagreed with the recommendations regarding month of entitlement on the basis that the Congress clearly intended that there be different months of entitlement for different categories of retirees. SSA disagreed with the recommendation regarding age attainment because of related costs to change processing systems and other administrative complications in coordinating with other agencies.

SSI Stewardship Review

We issued a management advisory report to advise SSA of a problem with the annual Stewardship Review that could potentially affect the integrity of SSA's SSI payment accuracy rate. This stewardship review analyzes SSI nonmedical eligibility criteria to determine payment accuracy and SSA field office's compliance with national policies and procedures. If payment errors are detected during the review, the SSA field office responsible for the error is notified and required to take corrective action. The field office should then report what corrective action is taken to Headquarters where it will be entered into the Quality Assurance data base. However, some field offices did not notify Headquarters of the corrective actions they had taken.

We are concerned that the integrity of the underlying data used to calculate and report SSA's SSI payment accuracy rates is compromised when the field offices do not report the results of their actions. This allows for incongruence between the information recorded in the Quality Assurance data base and the actual corrective action. SSA agreed to take corrective actions.

INTERNAL CONTROLS

FMFIA and OMB Circular A-123, *Management Accountability and Control*, provide guidance and contain requirements concerning the integrity of the internal control environment at Federal agencies. SSA's computerized systems hold data that are used in administering title II and title XVI programs. If internal controls are not properly managed, these data can be compromised and used to commit fraud against the programs, which would reduce the Trust Fund and General Fund balances.

Internal Controls Over Critical Payments at the Pittsburgh District Office

Fraud committed by an employee resulted in our review of certain payment processes at the Pittsburgh District Office. Our objective was to assess the adequacy of selected internal controls over the critical/one-time payments and ensure that the standards set forth by FMFIA and OMB Circular A-123 were met.

Although SSA has established written policies and procedures for the payment process, their effectiveness is solely dependent on whether they are implemented. The Pittsburgh District Office did not require that staff members implement existing policies and procedures relative to the critical payment system, which allowed an employee to take advantage of the weaknesses and misappropriate \$24,849.

Our first recommendation was for SSA to instruct field office managers to follow SSA policies and procedures pertaining to the issuance and approval of the critical payment system. Seven other recommendations provided for the reinstatement of certain controls as well as the development of new internal controls. SSA agreed with most of our recommendations. **This report is classified sensitive and confidential and is not available for distribution.**

Pilot Project of Paperless Processing With Imaging of Title II Benefit Actions

SSA conducted a pilot project to completely eliminate the use of paper documents in processing certain benefit payment actions. All paper documents were converted to electronic files (imaged), stored on magnetic media, and routed via electronic work-flow software to module employees over the Intelligent Work Station/Local Area Network system. We conducted this audit to determine whether the costs and benefits attributed to the proposed nation-wide implementation of the project were reasonable and achievable; proposed security controls were adequate to prevent data loss or corruption, prohibit unauthorized access; whether the requirements of the Privacy Act of 1974 would be met; and whether electronic documents are accepted as competent evidence by Federal courts and the law enforcement community.

We found that actual benefits may fall short of SSA's cost-benefit analysis. While SSA has not developed specific access controls for the distributed data bases where the imaged documents will be kept, it has agreed to implement internal controls that will prevent corruption of the files. We believe the major flaw with the pilot project is the probability that the judicial system, and the law enforcement community in general, will not accept scanned documents as "best evidence." We recommended that SSA retain certain original signed documents in paper form. SSA agreed to keep all signed original benefit applications but stated that it would not maintain the originals of four other forms. We maintain the importance of retaining those four forms after imaging. We believe there are only minimal costs related to retention of these documents for the full statute of limitations period. However, if SSA images-and-destroys these forms, we then recommend that it develop compensating controls to substitute for this important evidence.

SSA's Internal Controls Over its Time and Attendance Payroll Records

This audit evaluated employee's adherence to policies and procedures for documenting and recording time and attendance data for payroll purposes in SSA's Office of Disability and International Operations. Internal controls were not consistently enforced to ensure that all basic time and attendance procedures were followed. Timekeepers were unable to provide documentation to support time and attendance data entries because they were not maintaining the required documentation. We made several recommendations to ensure that timekeepers comply with time and attendance procedures, and that supervisors fulfill their time and attendance responsibilities. SSA concurred with the recommendations and has begun taking corrective action.

PERFORMANCE MONITORING

GPRA requires that Federal agencies set performance goals, measure performance against those goals, and report publicly on performance. We are conducting audits to determine the reliability of performance data. We completed our first GPRA audit during FY 1998 entitled *Performance Measure Audit: Timely Issuance of Social Security Number Cards*.

SSA's Customer Service Pledge states that, "If you request a new or replacement Social Security card from one of our offices we will mail it to you within 5 working days of receiving all the information we need." This is also a GPRA performance measure in SSA's Strategic Plan. For FYs 1997 and 1998, SSA had a goal of mailing new and replacement Social Security number (SSN) cards within 5 working days in 97 percent of all requests. In FYs 1995 and 1996, 16.6 million and 16.7 million SSN cards were issued, respectively.

SSA did not measure the full processing time for issuing SSN cards and did not meet its performance measure in processing SSN cards. SSA partially agreed with our recommendations to establish a method that captures the processing time for both the printing and mailing of SSN cards and to compute processing time to reflect how long it actually takes to process an SSN request from certification date to assignment date. SSA disagreed with our recommendation to capture partial day processing time.

HUMAN RESOURCES

SSA's Strategic Plan lists conditions that are expected to remain constant for several years. One condition is that SSA will continue to use labor-management Partnership to implement change. Additionally, employees have expressed their opinions about SSA's service vision. Listed among those opinions is that strong and visible leadership is necessary, and it should flourish in an atmosphere of employee involvement and personal accountability. We conducted reviews that document SSA's performance in this area.

Labor-Management Relations at SSA

We conducted three reviews of union activities at SSA that focused on the use and tracking of official time and Partnership activities.

Use of Official Time for Union Activities at the Social Security Administration

We conducted this audit to determine whether official time for union activities at SSA was being used in compliance with relevant laws, regulations, and contractual agreements and whether SSA produces reliable information to determine the cost of official time. We identified weaknesses in management's oversight of official time and provided eight recommendations to improve internal controls as well as monitoring and reporting official time. SSA generally agreed with our recommendations, but it disagreed with the recommendation to revise its procedures to accurately track Partnership activities as official time because the Commissioner had previously directed that Partnership activities would not be reported as official time. However, SSA collects and reports information on time spent on Partnership activities separately.

