

A Message from the Commissioner

Few Agencies benefit and touch the lives of as many of our Nation's people as does the Social Security Administration (SSA). Through retirement or disability benefits or Supplemental Security Income (SSI) payments, Social Security is able to contribute to the economic security and stability of individuals and families during their most vulnerable times. The people of America, who fund the Social Security program through their tax contributions and the SSI program through their income tax payments, expect and deserve well-managed programs. The Agency takes very seriously this responsibility to ensure that only those entitled to benefits receive them.



It is with these thoughts in mind that I proudly present SSA's Fiscal Year 2006 Performance and Accountability Report (PAR). In addition to providing insight into the challenges we face, this report details our goals, objectives and performance results which hold the Agency accountable to its mission, **"To advance the economic security of the nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs."** Our strategic goals of **Service, Stewardship, Solvency and Staff** provide the framework to formulate and build our objectives and performance measures to support the mission of this Agency.

To deliver high-quality, citizen-centered service. Social Security is committed to providing the type of service that the American people expect and, more importantly, deserve. 2006 marks the 50th anniversary of the enactment of the Social Security Disability Insurance program. This program provides protection for workers and their families against the uncertain and often devastating effects of disability. When I became the Commissioner of Social Security in 2001, I made a commitment to reduce the amount of time it took for a person to receive a decision on a disability claim or appeal. In response, Social Security launched the Electronic Disability process which has resulted in a significant reduction in the amount of time it takes to process claims for disability benefits. The Electronic Disability process is also the foundation for the new Disability Service Improvement regulations that became effective in August 2006. We started a gradual implementation of this new Disability Service Improvement process in three states; and as we gain experience with these new changes, the process will be gradually implemented in other states. In our core services as well as with our disability program, the Agency continually strives to find cost-effective means for providing excellent service.

To protect the integrity of Social Security programs through superior stewardship. We take pride in fulfilling our responsibility to preserve and carefully manage the resources, assets and programs entrusted to us and we are committed to strong and vigilant financial management. Since 1994, Social Security has received an unqualified opinion on its financial statements. Again this year, Social Security received an unqualified opinion on our consolidated financial statements from our independent auditors, including the Statement of Social Insurance which was audited for the first time this year. The independent auditors also reported no material weaknesses in internal controls or material instances of noncompliance with laws and regulations. Given our history of sound fiscal practices, we were also successful in implementing the many new requirements effective for this year. SSA fully implemented the Office of Management and Budget Circular A-123 Appendix A on Management's Responsibility for Internal Controls. These efforts included Agency-wide involvement to extensively document and test the effectiveness of key internal controls over financial reporting. We are also proud that our Fiscal Year 2005 PAR received its eighth Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. Social Security holds the distinction of being the only Federal agency to receive this honor each year since the award program began.

As required by the Improper Payments Information Act of 2002, the PAR also provides information on the amount of improper payments made by the Agency, the causes behind those improper payments and the actions underway to reduce them. Although the Government Accountability Office removed the SSI program from its high-risk list in

Fiscal Year 2003, we are continuing our efforts to improve our management of this program across three fronts - improved prevention of overpayments, increased overpayment detection and increased collection of debt. The Social Security Administration's stewardship responsibilities require that the Agency recover as much debt as possible. Each one percent increase in payment accuracy in our SSI program alone equates to \$391 million of error prevented. Improving the financial integrity and management of all the Social Security programs we administer is an Agency priority. The Agency is unwavering in our commitment to the President's initiative in this area and to the congressional support reflected in the law. Our responsibility as stewards of the public trust demands no less.

To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations. SSA's role in the solvency issue is to educate the American public about Social Security's programs and finances and to provide support to Congress and the Administration to analyze and review legislative actions and policy alternatives that have the potential to impact the Social Security programs. We continually work with the public to inform them of SSA's mission, quality initiatives and outreach efforts so that all are educated about the strengths and challenges that face the Social Security benefit programs. Annually, we send to workers over the age 25, the Social Security Statement which provides valuable information about Social Security, a person's earnings record, and an estimate of their benefits. Also within this Report, we provide important data detailing facts and assumptions about SSA program finances and sustainability.

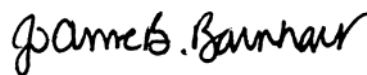
To strategically manage and align staff to support the mission of the Agency. I am proud of the exceptional dedication of the men and women of Social Security. Our employees share a deep commitment to finding better ways to be even more responsive to those who depend on our service and sound fiscal stewardship. Many of these dedicated public servants will be retiring soon and SSA, similar to other Federal agencies, will begin to feel the effects of the retirement wave. Thus, SSA has developed a human capital plan and strategies to ensure that a high performing workforce prepared to deliver the quality service the public deserves is in place.

In addition, Social Security has displayed its continuing resolve to adhere to other key management initiatives:

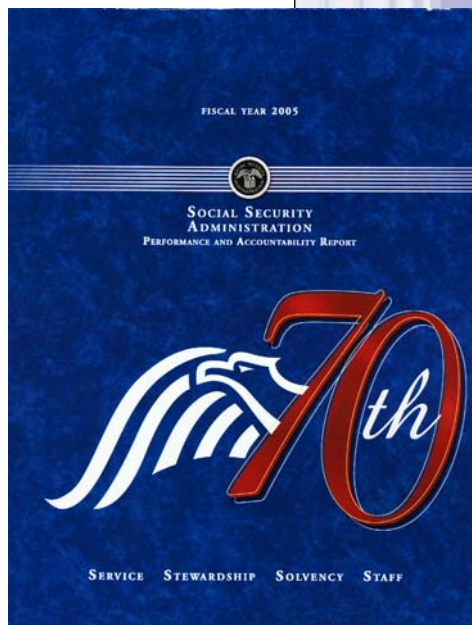
President's Management Agenda. Social Security is steadfast in its commitment to the goals and objectives as set forth by the President's Management Agenda. We are dedicated to achieving immediate, concrete and measurable results that benefit the public by maximizing our service to program beneficiaries and recipients, by being effective stewards of the taxpayers' money and by operating as efficiently as possible. Further discussion of SSA's progress with the President's Management Agenda initiatives may be found later in this Report.

