

Auditor's Reports



SOCIAL SECURITY

November 7, 2006

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2006 and 2005 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

Objective of a Financial Statement Audit

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

PwC's audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2006 financial statements. PwC also audited the

FY 2005 financial statements, presented in SSA's Performance and Accountability Report for FY 2006 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2006 and 2005 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2006, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*.

For FY 2006, the Statement of Social Insurance (SOSI) was added as a basic financial statement subject to audit. No significant findings were noted during the audit of the SOSI and we applaud SSA's effort in preparing for this additional level of audit. In addition, SSA completed its assessment of its internal control over financial reporting in compliance with OMB Circular A-123 within the first year of the 3-year time frame allowed by OMB.

OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2006 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin 06-03;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2006, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.
Inspector General

Report of Independent Auditors

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

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

- The consolidated balance sheets of SSA as of September 30, 2006 and 2005, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2006.
- No reportable instances of noncompliance with the laws, regulations or other matter 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, 2006 and 2005, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2006. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and appearing on pages 124 through 150 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2006 and 2005, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended and the financial condition of its social



insurance programs as of January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 1 to the financial statements, SSA adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Earmarked Funds*, effective October 1, 2005. This standard does not permit the restatement of prior periods.

As discussed in Note 17 to the financial statements, SSA adopted SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS No. 26, *Presentation of Significant Assumptions of the Statement of Social Insurance: Amending SFFAS No. 25*, requiring that the statement of social insurance be presented as an integral part of the basic financial statements of the Agency. The statement of social insurance presents the actuarial present value of the Agency's estimated future income to be received from or on behalf of the participants and estimated future costs to be paid to or on behalf of participants during a projection period sufficient to illustrate the long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

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

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on Page 60 of this Performance and Accountability Report (PAR), that SSA's internal control over financial reporting was operating effectively as of September 30, 2006 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 06-03 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

(2)



In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2006, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.

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

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS

With respect to internal control relevant to data that support reported performance measures on pages 17, 18 and 19 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on the internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of 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. 06-03, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03 as of September 30, 2006.

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

The results of our tests disclosed no instances in which SSA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph as of September 30, 2006.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 6 to 66, and Required Supplementary Information (RSI) included on pages 1 and 2 and 157 and 158 to 173 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

(3)



Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 157 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 152 to 156 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 3 to 5, 67 to 123, 174 to 176, and 181 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

PriceWaterhouseCoopers LLP

November 7, 2006

(4)



SOCIAL SECURITY

The Commissioner

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

Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2006 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and SSA management's assertion about the effectiveness of its internal control and a report about SSA's compliance with laws and regulations.

We are extremely pleased that, for the second consecutive year, the report contains no findings or recommendations. This is validation of the Agency's continued progress in meeting its goal to protect the integrity of Social Security programs through superior stewardship.

If your staff have any questions, they may contact Dale W. Sopper at (410) 965-2910.

Sincerely,

Jo Anne B. Barnhart

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Inspector General Statement on SSA's Major Management Challenges



SOCIAL SECURITY

November 3, 2006

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000* (Pub. L. No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this Statement in the *Social Security Administration's Fiscal Year 2006 Performance and Accountability Report*.

In November 2005, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2006.

- **Social Security Number Protection**
- **Management of the Disability Process**
- **Improper Payments and Recovery of Overpayments**
- **Internal Control Environment and Performance Measures**
- **Systems Security and Critical Infrastructure Protection**
- **Service Delivery and Electronic Government**

I congratulate you on the progress you have made during FY 2006 in addressing these challenges. My office will continue to focus on these issues in the current FY. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the Office of the Inspector General's assessment of these six management challenges.

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick P. O'Carroll, Jr.", written over a horizontal line.