Council 220 Union Representative and Manager Observation on the Use and Management of Official Time at SSA

We conducted surveys to obtain union representatives' and managers' observations concerning the use and management of official time for union activities. The surveys indicated, in part, that union representatives did not always complete a request for official time before it was used. Also, most managers and union representatives did not know how many official time hours were authorized, and managers had not received adequate guidance on how union officials used official time. Managers and union representatives had different observations concerning the official time system at SSA. Managers found the official timekeeping system less accurate and effective than union representatives. In responding to the report, SSA emphasized that the report is a collection of opinions and perceptions based on an unscientific sample, but it saw value in the observations presented.

Partnership Activities at the Social Security Administration

The objectives of this evaluation were to determine the extent of Partnership activities at SSA, how Partnership results are measured, and how time devoted to Partnership is tracked. We found that the definition of "Partnership" and related activities is unclear, and that SSA's Partnership activities inventory is questionable. Also, SSA does not have an adequate system that tracks data to support Partnership results or accomplishments. SSA disagreed with our recommendation to develop a uniform definition of Partnership, indicating that it believed its definition was consistent with President Clinton's Executive Order 12871, *Labor Management Partnerships*, and in line with the National Partnership Council's definition. SSA also disagreed with our recommendation to develop a formal system for identifying and maintaining Partnership accomplishments and cost savings that result from Partnership activities. SSA does not believe the process lends itself to a quantitative analysis.

Office of Investigations

Operation Contender
Operation Border Vigil
Operation Water Witch
Operation Clean Slate
Fraud Against SSA and Its Programs

The Office of Investigations conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA's programs and operations. It investigates wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third party facilitators, and SSA employees performing their duties. The Office also conducts joint investigations with other Federal, State, and local law enforcement agencies.

One of the goals in SSA's strategic plan is to "make SSA the best in business with zero tolerance for fraud and abuse." We are partners in two key initiatives and support SSA in this campaign by identifying those areas that are vulnerable to fraud and abuse. The Strategic Enforcement Division (SED) then develops and implements an operation or project that will combat the vulnerability.

The Office of Investigations has implemented operations to address specific vulnerabilities in one or more issue areas. In addition, the Office coordinates projects that address vulnerabilities in these operations. By conducting a series of structured investigative efforts against a defined target, we intend to qualify and quantify the various allegations of fraud into factual and defensible models of fraud and be in a position to articulate their impact and develop solutions.

The Office has initiated four operations. These operations and their related projects are discussed in the following pages.

OPERATION CONTENDER

Under this Operation we investigate and prosecute individuals who fraudulently obtain Social Security disability benefits and the middlemen who assist them.

DDS Cooperative Disability Investigations

Operation Contender created five pilot projects that are coordinated by the Office of Investigations and SSA's Office of Disability. We established five investigative teams composed of OIG, SSA, State DDS employees as well as State law enforcement officials in Atlanta, Baton Rouge, Chicago, New York City, and Oakland.

To date, these teams have received 518 allegations, confirmed 53 cases of fraud, documented \$41,508 in restitution and recoveries to SSA, and documented \$2,855,250 in SSA program savings.

These units have the capacity to reduce disability fraud considerably in their respective geographic areas. As fraudulent applications are denied, investigators gather valuable intelligence that helps to identify patterns of criminal activity and to identify doctors, lawyers, interpreters, and other service providers who facilitate and promote the fraud. A careful focus on such third-party facilitators can have a significant deterrent effect.

Washington State Disability Fraud

An established task force of SSA employees and Federal and State investigators in the State of Washington identified over 600 Cambodians who were suspected of receiving fraudulent SSI payments. There have been 31 convictions and 60 cases accepted for prosecution including the corrupt interpreter that promoted this fraud. There has been \$1.8 million in restitution, \$80,000 in forfeitures, and an estimated loss to the SSI program of \$1.7 million.

OPERATION BORDER VIGIL

A major vulnerability to SSA-administered programs is residency fraud, which exists in both the SSI and OASDI programs. SSI is payable only to individuals who reside in the 50 States, the District of Columbia, and the Northern Mariana Islands. If a recipient is absent from any of these areas for over 30 consecutive days, they lose their eligibility for SSI benefits. Although it is legal to receive OASDI benefits while living abroad, individuals who are not U.S. citizens who are entitled to OASDI benefits must reside in the United States to avoid the 25-percent tax on benefits taken outside the United States.

We have become increasingly concerned about SSI recipients and OASDI beneficiaries who move to areas where their eligibility and/or benefit amounts are affected and who fail to report their move to SSA. This form of fraud is aggravated by the use of direct deposit of benefits and/or subsequent electronic transfer to foreign bank accounts, use of commercial mail drops to disguise true addresses, and accomplices who forward checks for a percentage of the benefit payments. Individuals also defraud the OASDI program by failing to report the death of a beneficiary.

To identify suspect SSI and OASDI claims at selected foreign sites and U.S. locations, we initiated the following projects.

Project STOP

We received numerous complaints that residents of Mexico were receiving SSI payments. To verify these complaints, we initiated a residency verification pilot project on the Mexican border. The project's objective was to identify SSI recipients receiving payments based on fraudulent statements regarding residency or other eligibility factors such as citizenship, alien residency status, age, income, and resources.

The project, which began in November 1997, focused on the 2,107 SSI recipients who had a residence address in two El Paso, Texas, ZIP Codes. The initial contact, which requested evidence of residency, was made by letter. To further confirm residency status, we interviewed about 1,150 of these recipients.

We completed the investigation in May 1998. This effort stopped payments to 160 recipients and identified \$1.6 million in fraudulent payments. The amount of payments avoided because of this investigation is estimated at \$3 million.

Can-Am Project

In March 1997, we initiated the Can-Am project to identify Canadian and United States residents who were living in Canada and illegally receiving SSA-administered benefits. The investigation focused on U.S. Postal and commercial "mail drop" sites located near the four Canadian-American border crossings. The investigation focused on

- U.S. citizens who reside in Canada and receive SSI benefits using U.S. "mail drop" addresses to conceal their residency;
- U.S. citizens who reside in Canada, legally receive New York State Workers' Compensation benefits, and conceal this income when applying for title II benefits;
- U.S./non-U.S. citizens who reside in Canada and use direct-deposit accounts at financial institutions in the U.S. to receive benefits illegally; and
- U.S. citizens who reside in Canada and receive title II disability benefits using U.S. "mail drop" addresses to avoid Canadian tax obligations.

We identified 224 cases for investigation and targeted 23 suspects. These suspects were notified by letter to appear at the Niagara Falls, New York, District Office for administrative review and recertification.