Performance and Financial Data. We believe the performance and financial data presented in this report are complete and reliable as outlined by the guidance available from the Office of Management and Budget. We are committed to providing complete, reliable performance data for managerial decision-making and oversight. In addition, our financial management systems are compliant with Federal law and our financial statements have received an unqualified opinion with no material auditor reported internal control weaknesses. Internal management controls designed to safeguard the integrity and quality of Social Security's data resources are in place that reflect the insights and directives provided by the Agency's Office of the Inspector General and the Government Accountability Office. More detailed discussions of the quality of both our performance and financial data may be found later in this Report.

As we look ahead, we will continue to do all that we can to meet the challenges facing us so that we can continue to provide the best quality service to the American public.



Jo Anne B. Barnhart
November 7, 2006



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SSA's FY 2006 Performance and Accountability Report is available on the Internet at: www.socialsecurity.gov/finance

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information to the financial statements and is designed to provide a high level overview of the Agency. It provides a description of who we are, what we do and how well we meet the goals we have set.

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

Next, the MD&A discusses SSA's ability to achieve the four strategic goals contained in the Strategic Plan. In February 2006, the Agency provided Congress with its FY 2007 Annual Performance Plan (APP) and Revised Final FY 2006 APP, which brought the Agency's strategic goals, objectives and performance measures in line with the Strategic Plan. The Overview of Key Performance Indicators, Goals and Results section provides the Agency's progress in the context of the Government Performance and Results Act of 1993 (GPRA). The GPRA statute requires Federal agencies to develop and institutionalize processes to plan for and measure mission performance. During FY 2006, SSA used 39 distinct GPRA performance measures to manage and track Agency progress. The performance measures focus on SSA's most critical challenges and areas in need of improvement. Of the 39 performance measures, 15 were selected as Key Performance Indicators, which the Agency believes best tell the story of its efforts to address the most critical challenges. These Key Performance Indicators are discussed in general terms and indicate whether the performance targets for FY 2006 were met. All of the FY 2006 performance measures, their targeted performance and results, as well as a discussion of each measure and historical data may be found in the Performance Section.

The Performance and Accountability Report (PAR) would not be complete without providing a summary of the issues the Agency faces now and will face over the next five years, as well as the activities and strategies in place to deal with them. These challenges, found in the Agency Challenges section, are based on the Major Management Challenges currently designated by the Government Accountability Office and SSA's Office of the Inspector General. The challenges are aligned with the four strategic goals outlined in the Agency Strategic Plan.

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 a discussion of the actions SSA has taken to address our management control responsibilities. The Management Assurances within this section provides the Agency's assurances related to the Federal Managers' Financial Integrity Act and the determination of the Agency's compliance with the Federal Financial Management Improvement Act. Also addressed is the Agency's compliance with the Federal Information Security Management Act and a summary of our progress in reducing improper payments.

MANAGEMENT'S
DISCUSSION
AND
ANALYSIS



Overview of the Social Security Administration

Mission

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

The Social Security Programs and How They Benefit the Public

Few Government agencies touch the lives of as many people as the Social Security Administration (SSA). Almost 53 million people - one in six of the total population - receive monthly Social Security or Supplemental Security Income (SSI) benefit payments. Through their tax revenues, over 95 percent of America's 162 million workers are earning valuable Social Security coverage for themselves and their families. The following table, *Number of Beneficiaries as of September 30th of Each Year*, provides the number of people receiving Old-Age, Survivors, and Disability Insurance (OASDI), SSI, and/or the combined benefits. Over the ten-year period from the beginning of October 1997 through the end of September 2006, the number of Old-Age and Survivors Insurance (OASI) beneficiaries has grown by 7 percent, Disability Insurance (DI) by 39 percent and SSI (includes persons receiving only SSI benefits and those who receive combined SSI and OASDI benefits) by 9 percent.

Number of Beneficiaries as of September 30th of Each Year (in Millions)										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
OASI	37.8	37.9	38.0	38.7	38.9	39.2	39.4	39.6	40.0	40.4
DI	6.1	6.3	6.5	6.6	6.8	7.1	7.5	7.8	8.2	8.5
SSI and OASDI	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5
SSI only	4.2	4.2	4.2	4.2	4.3	4.4	4.4	4.6	4.6	4.7
Total ¹	48.1	48.4	48.7	49.5	50.0	50.7	51.3	52.0	52.8	53.6

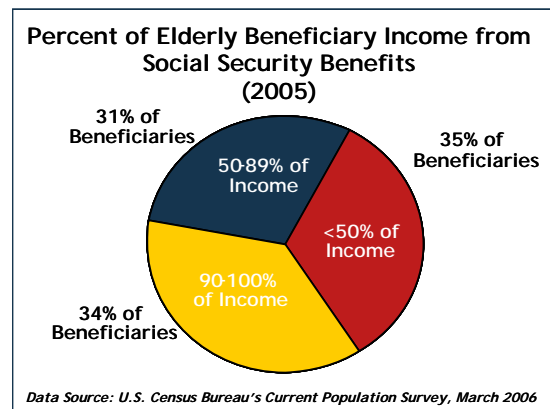
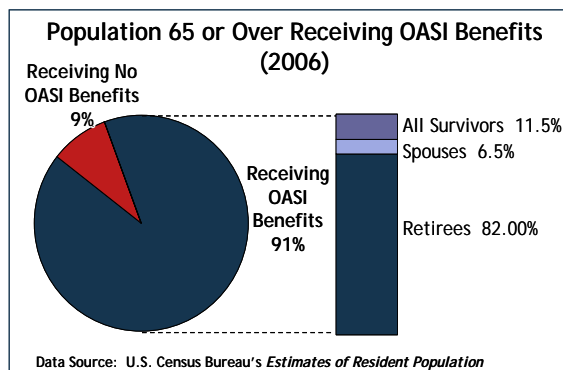
¹Sum of OASI, DI, and SSI only

The OASDI program provides a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through tax revenues paid by workers and their employers and by self-employed persons. Social Security benefits are intended to replace a portion of these lost earnings and people are encouraged to supplement Social Security with savings, pensions, investments, and other insurance. The monthly benefit amount to which an individual (or qualifying survivors) may become entitled under the OASDI programs is based on the individual's taxable earnings during his or her lifetime. The maximum amount of earnings on which contributions were payable in 2006 was \$94,200; it will increase to \$97,500 in 2007.