Patrick P. O'Carroll, Jr.
Inspector General

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



Social Security Number Protection

In Fiscal Year (FY) 2006, the Social Security Administration (SSA) issued approximately 5.6 million original and 11.5 million replacement Social Security number (SSN) cards and received approximately \$620 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

To protect the integrity of the SSN, SSA employs effective front-end controls in its enumeration process. We applaud the significant strides the Agency has made over the past several years in providing greater protection for the SSN. Nevertheless, incidences of SSN misuse continue to rise. To further strengthen the integrity of the SSN, we believe SSA should continue to (1) encourage public and private entities to limit use of the SSN as an individual identifier, (2) address identified weaknesses in its information security environment to better safeguard SSNs, and (3) coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

Maintaining the integrity of the SSN and Social Security programs also involves properly posting the earnings reported under SSNs. Accurate earnings records are used to determine both the eligibility for Social Security benefits and the amount of those benefits. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and SSNs fail to match SSA's records. As of October 2005, the ESF had accumulated approximately 255 million wage items for Tax Years 1937 through 2003, representing about \$520 billion in wages.

While SSA cannot control all of the factors associated with erroneous wage reports, SSA can continue to improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of the Agency's SSN verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency works with the Internal Revenue Service to achieve more accurate wage reporting. In addition, as part of its worksite enforcement efforts, the Department of Homeland Security (DHS) recently proposed a new rule (*Safe-Harbor Procedures for Employers Who Receive a No-Match Letter*) that would require employers to take timely action on SSA no-match letters to avoid liability under immigration laws.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to noncitizens when (1) a Federal statute or regulation requires that noncitizens provide an SSN to receive a federally funded benefit to which they have established an entitlement or (2) a State or local law requires that noncitizens who are legally in the United States provide an SSN to receive public assistance benefits to which they are entitled and for which all other requirements have been met. SSA assigned these individuals SSN cards with a "Not Valid for Employment" annotation. SSA also provides information about earnings reported under a nonwork SSN to DHS as required by law. Nonetheless, prior audits have noted several issues related to nonwork SSNs, including the (1) type of evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) volume of wages reported under nonwork SSNs, and (4) payment of benefits to noncitizens who qualified for their benefits while working in the United States without proper authorization.

In March 2004, Congress placed new restrictions on the receipt of SSA benefits by noncitizens who are not authorized to work in the United States. Under the *Social Security Protection Act (SSPA) of 2004* (Pub. L. No. 108-203), payment of Title II benefits based on the earnings of any noncitizen is precluded unless the noncitizen was assigned an SSN indicating authorization to work in the United States, was admitted to the U.S. with a B-1 visa (for business purposes), or was admitted to the U.S. with a D visa (as a crewman). SSA's implementation of this new law will require increased coordination with DHS to ensure SSA has correct work status information.

SSA Has Taken Steps to Address this Challenge

Over the past 5 years, SSA implemented numerous improvements to its enumeration process. For example, in March 2005, SSA implemented mandatory use of the SS-5 Assistant to improve controls over processing SSN applications. The SS-5 Assistant, a software program that interfaces with the Modernized Enumeration System (MES), assists field office personnel in gathering and recording required SSN application information.

Additionally, SSA has significantly decreased the number of nonwork SSNs it assigns to noncitizens as a result of a change in regulations and field office compliance with procedures to ensure that nonwork SSNs are issued only to qualified individuals.

During FY 2006, SSA established another Enumeration Card Center in Queens, New York that focuses exclusively on assigning SSNs and issuing SSN cards—and it has plans to open several more as resources permit. In addition, during FY 2006, the *Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004* (Pub. L. No. 108-458) mandated several enhancements designed to protect the integrity of the SSN. The enhancements include (1) restricting the issuance of multiple replacement SSN cards to 3 per year and 10 in a lifetime, (2) requiring independent verification of any birth record submitted by an individual to establish eligibility for an SSN, other than for purposes of enumeration at birth, (3) consulting with DHS and other agencies to further improve the security of SSNs and cards, and (4) strengthening the standards and requirements for citizenship and identity documents presented with SSN applications to establish eligibility for an original or replacement SSN card.

SSA has also taken steps to reduce the size and growth of the ESF. In June 2005, the Agency expanded its voluntary *Social Security Number Verification Service (SSNVS)* to all interested employers nationwide. SSNVS allows employers to verify the names and SSNs of employees before reporting their wages to SSA. During 2005, SSNVS processed over 25.7 million verifications for over 12,000 employers.

SSA also supports DHS in administering the Basic Pilot program, which verifies the names and SSNs of employees as well as their authorization to work in the United States. In December 2004, the Basic Pilot program was made available to employers nationwide. During 2005, the Basic Pilot processed about 980,000 verifications for approximately 3,700 employers.