On March 3, 1998, the Can-Am Task Force met in the Niagara Falls, New York, District Office and interviewed the 23 individuals. We identified eight people who were receiving benefits for which they were not eligible. We project program savings, scheduled recoveries, and overpayments totaling \$300,000.

New York Residency Project

The Office of Investigations' staff in New York, working with SSA staff, initiated an effort to identify SSI recipients who are obtaining payments illegally or contrary to regulations. We have completed two trial efforts that have identified \$198,486 in overpayments and will also result in substantial savings to SSA.

1. We worked with New York City Welfare Investigators and New York State Medicaid Fraud Control Units to compile a list of the 7,500 foreign-born SSI recipients who did not use Medicaid for the past year. We randomly selected 75 individuals from the list and found 13 to be in violation of the eligibility requirements (6 outside the United States, 4 whereabouts unknown, 2 deceased, and 1 in prison).
2. In Rockland County, we obtained another list of 113 SSI recipients who had not used Medicaid within 1 year. The New York Regional Office/District Office determined that 28 recipients violated the residency requirements.

Project River Walk

During September 1998, we conducted a joint project with SSA, the U.S. Border Patrol, and the Immigration and Naturalization Service (INS) in Laredo, Texas. This investigation was precipitated by reports from the U.S. Border Patrol that there was a marked increase in the number of persons crossing the border from Mexico during the first week of the month (that is, when SSI checks are delivered). INS asked individuals crossing the border from Mexico during that week why they were entering the United States. Those who admitted they were living in Mexico and entering the United States to receive benefits had their benefits suspended by an SSA representative who was on site.

SSA staff processed about 106 referrals from INS. From these, we opened 21 investigations: we arrested 7 individuals for trying to use counterfeit Social Security cards to enter the United States, we investigated 11 resident aliens who were actually living in Mexico but were drawing SSI benefits, and we investigated 6 cases of title II recipients

living in Mexico and using false addresses in Texas to avoid the 25-percent penalty.

International Integrity Projects

The OIG and SSA's Office of International Operation (OIO) continue to conduct joint validation surveys to define problems inherent to the distribution of benefits to individuals living in foreign countries and to develop strategies that address the issues.

OIG and OIO staff members conducted three validation surveys from April to September 1998. Survey examiners made unannounced visits to a statistically valid, random sample of beneficiaries in Panama, Canada, and Poland to verify factors of entitlement and continuing eligibility. The examiners reviewed such areas as the beneficiary's marital status, existence and identity (unreported death), work activity, and adherence to alien residency requirements. They also determined whether citizenship status was correctly coded for taxation purposes and whether representative payees needed to be appointed.

OIG Special Agents and OIO employees interviewed 2,881 beneficiaries in Panama, Canada, and Poland with the following results:

- 10 beneficiaries had died, but their deaths were not reported, which resulted in a \$97,735 overpayment;
- 104 cases had incorrect alien coding that needed to be corrected for proper compliance with taxation requirements;
- 25 beneficiaries' benefits were suspended because their whereabouts were unknown;
- 8 beneficiaries were engaged in work activity more than 45 hours a month; and
- 5 beneficiaries failed to meet the 5-year residency requirement.

OPERATION WATER WITCH

Operation Water Witch is a national operation that focuses on SSI recipients who are fugitives from justice. Individuals who are fleeing to avoid prosecution for a crime that is a felony, fleeing to avoid custody or confinement after conviction for a crime that is a felony, or who are violating a condition of probation or parole imposed under Federal or State law are ineligible for SSI benefits.

By July 1, 1998, we had formalized investigative plans in all 50 States. These plans established points of contact and defined mechanisms through which SSA and the State will exchange computer matching data.

As a result of these plans, we opened 1,105 fugitive felon investigations from April 1 through September 8, 1998. These investigations resulted in \$980,250 in scheduled recoveries and projected savings of \$5,443,551.

OPERATION CLEAN SLATE

This Operation identifies and prosecutes SSA employees who inappropriately or criminally misuse their access to SSA electronic records systems to commit program fraud.

OIG is working with Citibank, Chase Manhattan Bank, and Trans Union to screen employee access to SSNs of credit card holders whose cards were fraudulently activated. Since April 1, 1998, SED and Citibank have identified 10 SSA employees who have been accessing SSNs associated with fraudulent credit card authorization. Citibank advised SED that the fraud amount losses due to the apparent action of 6 of the 10 employees have totaled \$260,000. SED has referred these matters to the appropriate Field Divisions for further review and will monitor the investigations as they progress. **Because of the sensitive nature of these internal investigations, specific information is not provided.**

Operational Support

We continue to develop investigative and technical initiatives that support the mission to combat fraud, waste, and abuse in the Social Security programs.

The Electronic Crimes Team is staffed by a Program Manager and three Senior Special Agents. These Agents have been trained and equipped with computer hardware and software that will enable them to complete their forensic mission. In FY 1998, the Team supported OIG field investigations by providing search warrants for electronic media, on-site support for the execution of search warrants, and laboratory analysis concerning the evidentiary contents of electronic media seized during criminal investigations.

Through an examination of a computer seized in an investigation conducted by the Los Angeles Field Division, the Electronic Crimes Team was able to refute the allegation that the subject of the investigation was accessing the SSA computer systems. The examination further determined that the target of the investigation had corrupted an SSA employee who was providing information from SSA computer systems. The forensic examination developed an electronic file that listed approximately 100 financial and commercial organizations that had been targeted by the individual. For each organization the individual had specific information about the organization's internal computer operations and security. The information was provided to the Los Angeles Field Division.

A second computer forensic examination developed information, including extensive Internet activity, that an SSA employee was using SSA computer systems to conduct personal business activities. The information was provided to SSA for use in administrative actions.

FRAUD AGAINST SSA AND ITS PROGRAMS

Social Security programs are a tempting target for fraud and abuse because of the value of monthly benefits. The Office of Investigations categorizes fraud based on the core business processes followed by SSA.

EARNINGS FRAUD

The SSN is the primary control vehicle for posting earnings to individual earning records. Earnings records are established for every individual who is assigned an SSN. Any reported earnings will be posted to this established record. These posted earnings are used to determine an individual's benefits.

Investigation Results in the Arrest of 17 Individuals and \$380,000 in Restitution

OIG Special Agents worked in cooperation with the United States Attorney to investigate allegations that individuals were defrauding SSA using a variety of means. Specifically, these individuals had concealed assets or earnings, which would have disqualified them from receiving benefits; concealed the fact that family members had been incarcerated, which would have made them ineligible for benefits; and received retirement benefits that were intended for a deceased beneficiary, but did not inform SSA that the individual had died. The defendants were charged with several Federal criminal violations, including the following: theft of Government funds, making false statements to SSA, and failing to report an event that would affect their right to continued benefits. To date, 17 individuals have been convicted. The sentences for these individuals ranged from 9 months (with 3 years' supervised release) to 5 years' probation. In addition, restitution awards to SSA have totaled about \$380,000.