Old-Age and Survivors Insurance (OASI) Benefits

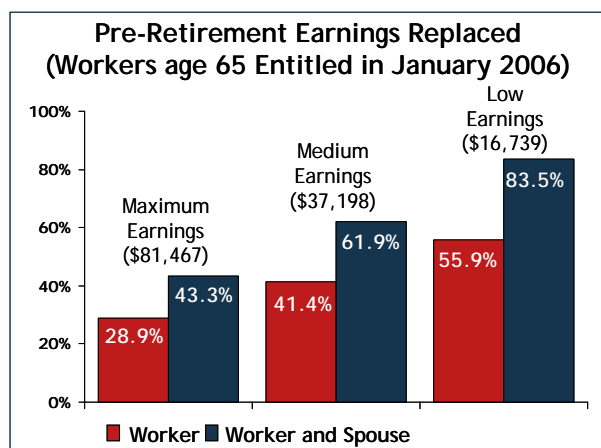
These benefits are financed by the OASI Trust Fund. To qualify for OASI benefits, a worker must have worked in Social Security covered employment or self-employment and paid Social Security taxes (Federal Insurance Contributions Act and/or Self-Employment Contributions Act) for at least 10 years (or 40 credits) over the course of his or her lifetime, with the exception of those workers born before 1929 who need fewer credits to qualify. 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 their survivors.

Approximately 97 percent of persons age 20-49 who worked in Social Security-covered employment in 2004 have survivor protection for their children under age 18 and surviving spouses caring for children under age 16. As shown in the chart, *Population 65 or Over Receiving OASI Benefits*, 91 percent of the population over 65 were receiving benefits in 2005. In 2005, Social Security benefits comprised 37 percent of the aggregate share of all income to single people and married couples age 65 and over. Other sources of income include assets (13 percent), earnings (28 percent), and pensions (19 percent) both Government and private.



As shown in the chart, *Percent of Elderly Beneficiary Income from Social Security Benefits*, while many of the Nation's married and single beneficiaries age 65 and older in 2005 have income from other sources, a portion of the elderly population relies heavily on Social Security benefits. Social Security benefits comprise 90 to 100 percent of total income for one-third of the elderly beneficiaries; and for two-thirds of the elderly beneficiaries, it is their major income source (50-100 percent of their income).

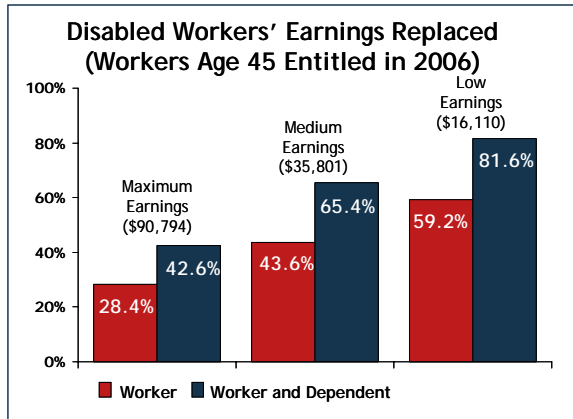
The chart, *Pre-Retirement Earnings Replaced*, shows the earnings replacement rate in 2006 for single workers and couples (e.g., worker with a spouse age 62 or older who is not insured) at various earnings levels. These levels represent average earnings over the worker's career, which are wage-indexed through 2005. The level of pre-retirement (career-average) earnings replaced by Social Security benefits for a worker retiring at full retirement age varies because the benefit formula is progressive. It is weighted in favor of workers who have lower earnings since they have less opportunity to save and invest during their working years.



Disability Insurance Benefits

In addition to being fully insured to qualify for DI benefits, a person must meet a test of recent covered work before becoming disabled. DI benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. About 9 out of 10 people age 21 through 64, who worked in Social Security-covered employment in 2005, received benefits when they became disabled and met other factors of entitlement. Workers are considered disabled if SSA determines that they have a physical or mental impairment that

prevents them from performing gainful work with earnings above a certain monthly amount. The disability must have lasted, or be expected to last, for a continuous period of not less than 12 months or expect to result in death.



Once benefits begin, they continue for as long as the person is disabled and does not perform substantial gainful work. However, Social Security offers programs that provide incentives for people who would like to try to work. SSA also conducts periodic continuing disability reviews to determine whether beneficiaries are still disabled.

The chart, *Disabled Workers' Earnings Replaced*, shows the earnings replacement rate in 2006 for disabled workers and their dependents at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed through 2005.

The table, *Medium Earnings Replaced – Historical Perspective*, presents a historical perspective on medium earnings replacement for each of the OASI and DI programs.

Medium ¹ Earnings Replaced Historical Perspective						
	1956	1966	1976	1986	1996	2006
Disabled Worker ²	NA	33.7%	45.7%	43.5%	43.7%	43.6%
Retired Worker ³	28.3%	28.4%	41.6%	41.9%	42.9%	41.4%

¹ 'Medium' earnings refer to career-average earnings at about 100 percent of the national average wage index.

² Based on a 45-year-old disabled worker - Data are not available for disability benefit payments for 1956 since the disability program, which began in 1957, was only extended to workers under age 50 in 1960.

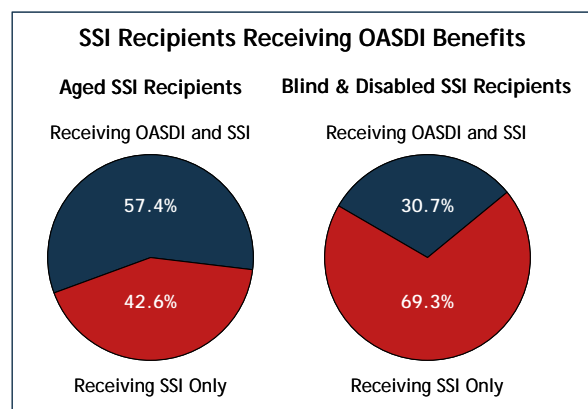
³ Based on a 65-year-old retired worker.