The Agency continues to modify the information it shares with employers. Under IRTPA, SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines, as determined appropriate by the Commissioner of Social Security. SSA added death indicators to those verification routines used by employers and State agencies on March 6, 2006 and is working to add fraud indicators by December 2007.

Management of the Disability Process

SSA needs to continue to improve critical parts of the disability process, such as making disability decisions and safeguarding the integrity of its disability programs. Modernizing Federal Disability Programs has been on the Government Accountability Office's high-risk list since 2003 due, in part, to outmoded concepts of disability, lengthy processing times, and inconsistencies in disability decisions across adjudicative levels and locations. The Federal Disability Program includes SSA's disability programs, as well as the Veterans Administration's disability program.

The timeliness and quality of the Agency's disability adjudication processes need to be improved. For example, the average processing time for the Office of Disability Adjudication and Review (ODAR), responsible for SSA's hearings and appeals programs, continues to increase each fiscal year—from 293 days in Fiscal Year (FY) 2001 to 483 days in FY 2006. In our May 2006 report on Supplemental Security Income (SSI) payments made during the appeals process, we found that financial performance and citizen satisfaction with the SSI program could be greatly increased if SSA would establish a business process to allow more timely decisions on medical cessation appeals.

Additionally, ODAR's pending workload continues to steadily increase. As of September 2006, the pending workload was 715,568 cases—up from 392,387 cases in FY 2001. In August 2006, we reported on case management procedures at one ODAR hearing office and found that, based on the productivity goal SSA established for that hearing office, less than half of the Administrative Law Judges (ALJ) issued the expected number of decisions during the year. Given the significant pending workload ODAR currently faces, we reported that SSA should identify a reasonable production goal for ALJs, consistent with independent decision-making processes, and establish a plan to assist ALJs in meeting the production goal.

As the hearing workload has increased, ODAR developed new ways of doing business. One improvement ODAR has made is to replace its aging analog cassette tape recorders with digital recorders. In August 2006, the Office of the Inspector General (OIG) issued a report on digital recording equipment. OIG found that while the equipment was an improvement over the previous technology, the weight of the travel unit recording equipment created physical hardships. ODAR also needs to enhance the security of sensitive information stored on the laptops.

Another new system ODAR is using to improve the disability process is its Case Processing and Management System (CPMS). CPMS was designed to process hearings and produce management information. In June 2006, OIG issued a report on CPMS and workload management. OIG found that ODAR managers need to make better use of the management reports and take action on hearings or appeals that were moving too slowly through the process.

Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements or work activity. In our April 2006 report *Overpayments in the Social Security Administration's Disability Programs*, we estimated that SSA prevented about \$7 billion in payments from being issued to ineligible beneficiaries through its normal business processes, such as continuing disability reviews (CDR). However, we also estimated that SSA paid over \$2 billion to ineligible beneficiaries due to unreported changes in their circumstances that impacted benefit payments, such as returning to work or improvements in their medical condition. We concluded that SSA's disability programs could be strengthened if the Agency conducted more CDRs to determine whether beneficiaries continue to be eligible for payments. However, in January 2006, SSA decreased the number of CDRs it planned to conduct in FY 2006 due to budget constraints—resulting in about a one-third reduction from the previous year.

SSA Has Taken Steps to Address this Challenge

In August 2006, SSA implemented the Disability Service Improvement (DSI) initiative in the Boston region—making significant changes in the Agency’s disability programs, such as:

- A Quick Disability Determination process for individuals who are obviously disabled;
- A Medical-Vocational Expert System to enhance the quality and availability of the expertise needed to make accurate and timely decisions at all adjudicative levels;
- A Federal Reviewing Official to review initial level decisions upon the request of the claimant;
- Closing the record after the ALJ issues a decision—allowing for the consideration of new and material evidence only under very limited circumstances; and
- A Decision Review Board to review ALJ decisions and policies and procedures throughout the disability adjudication process.

SSA is also transitioning to the electronic disability folder which allows staff to electronically collect and transmit information related to disability claims between all offices handling disability folders. The Agency expects all offices to be processing disability claims electronically by March 2007, which should reduce processing delays caused by organizing, mailing, locating, and reconstructing paper folders. ODAR has also implemented Video Hearings, which allow hearings to be held quicker and minimize the need for extensive travel by ALJs, claimants, and medical or vocational experts.