New York Man Collects Workers' Compensation While Working

A former Postal Service employee had been collecting Workers' Compensation benefits since 1965 under one SSN and employed as a private investigator since 1976 under a different SSN. The subject had collected about \$250,000 in Workers' Compensation benefits. Both SSNs have since been cross-referenced in the SSA data base.

As a result of our investigation, the subject was convicted for violating *Theft of Government Property, False Statements*, as well as *Furnishing False Information to SSA*.

ENUMERATION FRAUD

The expanded use of SSNs as identifiers has given rise to the practice of counterfeiting SSN cards and obtaining SSN cards based on false information. SSN cards are then misused to obtain benefits and services from Federal programs, credit card companies, and other businesses. New Jersey, and New York as well as the District of Columbia.

Individuals Conspired to Sell 446 SSN cards to Illegal Aliens

An SSA service representative and an illegal alien from Argentina conspired to improperly issue 446 SSN cards to illegal aliens. Illegal aliens paid for the cards, and the service representative received payments for processing the applications without complying with SSA interviewing requirements or evidence of their legal status. The service representative was sentenced to serve 15 months in prison, 2 years' probation, and 200 hours of community service. The service representative also lost his position with SSA. The Argentinean alien was sentenced to pay a \$2,000 fine and a \$50

special assessment as well as serve 3 years in prison, 3 years' probation, an 300 hours of community service.

Scheme to Defraud States' Unemployment Insurance Programs

The U.S. Department of Labor's OIG requested our assistance on an investigation concerning an employer who had devised a scheme to defraud the Unemployment Insurance programs in Connecticut, New York, Pennsylvania, New Jersey, and the District of Columbia. The employer established nonexistent companies outside of the States where he would normally file for benefits and established addresses for he companies and claimants using mail receiving agencies and Post Office boxes. The employer filed 42 Unemployment Insurance claims using 15 false names and SSNs from 1991 to 1997.

In December 1997, the employer pleaded guilty to one count of *Mail Fraud*. As part of the plea agreement. As part of the plea agreement, the employer agreed to make restitution totaling \$372,113 to all of the victims of his conduct including the States of Connecticut, Pennsylvania, New Jersey, and New York as well as the District of Columbia.

	October 1, 1997 Through March 31, 1998	April 1, 1998 Through September 30, 1998	Total
Cases Opened	2,444	3,847	6,291
Cases Closed	2,122	3,326	5,448
Convictions	1,195	1,567	2,762
Funds Reported	\$39,532,261	\$54,692,314	\$94,224,575

Note: FY 1997 statistics were adjusted from our previous Semiannual Report because of an administrative error. The actual FY 1997 figures are: cases opened—5,250, cases closed—2,144, convictions—2,506, and funds reported—\$63,931,253.

REPRESENTATIVE PAYEE FRAUD

SSA generally appoints representative payees for beneficiaries who are under the age of 18, have been declared legally incompetent, or have a mental or physical disability that impedes their ability to manage their own benefits. There are about 4.4 million representative payees receiving payments on behalf of such beneficiaries. Representative payees defraud SSA's benefit programs by filing fraudulent applications for persons not in their care, misusing benefits received on behalf of another, or concealing factors that affect the beneficiary's continuing eligibility (for example, incarceration or death).

Chief Executive Officer Indicted for Converting SSA and SSI Funds for Her Own Use

A recent investigation disclosed that, during a 14-month period, a woman received about \$1.25 million in SSA and SSI benefit funds that should have been used for 330 SSA/SSI beneficiaries. During that time, the woman converted \$274,000 for her own use. The woman was the Chief Executive Officer and Chairman of a fee-for-service representative payee that operated in Arizona and Colorado. The woman was charged with 26 counts including *Mail Fraud*, *Conversion of Social Security Insurance Benefits by a Representative Payee*, and *Conversion of Supplemental Security Income Payments by a Representative Payee*.

Parents Misuse Children's SSI Benefits

The Michigan State Police referred a case to the Office of Investigations alleging that the parents of minor children had misused three of their children's SSI benefits, which totaled \$42,639. The father was the children's representative payee. Specifically, the parents conspired to defraud SSA by having their children lie to SSA's medical consultant about their medical condition. Our investigation disclosed that the three children lived in the basement of their home, the door to which was usually locked. In addition, the parents physically abused the children and forced the children to steal for them. On November 19, 1997, the father was sentenced to 15 to 30 years' incarceration. On May 14, 1998, the mother was sentenced to 8 to 15 years' incarceration.

INITIAL CLAIMS FRAUD

Initial claims is the process by which SSA determines an individual's eligibility for and entitlement to benefits. The process begins with an individual's initial contact with SSA and continues through payment or the administrative appeals process. The process for determining eligibility for benefits involves certain basic functions across each of the programs SSA administers: outreach and information, intake, collection of evidence, determination of eligibility or entitlement, notification of award or denial, and initial payment.

Man Acts as Middleman to Fraudulently Obtain \$1 Million in Benefits

A Washington State man acted as the middleman for about 50 SSI recipients. He helped these individuals fraudulently obtain about \$1 million in benefits from SSA and the State of Washington welfare. The man worked out of a Buddhist temple that he founded and charged up to \$3,000 for assisting in applying for these fraudulent SSI claims. The man was sentenced to immediate custody for 7 years with an additional 3 years probation. In addition, the man must pay \$370,000 in restitution, a \$12,500 fine, and a \$1,600 special assessment.

Couple Conceals Unearned Income While Collecting Benefits

From May 1992 to February 1998, a Massachusetts couple collected SSI benefits while also collecting \$2,500 a month in rental income. When the couple applied for the benefits, they stated that the property was not being rented. The couple voluntarily agreed to pay SSA \$30,781 by having SSA withhold \$100 each month from their SSA Retirement Benefits.

POST-ENTITLEMENT FRAUD

Once individuals become eligible for Social Security or SSI benefits, any changes in circumstances must be reflected in SSA's records. The post-entitlement process encompasses actions that SSA takes after claims have been processed as initial awards. This process contributes to timely and accurate payment of benefits.

Woman Forges Another's Retirement Checks for 31 Years

Our OIG suboffice in Cincinnati, Ohio, was informed that SSA retirement benefits were still being paid to a man's SSN although the man died in 1966. A joint investigation with the U.S. Secret Service found that an Ohio woman had forged the man's signature on the retirement checks for 31 years and used the funds for her own benefit. The woman had fraudulently endorsed checks totaling \$161,600. She was sentenced to home detention and ordered to pay \$161,600 in restitution.