Supplemental Security Income Program

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

The definition of disability for adults used in the SSI program, as well as continuing disability review procedures, is the same as that used in the DI program, with the exception of statutory blindness for which different rules apply. There is a separate definition of disability for children seeking SSI benefits. There are general provisions to encourage working and special incentives for those recipients who are disabled or blind. The Federal benefit rate and eligibility requirements are uniform nationwide; however, most States provide a supplement to the Federal SSI benefit.

In September 2006, 35.2 percent of all SSI recipients also received Social Security benefits. For most recipients, SSI is their sole source of income. For 3.9 percent of the recipients, earnings were a source of additional income. As illustrated in the chart, *SSI Recipients Receiving OASDI Benefits*, more aged recipients (57.4 percent) receive Social Security benefits than blind and disabled recipients (30.7 percent).

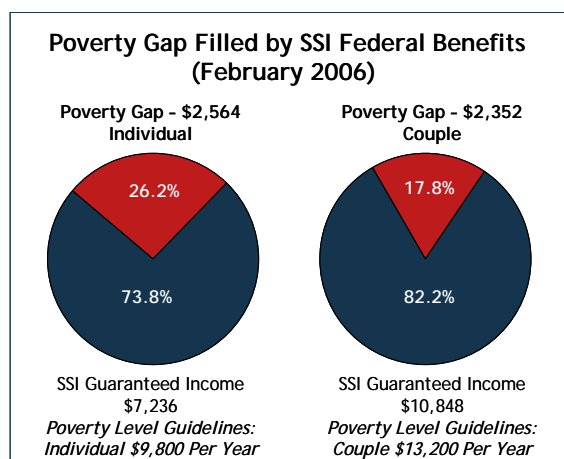


How Social Security Benefits the American Public

Social Security touches the lives of virtually every person in America. Whether after the loss of a loved one, at the onset of disability, or during the transition from the workforce to retirement, Social Security programs and employees are available to support the people of this country. Widely considered the Nation's most successful domestic Federal program, Social Security provides a basic level of protection to all covered workers based on their past earnings. SSI provides a backup for the Social Security program by guaranteeing a minimum level of income to needy aged and disabled adults and children.

It is clear that Social Security and SSI benefits play a significant role in the improved economic security of the Nation's people. Poverty among elderly has been reduced by 34 percent over the past 30 years, decreasing from 15.3 percent in 1975 to 10.1 percent in 2005. Poverty rates of the elderly are expected to decline further in the future because earnings, on which Social Security benefits and pensions are based, tend to increase more rapidly than the poverty thresholds, which are indexed to price growth. In 1936, when Social Security Numbers were first assigned to workers, most of the Nation's elderly were living in poverty. Today, monthly benefits are an important part of the quality of life of the elderly and millions more who are protected in the event of disability or death.

The portion of the population with enough work credits to be qualified for Social Security benefits has grown steadily over the years. The percentage of people aged 20 and over with enough work credits to qualify for Social Security benefits increased from 77 percent in 1970 to 87 percent in 2006. Although men are more likely than women to have sufficient credits, the gender gap is shrinking. The proportion of men with enough work credits to qualify for Social Security benefits has remained essentially stable at 91 percent. By contrast, the proportion of women with enough covered work has increased from 63 percent in 1970 to 83 percent today.

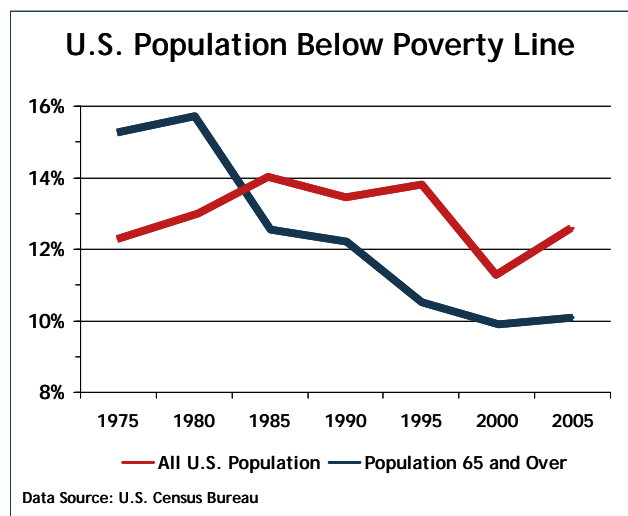


The chart, *Poverty Gap Filled by SSI Federal Benefits*, shows that SSI recipients with little or no income may receive the full SSI Federal benefit, which is 73.8 percent of the Federal poverty level for an individual and 82.2 percent for a couple. The portion of the poverty gap not filled by Federal SSI may be filled by State SSI supplemental payments. Also, SSI recipients may be eligible for food stamps, Medicaid, low income housing and other social services.

As shown in the chart, *U.S. Population Below Poverty Level*, the percentage of the population age 65 and over in the United States who live below the Federal poverty level has been consistently lower than that of the general population since the

1980s. In 2005, the poverty rate of the elderly was 10.1 percent compared with 12.6 percent for the total population.

Rates of poverty and program coverage provide an indication of how Social Security and SSI benefits are improving the lives of the Nation's people. However, the Agency's programs are not the only factors that affect the economic status of the aged and survivor populations and persons with disabilities. Savings, investments, other public and private retirement plans, medical coverage, other Government programs, and the state of the economy also play important roles. Moreover, most of the important features of SSA's programs are established by law and can only be altered by Congress, not the Agency.



As discussions continue on how best to strengthen the Social Security programs for the future, the Agency's goal is to ensure that the public has the information needed to understand the issues and to provide analyses and estimates for the Administration and the Congress. SSA provides information to educate the public about the financing challenges facing the Social Security programs through various outreach initiatives and SSA's *Frequently Asked Questions* website. SSA also conducts numerous analyses related to fiscal distributional and administrative aspects of Social Security programs.