We have also worked with the Agency to safeguard the integrity of its disability programs with the Cooperative Disability Investigations (CDI) program. Under the CDI program, our Office of Investigations and SSA staff obtain evidence to resolve questions of fraud in disability claims. Since the program’s inception in FY 1998 through September 2006, the 19 CDI units, operating in 17 States, have been responsible for over \$684 million in projected savings to SSA’s disability programs and over \$409 million in projected savings to non-SSA programs.

Improper Payments and Recovery of Overpayments

Improper payments are defined as any payment that should not have been made or that was an incorrect amount. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an emphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments in the Government. In August 2001, the Office of Management and Budget (OMB) published the President's Management Agenda (PMA), which included a government-wide initiative for improving financial performance, including reducing improper payments. In November 2002, the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300) was enacted, and OMB issued guidance in May 2003 and August 2006 on implementing this law. Under this *Act*, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual Performance and Accountability Report. Additionally, Federal agencies, such as SSA, should take all necessary steps to ensure the accuracy and integrity of Federal payments.

SSA and OIG have discussed issues such as detected versus undetected improper payments and avoidable versus unavoidable overpayments that are outside the Agency's control and are a cost of doing business. OMB issued specific guidance to SSA to only include avoidable overpayments in its improper payment estimate because those payments can be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate.

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs—and some improper payments are unavoidable. In FY 2005, SSA issued about \$558 billion in benefit payments to about 52.8 million individuals. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of individuals, even the slightest error in the overall process can result in millions of dollars in over- or underpayments. In FY 2005, SSA reported that it detected over \$4.2 billion in overpayments. In FY 2006, SSA detected \$4.7 billion in overpayments and collected \$2.3 billion. SSA also noted in its Performance and Accountability Report for FY 2005 that the Agency recovered over \$2 billion in overpayments.

In February 2006, OMB issued a report *Improving the Accuracy and Integrity of Federal Payments* stating that seven Federal programs—including SSA's OASDI and SSI programs—accounted for approximately 95 percent of the improper payments in FY 2005. However, this report also noted that SSA is actively implementing sound improper payment measurement and corrective action plans.

SSA Has Taken Steps to Address this Challenge

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. In FY 2006 SSA implemented an initiative to improve overpayment recovery controls. According to SSA, the purpose of this initiative was to improve overpayment control, accounting and recovery on Title XVI program records and provide more consistency in the way SSA manages debt recovery from Title XVI debtors who are receiving SSI payments. SSA reported that this project resulted in establishing recovery efforts on about \$61 million in uncollected overpayments from individuals receiving Title XVI benefits. Additionally, in FY 2005, SSA implemented eWork—a new automated system to control and process work related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries. However, one of the challenges facing SSA is the need for adequate funding for both medical and work-related CDRs. Although the Agency had special funding for CDRs in FYs 1996 through 2002 and the Agency's data shows that CDRs save about \$10 for every \$1 spent to conduct them, the Agency has cut back on this workload due to budget constraints imposed on the Agency. To address this, the Agency requested special funding for CDRs in its FY 2007 budget request.

We will continue to work with SSA to identify and address improper payments in its programs. For example, SSA took action to prevent and recover improper payments based on several OIG reviews.

- Working with us on an OIG audit of *Individuals Receiving Benefits Under Multiple Social Security Numbers at the Same Address*, SSA identified about \$12.2 million in overpayments; and as of July 2006, about 11 percent of the funds had been recovered.
- In another review—*Benefits Paid to Dually Entitled Title II Beneficiaries*—we found that, as of July 2006, SSA had recovered about 13 percent of the \$2 million in overpayments identified for our sample cases. Additionally, the Agency was taking corrective action to address the estimated \$37.6 million in payment errors related to this review.
- In our review—*Match of Veterans' Affairs Historical Death File Against the Social Security Administration's Benefit Rolls*—we estimated \$11.7 million in benefits was paid improperly after the individuals' deaths. As of May 2006, SSA had recovered about 9 percent of the funds in our sample cases and the Agency's efforts continue.