Investigation Results in the Arrest of Two Individuals for Murder

A County Sheriff in Idaho alerted the OIG that an informant had stated that a man had bragged that he and his mother had killed a man and were collecting his Social Security Retirement Benefits. The benefits totaled \$78,198. We assisted in the investigation by determining that the man had filed no Medicare claims since 1986 and in locating the man's daughter in California. The daughter had not heard from her father since 1986. The mother was sentenced to life in prison for 1st degree murder and 14 years in prison for grand theft of SSA benefits. The son was sentenced to 20 years in prison for 2nd degree murder.

Resolving Office Of The Inspector General Recommendations

REPORTS WITH QUESTIONED COSTS

For the Reporting Period October 1, 1997 Through March 31, 1998

The following charts summarize SSA's responses to the OIG's recommendations for the recovery or redirection of questioned and unsupported costs. Questioned costs are those costs that are challenged because of a violation of law, regulation, etc. Unsupported costs are those costs that are questioned because they are not justified by adequate documentation. This information is provided in accordance with the Supplemental Appropriations and Rescission Act of 1980 (Public Law 96-304) and the IG Act of 1978, as amended.

	Number	Value Questioned	Value Unsupported
A. For which no management decision had been made by the commencement of the reporting period.	2 ¹	\$398,011	\$0
B. Which were issued during the reporting period.	2 ²	\$702,880	\$0
Subtotal (A+B)	4	\$1,100,891	\$0
Less:			
C. For which a management decision was made during the reporting period:	2 ³	\$475,859	\$0
i. dollar value of disallowed costs.	2	\$475,859	\$0
ii. dollar value of costs not disallowed.	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	2 ⁴	\$625,032	\$0

¹ *Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations* (Report Number A-02-95-00002, June 20, 1997); *State of Arkansas' Disability Determination for the Social Security Administration* (Report Number A-07-97-52005, September 29, 1997)

² See list of Audit Reports Issued—Questioned Costs on page 143 of this Report.

³ *State of Arkansas' Disability Determination for the Social Security Administration* (Report Number A-07-97-52005, September 29, 1997); *Audit of Tennessee's Disability Determination Services Administrative Costs for Fiscal Years 1993 Through 1995* (Report Number A-04-96-54001, March 24, 1998).

⁴ *Audit of the Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations* (Report Number A-02-95-00002, June 20, 1997), *Incentive Payments Claimed by the Colorado Department of Human Services for its Disability Determination Services* (Report Number A-07-97-52004, January 20, 1998).

REPORTS WITH QUESTIONED COSTS

For the Reporting Period April 1, 1998 Through September 30, 1998

	Number	Value Questioned	Value Unsupported
A. For which no management decision had been made by the commencement of the reporting period.	2 ¹	\$625,032	\$0
B. Which were issued during the reporting period.	8 ²	\$13,958,198	\$0
Subtotal (A+B)	10	\$14,583,230	\$0
Less:			
C. For which a management decision was made during the reporting period:	8 ³	\$14,193,043	\$0
i. dollar value of disallowed costs.	8	\$14,193,043	\$0
ii. dollar value of costs not disallowed.	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	2 ⁴	\$390,187	\$0

¹ *Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations* (Report Number A-02-95-00002, June 20, 1997), *Incentive Payments Claimed by the Colorado Department of Human Services for its Disability Determination Services* (Report Number A-07-97-52004, January 20, 1998).

² See List of Audit Reports Issued—Questioned Costs on page 145 of this Report.

³ *Incentive Payments Claimed by the Colorado Department of Human Services for its Disability Determination Services* (Report Number A-07-97-52004, January 20, 1998), *Audit of Administrative Costs at the Michigan Disability Determination Service* (Report Number A-05-96-51095, August 14, 1998), *Costs Claimed by the State of Illinois on the Social Security Administration's Contract Number 600-94-13524* (Report Number A-13-97-51024, September 24, 1998), *Costs Claimed by the State of Illinois on the Social Security Administration's Contract Number 600-95-22673* (Report Number A-13-98-81032, September 24, 1998), *The Social Security Administration's Control Over Master Beneficiary Record Special Payment Amounts* (Report Number A-01-96-62002, September 25, 1998), *Social Security Administration's Controls Over Retirement, Survivors, and Disability Insurance Installment Payments* (Report Number A-01-96-61038, September 28, 1998), *Effects of State Awarded Workers' Compensation Payments on Social Security Benefits* (Report Number A-04-96-61013, September 30, 1998), *Costs Claimed by the State of Michigan on the Social Security Administration's Contract Number 600-94-13780* (Report Number A-13-98-81033, September 28, 1998).

⁴ *Single Audit of the Commonwealth of Massachusetts FY 1996—DDS Portion* (Report Number A-07-98-52011, June 21, 1998), *Audit of the Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations* (Report Number A-02-95-00002, June 20, 1997).

REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the Reporting Period October 1, 1997 Through March 31, 1998

	Number	Dollar Value
A. For which no management decision had been made by the commencement of the reporting period.	1	\$20,400,000 ¹
B. Which were issued during the reporting period.	3 ²	\$266,576,727 ³
Subtotal (A + B)	4	\$286,976,727
C. For which a management decision was made during the reporting period.		
i. dollar value of recommendations that were agreed to by management.		
(a) based on proposed management action.	1	\$262,100,000
(b) based on proposed legislative action.	0	\$0
Subtotal (a+b)	1	\$262,100,000
ii. dollar value of costs that were not agreed to by management.	1	\$1,544,211
Subtotal (i+ii)	2	\$263,644,211
D. For which no management decision had been made by the end of the reporting period.	2 ⁴	\$23,332,516

¹ *Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments* (Report Number A-01-96-61083, June 24, 1997).

² See list of reports issued—Reports With Funds Put to Better Use on page 143 of this Report.

³ This dollar amount has been modified because of developments that occurred after the issuance of OIG's reports entitled *Effectiveness in Obtaining Records to Identify Prisoners*—(Report Number A-01-94-02004, May 10, 1996) and *Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments*—(Report Number A-01-96-61083, June 24, 1997). SSA's Chief Actuary estimated a cost avoidance of about \$3.4 billion over 7 years, with \$260 million to be realized in Calendar Year 1998.

⁴ *Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments* (Report Number A-01-96-61063, June 24, 1997), *Southwest Tactical Operations Plan: Investigative Results* (Report Number A-06-97-22008, March 31, 1998).

REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the Reporting Period April 1, 1998 Through September 30, 1998

	Number	Dollar Value
A. For which no management decision had been made by the commencement of the reporting period.	2 ¹	\$23,332,516
B. Which were issued during the reporting period.	5 ²	\$2,073,631,115
Subtotal (A + B)	7	\$2,096,963,631
C. For which a management decision was made during the reporting period.		
i. dollar value of recommendations that were agreed to by management.		
(a) based on proposed management action.	3	\$27,028,680
(b) based on proposed legislative action.	0	\$0
Subtotal (a+b)	3	\$27,028,680
ii. dollar value of costs that were not agreed to by management.	5	\$2,069,934,951
Subtotal (i+ii)	7 ³	\$2,096,963,631
D. For which no management decision had been made by the end of the reporting period.	0	\$0

¹ *Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments* (Report Number A-01-96-61083, June 24, 1997). *Southwest Tactical Operations Plan: Investigative Results* (Report Number A-06-97-22008, March 31, 1998).

² See page 145 of this report.

³ Management disagrees with part of the dollar amount for one of our recommendations.

Reports Issued From October 1, 1997 Through March 31, 1998

Reports With Non-Monetary Findings

Date Issued	Title	Report Number
October 1, 1997	Aliens Receiving Supplemental Security Income Payments (Confidential Report)	A-13-95-00614
October 6, 1997	Review of the Social Security Administration's Office of Acquisition and Grants Contract Preaward and Contract Close-Out Reviews	A-13-96-00609
October 31, 1997	Benchmarking Payment Accuracy Performance Measures	A-02-97-10201
November 10, 1997	Usefulness of the Social Security Administration's Region VII Quality Assurance Process to State Disability Agencies	A-07-97-61003
November 19, 1997	Internal Controls Over Critical Payments at the Pittsburgh District Office (Confidential Report)	A-05-96-12001
November 21, 1997	FY 1997 Financial Statement Audit	A-13-97-51012
December 4, 1997	Review of the Social Security Administration's Monitoring of Selected Facilities Management Projects	A-13-97-02005
December 29, 1997	Review of Selected Controls Over the Social Security Administration Initiated Personal Earnings and Benefit Estimate Statement	A-03-96-31004
December 30, 1997	Southwest Tactical Operations Plan: Lessons Learned (Confidential Report)	A-06-97-22010
January 8, 1998	Single Audit of Nevada	A-07-98-52003
January 8, 1998	Southwest Tactical Operations Plan: Impact on Field Office Operations	A-06-97-22009
January 20, 1998	Southwest Tactical Operations Plan: Demographic Characteristics of Sample Recipients	A-06-97-62001
January 20, 1998	National Aeronautics and Space Administration's Office of Inspector General Peer Review (Confidential Report)	A-13-97-81021
February 12, 1998	Supplemental Security Income Plans for Achieving Self-Support Prepared by For-Profit Organizations	A-07-96-61016
March 5, 1998	Follow-up Review of the Internal Controls Over the Modernized Enumeration System	A-04-96-44001
March 13, 1998	Payment of Benefits to Individuals Who Do Not Have Their Own Social Security Number	A-04-96-42000
March 16, 1998	Single Audit of Oklahoma	A-07-98-52008
March 17, 1998	Single Audit of Pennsylvania	A-07-98-52004
March 18, 1998	Review of the Social Security Administration's Fiscal Year 1996 Annual Report on Continuing Disability Reviews	A-01-97-91007
March 27, 1998	The Social Security Administration's 1996 Overtime Settlement	

Reports With Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
January 20, 1998	Incentive Payments Claimed by the Colorado Department of Human Services for its Disability Determination Services	A-07-97-52004	\$234,895
March 24, 1998	Audit of Tennessee's Disability Determination Services Administrative Costs for Fiscal Years 1993 Through 1995	A-04-96-54001	467,985
		Total	<u>\$702,880</u>

Reports With Funds Put To Better Use

Date Issued	Title	Report Number	Dollar Amount
December 16, 1997	Special Joint Vulnerability Review of the Supplemental Security Income Program	A-04-95-06020	\$2,100,000
March 24, 1998	Audit of Tennessee's Disability Determination Services Administrative Costs for Fiscal Years 1993 Through 1995	A-04-96-54001	1,544,211
March 31, 1998	Southwest Tactical Operations Plan: Investigative Results	A-06-97-22008	2,932,516
		Total	<u>2,932,516 (over 5 years) \$6,576,727</u>

Reports Issued From April 1, 1998 Through September 30, 1998

Reports With Non-Monetary Findings

Date Issued	Title	Report Number
April 20, 1998	Single Audit of New Mexico for FY 1996—DDS Portion	A-07-98-52009
April 23, 1998	Performance Measure Audit: Timely Issuance of Social Security Number Cards	A-02-97-93003
April 23, 1998	Single Audit of Oklahoma for FY 1995—DDS Portion	A-07-98-52010
April 27, 1998	Supplemental Security Income Stewardship Review	A-03-95-02610
May 7, 1998	Administrative Costs Claimed by the Pennsylvania State Department of Labor and Industry for its Bureau of Disability Determination	A-13-97-52019
June 9, 1998	Title II Software Redesign is Overdue	A-09-97-11001
June 30, 1998	Assessment of the Social Security Administration's Processing of Requests for Social Security Numbers in Emergency Situations (Confidential Report)	A-08-97-44001
July 9, 1998	The Social Security Administration's Internal Controls Over Its Time and Attendance Payroll Records	A-13-96-01001
July 10, 1998	Council 220 Union Representative and Manager Observations on the Use and Management of Official Time at SSA	A-02-97-72002
July 10, 1998	Use of Official Time for Union Activities at the Social Security Administration	A-13-98-72013
July 10, 1998	Partnership Activities at the Social Security Administration	A-13-98-72023
July 27, 1998	Survey Results for Identification of Fugitives Receiving Benefits	A-01-98-63002
August 19, 1998	Single Audit of Alabama for Fiscal Year 1996—DDS Portion	A-07-98-52012
August 27, 1998	The Social Security Administration's Process to Segregate Continuing Disability Review Costs	A-01-98-51001
August 28, 1998	Single Audit of Massachusetts for Fiscal Year 1997—DDS Portion	A-77-98-00001
August 31, 1998	Review of the Illinois Department of Children and Family Services' Effectiveness as a Representative Payee	A-05-96-82000
September 22, 1998	Single Audit of the State of Florida	A-77-98-00002
September 24, 1998	Single Audit of the State of New Hampshire	A-77-98-00003
September 28, 1998	Single Audit of the State of Minnesota	A-77-98-00004
September 29, 1998	Payment Accuracy Task Force—SSI Earned Income Issue Team	A-13-98-51010