Workloads

In FY 2006, as in prior years, SSA's administrative resources were primarily used to process its priority workloads. These workloads included:

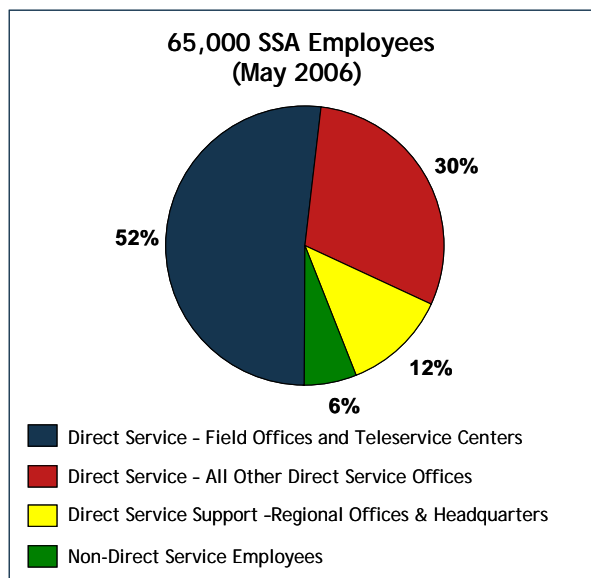
- Paying benefits to over 53 million people every month;
- Making decisions on nearly 1.2 million hearings and appellate actions;
- Issuing over 17 million new and replacement Social Security cards;
- Processing over 265 million earnings items for crediting to workers' earnings records;
- Handling nearly 60 million calls to SSA's 800-number;
- Issuing over 143 million Social Security Statements;
- Processing over 1.3 million periodic continuing disability reviews;
- Processing over 1 million non-disability SSI redeterminations to ensure that SSI eligibility is still met;
- Helping administer the Medicare programs, including calculating and withholding premiums, making eligibility determinations, and taking applications for replacement Medicare cards; and
- Processing millions of actions to keep beneficiary records current and accurate.

Agency Organization

SSA has been the primary face of the Federal Government, providing direct service to the American public at critical junctures in their lives and administering programs that touch the lives of over 95 percent of all Americans. Providing service in a respectful, responsive, and reliable way is part of the Agency's value-driven culture, supporting an employee population that is dedicated to providing quality service. The Agency is highly regarded by the public as well as other Federal agencies. Overall, the public views the Agency's performance and service favorably. Moreover, SSA has ranked among the premier agencies in Government service for over 70 years. As the Federal agency charged with managing and delivering important programs for many people across the country, the Agency's success is dependent upon how well it manages its resources to meet the needs of the American people. SSA's administrative expenses, driven by the size of the programs the Agency administers – both in terms of the amount of work done and the number of people employed – are less than 2 percent of total outlays.

SSA's organization is centrally managed with a nationwide network of over 1,500 offices, which includes Field Offices, Regional Offices, Teleservice (800-Number) Centers, Program Service Centers, Hearing Offices, and State Disability Determination Services. People can also conduct business and obtain information via SSA's website at www.socialsecurity.gov.

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



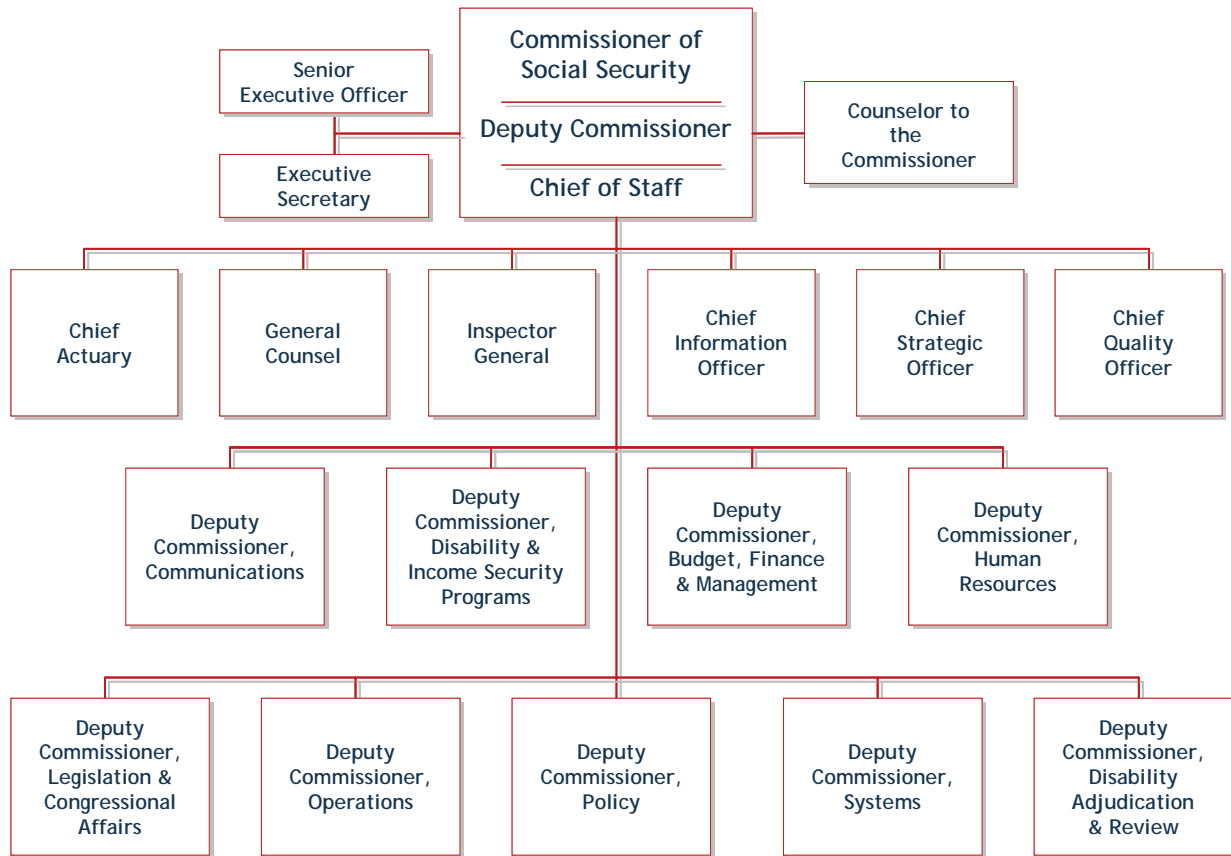
As shown on the chart, 65,000 SSA Employees, approximately 61,000 of SSA's 65,000 employees deliver direct service to the public or directly support the services provided by the Agency's front-line workers. The public is most familiar with the almost 34,000 employees in SSA's 1,318 Field Offices (including Resident Stations) and 35 Teleservice Centers.