We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers' compensation—continue to occur. Furthermore, in our April 2006 report *Overpayments in the Social Security Administration's Disability Programs*, we estimated that SSA had not detected about \$3.2 billion in overpayments for the period October 2003 through November 2005 as a result of conditions that existed as of October 2003 or earlier. We also estimated that SSA paid about \$2.1 billion in benefits annually to potentially ineligible beneficiaries.

Internal Control Environment and Performance Measures

Sound management of public programs includes both effective internal controls and performance measurement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. OMB's Circular A-123, *Management's Responsibility for Internal Control*, requires the Agency and its managers to take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management. Similarly, SSA management is responsible for determining through performance measurement and systematic analysis if the programs it manages achieve intended objectives.

One of the main work processes SSA management is responsible for establishing appropriate controls over is the development of disability claims under the Disability Insurance (DI) and SSI programs. Disability determinations under DI and SSI are performed by Disability Determination Services (DDS) in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2006, SSA allocated almost \$1.8 billion to fund DDS operations.

From FY 2000 through September 2006, we conducted 47 DDS administrative cost audits. In 26 of the 47 audits, we identified internal control weaknesses and over \$82 million that SSA reimbursed to the States that were not properly supported or could have been put to better use. Nine of the 47 audits conducted were completed in FY 2006. Five of these reports noted similar control weaknesses identified in DDS audits in previous years and over \$8 million of questioned costs and/or funds that could be put to better use. We believe the large dollar amounts claimed by State DDSs and the control issues we have identified warrant that this issue remains a major management challenge.

Another area that requires sound management and effective internal controls is the selection and oversight of contractors that assist the Agency in meeting its mission. In FY 2006, SSA spent over \$631 million on contracts. We reviewed four of SSA's contracts in FY 2006. We generally found that the costs claimed for services provided by the contractors involved were reasonable and allowable. While we noted no major concerns in the reviews conducted, we believe ensuring proper oversight and controls over its contracts continues to be a major management challenge for SSA due to the total dollar amounts awarded and risks associated with third parties delivering services in fulfillment of a contract.

The *Government Performance and Results Act* (Pub. L. No. 103-62) and the PMA call for the identification of high quality outcome measures that accurately monitor programs' performance and associated costs. Also, SSA managers need sound information to monitor and evaluate performance. In FY 2006, we issued 9 audits that addressed 21 of SSA's performance measures. Six of the nine audits were based on work that began in FY 2005, with audit work continuing into FY 2006. The 15 performance measures addressed in these 6 reports are listed below.

- Percent of outstanding OASDI debt in a collection arrangement
- Percent of people who do business with SSA rating overall services as "excellent," "very good," or "good"
- Number of appellate actions processed
- Number of SSA hearings cases processed per workyear
- Number of SSA hearings pending
- Hearings decision accuracy rate
- Annual earnings items processed
- Percent of SSNs issued that are free of critical error
- Percent of outstanding SSI debt in a collection arrangement
- Percent of SSI aged claims processed by the time the first payment is due or within 14 days of the effective filing date
- SSI nondisability redeterminations
- Retirement and Survivors Insurance claims processed
- Periodic CDRs processed
- SSNs processed
- Number of initial disability claims pending

We concluded that the data used for 3 of the 15 measures were reliable and that the data used for 6 of them were unreliable. Additionally, we were unable to determine the reliability for another six measures.

Three of the nine audits released in FY 2006 were based on work that began and was completed in FY 2006. The six performance measures addressed by these audits are listed below.

- Enhance efforts to improve financial performance using Managerial Cost Accountability System
- Maintain zero outside infiltrations of SSA's programmatic mainframes
- Optimize the 800-number agent busy rate
- Percent of SSI payments free of preventable overpayments and underpayments
- Improve workload information using Social Security Unified Measurement System
- Optimize the speed in answering 800-number calls

We concluded that the data used for two of the six measures were reliable and that the data used for one of them was unreliable. Additionally, we were unable to determine the reliability for another two of the measures and we did not complete an analysis of data reliability on one measure since the calculation of the indicator was not based on computerized data.