Reports With Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
July 21, 1998	Single Audit of the Commonwealth of Massachusetts FY 1996—DDS Portion	A-07-98-52011	\$50
August 14, 1998	Audit of Administrative Costs at the Michigan Disability Determination Service	A-05-96-51095	\$352,233
September 24, 1998	Costs Claimed by the State of Illinois on the Social Security Administration's Contract Number 600-94-13524	A-13-97-51024	\$123,142
September 24, 1998	Costs Claimed by the State of Illinois on the Social Security Administration's Contract Number 600-94-22673	A-13-98-81032	\$267,483
September 25, 1998	The Social Security Administration's Controls Over Master Beneficiary Record Special Payment Amounts	A-01-96-62002	\$11,170,012
September 28, 1998	Costs Claimed by the State of Michigan on the Social Security Administration's Contract Number 600-95-13780	A-13-98-81033	\$13,004
September 28, 1998	Social Security Administration's Controls Over Retirement, Survivors, and Disability Insurance Installment Payments	A-01-96-61038	\$1,899,832
September 30, 1998	Effects of State Awarded Workers' Compensation Payments on Social Security Benefits	A-04-96-61013	\$132,442
		Total	\$13,958,198

Reports With Funds Put To Better Use

Date Issued	Title	Report Number	Dollar Amount
April 24, 1998	Accounting for Social Security Benefits by the County of Los Angeles, California	A-09-96-51002	\$72,000
May 8, 1998	Supplemental Security Income Underpayments Due To Deceased Recipients	A-01-97-52006	\$72,366,373
July 2, 1998	Inconsistent Beneficiary Entitlement Periods	A-09-97-21003	\$1,470,000,000
August 24, 1998	Pilot Project of Paperless Processing With Imaging of Title II Benefit Actions	A-05-96-11037	\$4,492,742
September 30, 1998	Effects of State Awarded Workers' Compensation Payments on Social Security Benefits	A-04-96-61013	\$526,700,000
		Total	\$2,073,631,115

Reporting Requirements Under the Omnibus Consolidated Appropriations Act for FY 1997

To meet the requirements of the Omnibus Consolidated Appropriations Act for 1997 (Public Law 104-208), we are providing in this report, requisite data for FY 1998 from the Offices of Investigations and Audit.

We are reporting \$23,369,460 of SSA funds as a result of our Office of Investigations activities in this fiscal year, broken down as follows.

Types of Funds	10/1-12/31/97 Quarter 1	1/1-3/31/98 Quarter 2	4/1-6/30/98 Quarter 3	7/1-9/30/98 Quarter 4	Total
Court-Ordered Restitution	\$1,582,365	\$1,873,052	\$2,574,668	\$1,902,071	\$7,932,156
Scheduled Recoveries	974,632	3,502,080	6,562,732	4,118,705	15,158,149
Fines	7,475	8,225	23,225	14,350	53,275
Settlements/ Judgments	24,000	21,082	168,378	12,420	225,880
Totals	\$2,588,472	\$5,404,439	\$9,329,003	\$6,047,546	\$23,369,460

SSA management has informed the Office of Audit that it has completed implementing recommendations from four audit reports during this fiscal year valued at \$7,678,972.

Procedures for Collecting Social Security Administration Railroad Retirement Board Combined Benefit Payments Issued after Death, Report Number A-05-95-00017, March 13, 1997

We recommended SSA request the Railroad Retirement Board calculate and return to SSA its share of incorrect payments issued to beneficiaries totaling \$391,716. SSA implemented this recommendation in February 1998 and is expected to recoup this amount from the Railroad Retirement Board.

Review of Intergovernmental Personnel Act Assignments of Senior Staff, Report Number A-13-96-02001, September 30, 1997

We recommended and SSA agreed to implement the requirement that liability for nonsalary expenses be developed when an IPA assignee fails to complete his/her commitment. In our review, we examined the IPA's for four individuals. All four had failed to fulfill their commitment to the agreement and SSA lost \$1,543,000. Since management is now going to implement the recommendations, we can estimate that SSA can save at least \$1,543,000 on the next four assignments under the IPA for Senior Executive Service assignees.

Identification of Reported Name Changes that Affect Auxiliary Benefits Under Title II of the Social Security Act, Report Number A-01-94-02001, April 10, 1998

We recommended SSA conduct a one-time match to identify name changes on the Numident record that have been posted to the Master Beneficiary Record (MBR); redetermine eligibility for name changes caused by marriage or divorce; and schedule recovery overpayments. Implemented recommendations are valued at \$4,200,000.

Audit of Tennessee's Disability Determination Services Administrative Costs for Fiscal Years 1993 Through 1995, Report Number A-04-96-54001, March 24, 1998

We recommended that SSA decrease unliquidated obligations by \$1,544,211 for computer system upgrades not supported by outstanding purchase orders for FYs 1994 and 1995. SSA implemented this recommendation.

Reporting Requirements

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to their appropriate pages in this Report.

Reporting Requirement	Page
Section 4(a)(2): Review of Legislation and Regulations	120
Section 5(a)(1): Significant Problems, Abuses, and Deficiencies	121-137
Section 5(a)(2): Recommendations With Respect to Significant Problems, Abuses and Deficiencies	121-137
Section 5(a)(3): Recommendations Described in Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed	149-150
Section 5(a)(4): Matters Referred to Prosecutive Authorities	121-137
Sections 5(a)(5) And 6(b)(2): Summary of Instance Where Information Was Refused	None
Section 5(a)(6): List of Audit Reports	142-145
Section 5(a)(7): Summary of Particularly Significant Reports	121-137
Section 5(a)(8): Statistical Table Showing the Total Number of Audit Reports and Total Dollar Value of Questioned Costs	138-139
Section 5(a)(9): Statistical Table Showing the Total Number of Audit Reports and the Total Dollar Value of Recommendations That Funds be Put to Better Use	140-141
Section 5(a)(10): Audit Recommendations More Than 6 Months Old for Which No Management Decision Has Been Made	None
Section 5(a)(11): Significant Management Decisions That Were Revised During the Reporting Period	None
Section 5(a)(12): Significant Management Decisions With Which the OIG Disagrees	151

Appendixes

Appendix A

Significant Monetary Recommendations From Prior Reports for Which Corrective Actions Have Not Been Implemented

Southwest Tactical Operation Plan: Investigative Results, Report Number A-06-97-22008, March 31, 1998 Develop guidance on using locally determined characteristics warranting in-depth investigation to accurately determine residency status.