They are also served by about 19,500 employees in the Program Service Centers, the Office of Central Operations, the Hearing Offices, the Office of General Counsel, the Office of the Inspector General, the Office of Public Inquiries, the Office of Quality Performance, and by staff providing direct service via the Internet. Another 7,700 employees in Regional Offices and Headquarters directly support the services delivered by Social Security's front-line workers. Additionally, the disability programs depend on the work of over 16,000 employees in State Disability Determination Services.

SSA's remaining employees in non-direct service perform equally important functions in developing information technology and public information products, ensuring sound fiscal stewardship, developing and implementing uniform program policies and procedures, and supporting the workforce by providing, maintaining and safeguarding the Agency's facilities. Whether within SSA or at the Disability Determination Services, each and every employee in front-line and staff positions plays an important role in the success of Social Security programs.

In FY 2006, SSA restructured its organization to improve management of its appeals process and increase Agency efficiency and quality. The reorganization created two additional executive components that report directly to the Commissioner. The first, the Deputy Commissioner for the Office of Disability Adjudication and Review, administers the hearing and appeals programs. The second, the Chief Quality Officer, focuses on the Agency's five dimensions of quality: accuracy, productivity, cost, timeliness and service.

Organization of the Social Security Administration



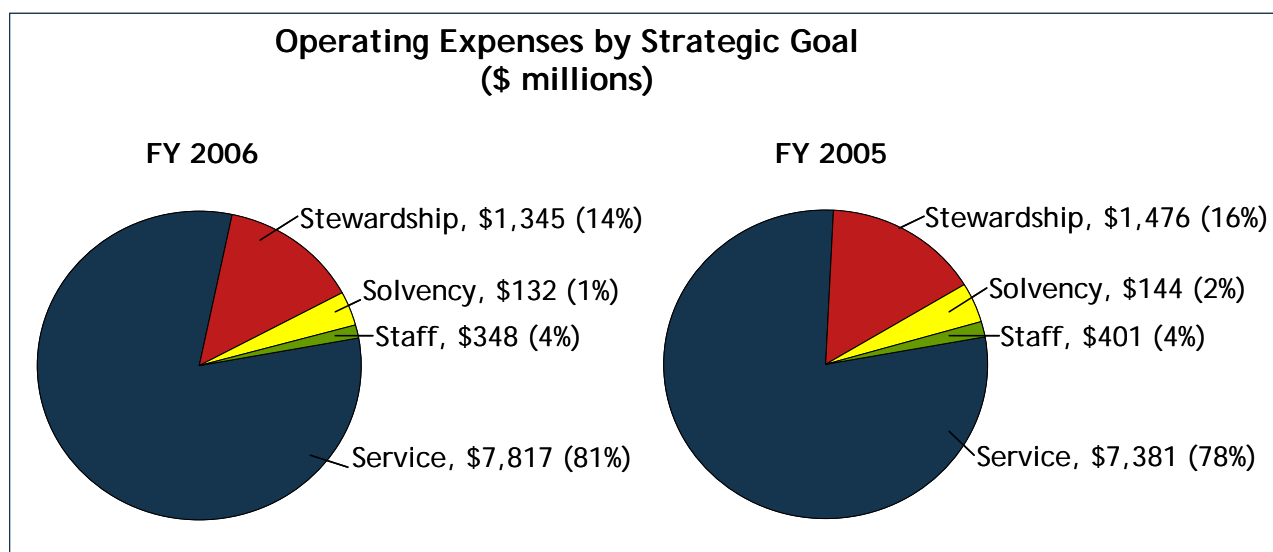
Overview of Key Performance Indicators, Goals and Results

FY 2006 Overview of Performance

In January 2006, the Social Security Administration (SSA) published its *Agency Strategic Plan (ASP)* for fiscal years (FY) 2006 through 2011. The ASP reflects the priorities and direction of SSA's Commissioner and the Administration, setting the Agency's course for achieving measurable results that improve American lives. The ASP's four strategic goals — **SERVICE, STEWARDSHIP, SOLVENCY** and **STAFF** — drive objectives and outcomes that help support the Agency's mission and provide the framework for allocating Agency resources. They articulate the challenge of giving the public the service they deserve; improving program integrity through financial stewardship; supporting reforms to ensure sustainable solvency for future generations; and maintaining the quality staff SSA needs to provide service and stewardship.

The following figures represent the portion of the Agency's FY 2006 operating expenses used in support of each goal:

- To deliver high-quality, citizen-centered **SERVICE** -- 81 percent
- To protect the integrity of Social Security programs through superior **STEWARDSHIP** -- 14 percent
- To achieve sustainable **SOLVENCY** and ensure Social Security programs meet the needs of current and future generations -- 1 percent
- To strategically manage and align **STAFF** to support the mission of the Agency -- 4 percent



Every year SSA's *Annual Performance Plan* (APP), which is included in the Agency's performance budget, describes how SSA will strategically achieve better performance in a given fiscal year. It specifies performance targets by which Agency goals and objectives can be measured. A primary purpose of this *FY 2006 Performance and Accountability Report* (PAR) is to document the Agency's accomplishments for the performance measures specified in the APP for FY 2006.

The *Government Performance and Results Act* (GPRA) requires all Federal agencies to create performance indicators and goals. Of the 39 GPRA performance measures, 15 have been designated as key performance indicators (KPIs). These 15 indicators, described on the following pages, were selected because they characterize the Agency's efforts to address the measurable challenges it faces. Also, performance data for these indicators must be available immediately after the close of the fiscal year. Having complete and accurate data for the KPIs is essential for SSA's Office of the Inspector General (OIG) to determine the reliability of the Agency's data. (See OIG's FY 2006 report in a later section of this PAR.)