Generally, the data addressed in our FY 2006 audits determined to be unreliable was incomplete or the systems used to collect the data were not sufficiently secure to ensure its integrity. We were unable to determine data reliability when SSA had not retained the data used in its measurement processes, which prevented us from testing it. The challenge SSA faces in this area is ensuring that it has the reliable management information needed when making strategic and operational plans.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to develop internal controls over its operations and contractor performance and in developing sound performance data. SSA has generally agreed with our recommendations that address internal control weaknesses associated with DDSs and has taken the recommended steps to ensure that reimbursements provided to DDSs are allowable and properly supported. Additionally, SSA is working to limit access to its performance data to only those that have a need to work with it in an effort to protect its integrity. Also, the Agency has worked with us to determine how to best audit its performance data without significantly increasing its data storage costs. This effort includes gaining real time access to SSA's performance data, which allows us to test the data as it is being created.

Systems Security and Critical Infrastructure Protection

Protecting the critical infrastructure of the United States is essential to the Nation's security, public health and safety, economic vitality, and way of life. Attacks on critical infrastructure could significantly disrupt the functioning of Government and business alike and produce cascading effects far beyond the targeted sectors and physical location of the incident. Therefore, any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and result in the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures.

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

Numerous incidents that occurred recently involving the compromise or loss of sensitive personal information emphasizes the challenges the Government faces in the protection of sensitive information entrusted to it. OMB recently issued three memoranda addressing the protection of sensitive personally identifiable information within the Government. OMB memorandum M-06-15 reemphasizes existing requirements, including establishing employee rules of behavior, and administrative, technical, and physical safeguards for the protection of personally identifiable information. OMB memorandum M-06-15 also requires the agency's Senior Official for Privacy to review policies and procedures and take corrective actions to ensure the safeguarding of personally identifiable information. OMB memorandum M-06-16 requires agencies to tighten and reassure security controls when personally identifiable information is removed from, or accessed from outside, the agency location. OMB memorandum M-06-19 specifically requires agencies to report all incidents involving personally identifiable information to US-CERT within 1 hour of discovery. SSA is taking aggressive actions to meet these security challenges as part of the *Federal Information Security Management Act (FISMA) of 2002* (Pub. L. No. 107-347) process.

SSA Has Taken Steps to Address this Challenge

SSA continues to address significant information technology (IT) control issues. For example, the Agency developed and implemented configuration standards for all major operating system platforms and software components. SSA also began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations are in compliance with established system configuration standards. Further, SSA also maintained Certifications and Accreditations for all 20 major systems, which were substantially compliant with security standards. SSA has instituted access control policies to ensure appropriate segregation of duties by limiting access to critical information on a 'need only' basis.

These control policy enhancements were completed largely through the Standardized Security Profile Project (SSPP). An employee's profile is the primary element used to control access to SSA's databases. SSA needs to continue its efforts to fully implement the policies that control access to sensitive records. Such efforts should include:

- The update and development of new configuration standards when appropriate;
- Strengthening its access control processes to ensure that the user profiles are adequately reviewed and tested;
- Continued monitoring of Agency's devices for compliance with established configuration standards; and
- Continued work of the SSPP and the regular monitoring of accesses made to sensitive data.

SSA has implemented a variety of methods in which it protects its critical information infrastructure and systems security. For example, SSA's Critical Infrastructure Protection workgroup continuously works to ensure Agency compliance with various directives, such as Homeland Security Presidential Directives and FISMA. To provide for the protection of the critical assets of the SSA National Computer Center, SSA has initiated the Information Technology Operations Assurance (ITOA) project. The objective of the ITOA project is to build a second, fully functional, co-processing data center. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA continues to improve its security program to better comply with FISMA and makes strides towards reaching green in the PMA e-Government initiative. SSA has worked closely with the OIG to meet FISMA requirements and has issued a revised version of its Information System Security Handbook. SSA also:

- improved its automated tool to better track security weaknesses and help monitor their resolution;
- improved tracking of security training for SSA staff with significant security responsibilities; and
- conducted internal reviews to identify Information Technology infrastructure weaknesses.

To address its personally identifiable information protection needs, SSA is working to resolve difficulties involving the encryption of mobile computers and devices and removable media. SSA has issued memorandums to its staff emphasizing the importance of protecting personally identifiable information. SSA is also revising its policies and procedures for "incident reporting" to comply with current Federal requirements.