Special Joint Vulnerability Review of the Supplemental Security Income Program, Report Number A-04-95-06020, December 16, 1997 Identify SSI recipients in the remainder of the 500 members of the extended Georgia family involved in fraudulent activities and conduct CDRs; evaluate the results, individually and collectively, to determine if there is any pattern or potential patterns of fraud that may warrant referral to the OIG Office of Investigations.

Overpayments Incurred by Representative Payees, Report Number A-02-96-61202, June 23, 1997 Take action to transfer from Special Payment Amount to the Beneficiary Overpayment/Underpayment Data field the \$3.8 million in overpayments identified by this study.

Potential for Contracting With Medical Provider Networks to Purchase Consultative Examinations, Report Number A-07-95-00828, May 14, 1997 Direct State DDSs to negotiate contracts with medical provider networks for volume discounts on consultative examinations to the maximum extent possible.

Appendix B

Significant Non-Monetary Recommendations From Previous Reports For Which Corrective Actions Have Not Been Completed

Follow-up Audit on Payments Under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income Benefits, Report Number A-01-95-02007, July 24, 1996

Institute a policy of paying only for services rendered and to implement that policy at all DDS units. Such a policy would allow payment when a review of medical records, but not to allow payment for broken medical appointments.

SSA Field Office Visitor Workload, Report Number OEI-05-92-00043, August 22, 1995 Eliminate the field office interview workload for noncitizens applying for an original SSN.

Actions Needed to Strengthen Controls to Deter Fraudulent Transactions at Program Service Centers, Report Number A-02-95-00003, September 23, 1996

Examine the feasibility of revising the Manual Adjustment Credit and Award Process to automatically generate a confirmation notice to the beneficiary of significant changes to his account, such as change from check payment to direct bank deposit or vice versa. Put in place controls over all prior month accrual payments until the proposed long-term solution is implemented. Selective reviews that are cost-effective should be made of nullified prior month accrual payments of \$2,000 and payments under \$3,000 that have not been nullified.

Appendix C

Significant Management Decisions With Which the Inspector General Disagrees

The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public, Report Number A-13-96-52001, July 31, 1997 SSA should take corrective actions to ensure it meets the legal requirements of 18 U.S.C sections 2510, et seq., and applicable regulations to ensure telephone monitoring is being used for intended purpose. SSA disagreed with the OIG on the issue of noncompliance with Federal laws and regulations. SSA advised OIG that the major conclusions reached in the report are not valid.

Audit of the Office of Program and Integrity Reviews' Special Studies, Report Number A-13-96-51142, February 19, 1997 SSA should establish the Office of Program and Integrity Reviews (OPIR) as a management control area in SSA's FMFIA program. SSA disagreed and engaged a consultant to review a number of issues related to OPIR's operation.

Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries, Report Number A-06-95-00076, July 29, 1997 SSA should examine the entitlement status of all disability beneficiaries who are in suspended pay status because they cannot be located and terminate benefits in cases where a reasonable time period lapses (e.g., 90 days, from the date of suspension) to locate the beneficiary; and due process has been provided (e.g., notification letter to last known address). SSA disagreed with our interpretation of section 223(f) of the *Social Security Disability Benefits Reform Act of 1994*.

Canada's Experience in Charging a User Fee for Social Insurance Number Cards, Report Number A-06-97-62003, May 22, 1997 SSA should charge a fee for replacement cards. We estimate that by charging fees, SSA could increase recoveries by \$142 million annually. SSA did not agree with several conclusions represented in this report. Included in that disagreement is the level of cost avoidance. Although SSA does not agree with all of our findings, it considered them in its final report to the Congress, which was issued in 1997. The final decision on OIG's recommendation is pending with the Commissioner of Social Security.

HOW TO REPORT FRAUD

<p>The SSA Fraud Hotline offers a convenient means for you to provide information on suspected fraud, waste, and abuse. If you know of current or potentially illegal or improper activities involving SSA programs or personnel, we encourage you to contact the SSA Fraud Hotline.</p>	<p>Call</p>	<p>1-800-260-0271 410-597-0118 (Fax)</p>
	<p>Write</p>	<p>Office of the Inspector General Attention: SSA Fraud Hotline P.O. Box 17768 Baltimore, MD 21235</p>
	<p>E-Mail</p>	<p>Oig.hotline@ssa.gov</p>

Glossary of Acronyms

ACD	Automatic Call Distributors
AERO	Automatic Earnings Reappraisal Operation
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
AO	Adjudication Officer
AP	Alternate Participant
ATS	Audit Trail System
AWR	Annual Wage Report
BL	Black Lung
CDR	Continuing Disability Review
CE	Consultative Examinations
CFO	Chief Financial Officer
CIRP	Comprehensive Integrity Review Process System
CPA	Certified Public Accountant
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSRS	Civil Service Retirement System
DACUS	Death Alert, Control and Update System
DCIA	Debt Collection Improvement Act of 1996
DDS	Disability Determination Service
DERA	Domestic Employment Reform Act of 1994
DI	Disability Insurance
DOL	Department of Labor
DOS	Department of State
EFT	Electronic Funds Transfer
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
HCFA	Health Care Financing Administration
HI/SMI	Health Insurance/Supplemental Medical Insurance
IG	Inspector General
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
IVT/IDL	Interactive Video Training/Interactive Distance Learning
IWS/LAN	Intelligent Workstation/Local Area Network
LAE	Limitation on Administrative Expenses
LAN	Local Area Network

MADCAP	Manual Adjustment Credit and Award Process
MBR	Master Beneficiary Record
MD&A	Management's Discussion and Analysis
MOU	Memorandum of Understanding
OASDI	Old-Age and Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCIG	Office of the Counsel to the Inspector General
OD	Office of Disability
OGC	Office of General Counsel
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General
OIO	Office of International Operation
OLCA	Office of Legislation and Congressional Affairs
OMB	Office of Management and Budget
OQA	Office of Quality Assurance and Performance Assessment
PEBES	Personal Earnings and Benefit Estimate Statement
PIN	Personal Identification Number
PKI	Public Key Infrastructure
P.L.	Public Law
PM	Performance Measure
PMA	Prior Month Accrual
PPA	Prompt Payment Act
RAU	Remote Access Unit
RFP	Request for Proposal
RRB	Railroad Retirement Board
RRC	Retirement Research Consortium
RSDI	Retirement, Survivors and Disability Insurance
SECA	Self-Employment Contributions Act
SED	Strategic Enforcement Division
SIPEBES	SSA Initiated Personal Earnings and Benefit Estimate Statement
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
TOP	Treasury Offset Program
TRO	Tax Refund Offset
VR	Vocational Rehabilitation