Performance for many KPIs has improved since FY 2001 based on the Commissioner's established plan for improving the Agency's overall performance and disability process. For example, processing time for initial disability claims decreased from 106 days to 88.4 days. The Agency has also processed a larger volume of work. In FY 2006, the Agency processed 365,641 more initial disability claims, 163,413 more hearings and 696,585 more retirement and survivor claims than were processed in FY 2001.

A list of all 39 performance measures and goals can be found in the *Performance Section* of this report beginning on page 67. Historical information for each performance measure, where applicable, is also shown, along with a narrative about Agency performance for each measure.

The plan to improve disability performance was the introduction of an electronic process called "*eDib*". The *eDib* process was designed to move all organizational components involved in disability claims adjudication and review from the paper-driven process to an electronic business environment. By replacing the paper disability folder with electronic records that are easily accessible to case processing personnel across the country, SSA reduced the delays inherent in the paper process, as well as the expense of shipping and storing folders. *eDib* is a reality in all 50 States—already, 48 States and the territories of Guam, the Virgin Islands, and Puerto Rico are using a fully electronic process, and the remaining States will be fully electronic by the end of December 2006.

SSA is the only Federal agency that commits to and achieves agency-wide productivity improvements. It is clear that investments in SSA yield positive results for the American public. In fact, from FY 2001 through FY 2006, SSA's overall productivity improved by 13.09 percent.

The following tables, showing actual performance levels, group the FY 2006 KPIs according to the strategic goal they support—SERVICE, STEWARDSHIP, SOLVENCY or STAFF.

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

Key Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page # ¹
1.1a	Number of initial disability claims processed by the Disability Determination Services (DDS)	2,663,000	2,532,264	74
1.1b	Maintain the number of initial disability claims pending in the DDS (at or below the FY 2006/2007 goal)	577,000	555,071	75
1.1c	Number of SSA hearings processed	560,000	558,978	75
1.1d	Maintain the number of SSA hearings pending (at or below the FY 2006/2007 goal)	756,000	715,568	76
1.1e	Average processing time for initial disability claims	93 days	88 days ²	77
1.1f	Average processing time for SSA hearings	467 days	483 days	78
1.3d	Increase the usage of electronic entitlement and supporting actions	300% growth over FY 2004 baseline (2,211,200)	291.8% growth over FY 2004 baseline (2,165,865)	87
1.3e	Increase the percent of employee reports (W-2 forms) filed electronically	70%	75% ²	89
1.3f	Percent of individuals who do business with SSA rating the overall service as "excellent," "very good," or "good"	83%	82%	90

SSA is committed to delivering service the public expects and deserves. Changes in demographics, medical and technological advances, and other related environmental factors have affected service delivery, particularly with respect to disability programs. The Agency continually assesses its programs and looks for better, more efficient ways to meet the needs of current and future beneficiaries. In FY 2006, the Agency established the first Chief Quality Officer who reports directly to the Commissioner and directs the Agency-wide quality performance management program. The Office of Quality Performance (OQP) focuses on the Agency's five dimensions of quality to improve overall public satisfaction: accuracy, productivity, cost, timeliness and service.

Each claim for benefits that is processed by SSA translates into a decision and, in turn, a payment or a notice of denial of benefits. Each transaction that SSA processes electronically - whether it is a posting to an earnings record, a change of payment address, or the verification of a Social Security Number - translates into savings in terms of time and money.

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

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

Strategic Goal 2: STEWARDSHIP*To protect the integrity of Social Security programs through superior STEWARDSHIP*

Key Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page # ¹
2.1a	Supplemental Security Income (SSI) non-disability redeterminations processed	1,244,000	1,070,822	91
2.1b	Number of periodic CDRs processed to determine continuing entitlement based on disability	1,242,000	1,337,638	92
2.4b	DDS case production per workyear (PPWY)	262	241 ²	101
2.4g	Get to "green" on the President's Management Agenda (PMA) initiatives status scores	Achieve a status score of "green" on four of five PMA initiatives	Achieved a status score of "green" on four of five PMA initiatives	106

The people of America expect and deserve to know that Social Security will be there when they need it. Whether they are applying for a Social Security number for a new baby or for disability benefits for themselves, they expect and deserve timely service. And, the people of America, who fund the Social Security program through their payroll tax contributions, and fund SSI through their income tax payments, expect and deserve well managed programs providing accurate payments that safeguard their trust.

Strategic Goal 3: SOLVENCY*To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations*

Key Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page # ¹
3.1a	Provide support to the Administration and Congress in developing legislative proposals and implementing reforms to achieve sustainable solvency for Social Security	Conduct analysis for the Administration and Congress on key issues related to implementing Social Security reforms	Completed	107

The Nation's population is growing older, causing profound, long-term effects on the solvency of Social Security programs as provided for by current law. According to Social Security's 2006 Annual Report of the Board of Trustees, the Comptroller General of the United States, and the former Chairman of the Federal Reserve, Social Security is unsustainable over the long term at present payroll tax and scheduled benefit levels. The research and analysis that the Agency conducts on behalf of the Administration and Congress provide objective information needed to support or augment various proposals for reform.

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

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

Strategic Goal 4: STAFF

To strategically manage and align STAFF to support the mission of the Agency

Key Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page # ¹
4.1a	Minimize skill and knowledge gaps in mission-critical positions	Competency-based entry-level training curriculum will be developed for 100% of the remaining targeted public contact positions - Benefit Authorizers, Claims Authorizers, and Technical Support Technicians	Completed	109

Social Security's dedicated and hardworking employees are critical to maintaining a high level of service. It is anticipated that approximately 40 percent of SSA's employees will be eligible to retire by 2010. Workloads are also expected to grow dramatically as the baby boom generation approaches their peak disability and retirement years. With these factors in mind, SSA continues to develop effective strategies to ensure that the Agency maintains a high performing workforce to deliver quality service. SSA also strives to promote superior employee performance and encourage employee retention through strategic human capital planning. SSA's overall retention rate for all employees for FY 2005 was 93.4 percent compared to 91.6 percent Government-wide.