Service Delivery and Electronic Government

One of SSA's strategic goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services to applicants for benefits, beneficiaries and the public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. This area includes the challenges of the Representative Payee Process, Managing Human Capital and Electronic Government (e-Government).

SSA reports there are approximately 5.3 million representative payees who manage \$48 billion in annual benefits for 7 million beneficiaries. SSPA presents new challenges for SSA's Representative Payee Process. Most notably, SSA is required to conduct periodic site reviews of representative payees. It also requires that SSA reissue benefits to beneficiaries who were victims of misuse by organizational representative payees or individual payees serving 15 or more beneficiaries. Further, SSPA provides that benefits misused by a nongovernmental representative payee be treated as overpayments to that representative payee, subject to overpayment recovery authorities.

In FY 2006, we identified several problematic conditions during our reviews of the Representative Payee Process. For example, we found that in some instances, child beneficiaries in a foster care program had their benefit payments managed by representative payees other than the foster care agency. We identified concurrently entitled OASDI and SSI beneficiaries receiving both representative payee and direct payments. Furthermore, we found SSA needs to improve its controls to ensure benefit payments are not improperly suspended pending the selection of representative payees and benefit payments are reinstated in a timely manner.

As of February 2005, the Government Accountability Office continued to include strategic human capital management on its list of high-risk Federal programs and operations. Further, Strategic Management of Human Capital is one of five government-wide initiatives contained in the PMA. SSA is challenged to address increasing workloads as the "baby boom" generation approaches its peak disability and retirement years, at the same time SSA's workforce is retiring. SSA projects that by FY 2015, 54 percent of its employees will be eligible to retire. This "retirement wave" will result in a loss of valuable skills, institutional knowledge and technical expertise that will affect SSA's ability to deliver quality service to the public.

The e-Government initiative of the PMA directs the use of technology to its fullest to provide services and information that is citizen-centered. Specifically, e-Government instructs SSA to help citizens find information and obtain services organized according to their needs.

SSA Has Taken Steps to Address this Challenge

SSA has taken several actions regarding the challenges of its representative payee process that include:

- Providing an annual report to Congress on its representative payee site reviews and other reviews.
- Repaying approximately \$2.5 million to about 2,100 beneficiaries for benefit misuse by representative payees.
- Initiating a study to determine how individual and organizational representative payees are using and managing payments they receive on behalf of beneficiaries in their care.

SSA needs to strengthen its oversight of the representative payee process that concerns children in foster care. Prior work has identified children in long-term foster care placement with representative payees who were not their foster care parents. As a result, we are concerned about whether the benefit payments made to these payees were used for the children's food, shelter and clothing needs. We plan to do additional work in this area to assist the Agency in ensuring that these payments are being properly used for the benefit of the children.

Since June 30, 2004, SSA has consistently scored "green" in both "Current Status" and "Progress in Implementing the President's Management Agenda," for Human Capital on the Executive Branch Management Scorecard. The scorecard tracks how well the departments and major agencies are executing the government-wide management initiatives. In December 2005, SSA won the 2005 President's Award for Management Excellence for its performance and results in the Strategic Management of Human Capital. SSA has developed and implemented a Human Capital Plan; competency-based training for "mission critical" employees; and a national recruitment strategy to bring the "best and brightest" individuals to the Agency. Furthermore, SSA performed analyses of the retirement wave to develop 10-year projections on voluntary, early-out, and disability retirements.

Within the next 5 years, SSA expects to provide cost-effective e-Government services to citizens, businesses and other Government agencies. According to SSA, its e-Government strategy is based on the deployment of high volume, high payoff applications, for both the public and the Agency's business partners. To meet increasing public demands, SSA reports it has aggressively pursued a portfolio of services that include on-line and voice-enabled telephone transactions to increase opportunities for the public to conduct SSA business electronically in a secure environment. As of June 30, 2006, SSA scored "green" in e-Government on the Executive Branch Management Scorecard and "red" in e-Government for "Progress in Implementing the President's Management Agenda," According to Agency officials, SSA and OMB are discussing plans intended to improve the e-Government score for "Progress in Implementing the President's Management Agenda" on the Scorecard.