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

- SSA's *Strategic Plan FY 2006 – FY 2011* can be found at: <http://www.socialsecurity.gov/strategicplan.html>
- SSA's *FY 2007 Annual Performance Plan/Revised Final FY 2006 Annual Performance Plan* can be found at: <http://www.socialsecurity.gov/performance/>

For a paper copy of either SSA's *Strategic Plan* or *Annual Performance Plan*, write to:

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

Performance Factors

President's Management Agenda

SSA continued to make significant progress in FY 2006 in support of the President's Management Agenda (PMA) in the following areas: Expanded Electronic Government, Competitive Sourcing, Improved Financial Performance, Budget and Performance Integration, Strategic Management of Human Capital and the program initiative, Eliminating Improper Payments. SSA has achieved "green" status in four of five PMAs. SSA incorporated the PMA initiatives into its strategies for achieving the Agency's mission and strategic goals. Multi-year plans for achieving the goals of all PMA initiatives were developed. A detailed discussion of SSA's achievements can be found beginning on page 53.

Program Assessment Rating Tool (PART)

The PART is an Office of Management and Budget (OMB) developed diagnostic tool used to examine different aspects of program performance to identify the strengths and weaknesses of a given Federal program. The Disability Insurance and Supplemental Security Income (SSI) programs have been evaluated with PART and were

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

rated “moderately effective,” the second highest rating. Per the OMB definition, a program rated moderately effective has set ambitious goals and is well-managed. A PART evaluation of the Agency’s Old-Age, Survivors, and Insurance program is underway for the FY 2008 President’s budget.

Financial and Performance Integration

SSA has worked diligently to emphasize the relationship between resources and results. The progress in this area includes the Commissioner’s multi-year Service Delivery Budget Plan, which provides a context for making decisions on needed improvements in service delivery and fiscal stewardship, and the requisite staffing to accomplish both. The budget plan was developed as a multi-year plan to articulate the resources required to keep up with core workloads; process special workloads; eliminate backlogs of disability claims, hearings and appeals, and other operational workloads; and to improve productivity and fiscal stewardship.

The Service Delivery Budget Plan aligns costs and workyears with overarching performance goals in the ASP. For example, the initial Service Delivery Budget Plan identified the resources required to eliminate backlogs by the end of FY 2008 and took into account savings for efficiencies that the Agency expected to achieve from process and technology changes. The Agency was able to show, each year through FY 2008, the costs of reducing backlogs or simply keeping up with workloads. Agency accounting and cost analysis systems, which track the administrative costs of SSA programs by workload, as well as employee production rates, were invaluable tools in helping develop projections.

SSA is also improving its core budget formulation system and developing an automated system that will build on the current financial performance and management information systems. These systems will enable the Agency to better project how resource changes affect various workload levels and outcomes. In addition, SSA has implemented a budget formulation model which helps estimate what level of performance to expect at different levels of funding and productivity.

The Agency’s budget clearly defines performance commitments, both in terms of the public service and program integrity workloads that the Agency will handle and the outcomes it expects to achieve. SSA’s plans and budget activities reflect evaluation and feedback from Congress, the Social Security Advisory Board, the Government Accountability Office (GAO), and SSA’s OIG. Accountability is clearly defined for major Agency initiatives and workloads, and productivity and/or process improvements are built in. For several years, the integrated Managerial Cost Accountability System (MCAS) and the Social Security Unified Measurement System (SUMS) projects have been important elements of the Agency’s efforts to link costs and results. Agency executives meet on a monthly basis to review and discuss performance measures. Resource allocation decisions are then made based on performance and projected workloads. Furthermore, results from the PMA are integrated into the Agency’s decision-making process and are included in budget justification materials.

Major Management Challenges

The Agency also took action to address the Major Management Challenges identified by the GAO and SSA’s OIG. Major Management Challenges linked to the strategic goal of Service include Managing the Disability Process, Electronic Government, and Service Delivery. Under the strategic goal of Stewardship, the Major Management Challenges include SSI, Information Security, Improper Payments, Performance Measures, Systems Security and Critical Infrastructure Protection. The Major Management Challenge linked to Solvency is to strengthen Social Security. Finally, the Major Management Challenge linked to the strategic goal of Staff includes Management of Human Capital. The *Agency Challenges* section of this report, which begins on page 24, describes these major challenges and the steps SSA has taken, and will continue to take in the future, to address these issues.

Data Quality

Social Security is committed to providing clear, reliable data for managerial decision-making and oversight. SSA strives to ensure that its data are quantifiable and verifiable. Internal management controls are in place that reflect the observations and directives provided by the Agency's OIG and the GAO. These controls, which include ongoing data quality reviews, as well as reviews at all levels of management, audit trails, restricted access to sensitive data and separation of responsibilities, are designed to safeguard the integrity and quality of Social Security's vast data resources. SSA also has high security protections in place to protect the Agency's electronic data. SSA is proud that the Agency has not experienced any outside infiltrations of its programmatic mainframes. The controls provide assurances that data in this PAR contain no material inadequacies, and further allow the Commissioner to certify that, with reasonable assurance, Social Security is in compliance with the provisions of the *Federal Managers' Financial Integrity Act of 1982*.

Social Security Data Integrity Systems and Controls

Performance data for the APP's quantifiable measures, including the budgeted output measures, are generated by automated management information and workload measurement systems as a by-product of routine operations. The performance data for several accuracy and public satisfaction measures come from surveys and workload samples designed to achieve very high levels of statistical validity—usually with a 95 percent confidence level.

The Agency performs stewardship reviews and reports on the quality of Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs. The reviews continue to be the primary measure of quality for Agency performance and provide the basis for reports to Congress and other monitoring authorities. The reviews provide an overall accuracy measurement of payments to all Social Security beneficiaries that are based on monthly sample selections from Social Security records consisting of beneficiaries currently receiving benefits. For each sampled case, Social Security interviews the recipient or representative payee, makes other contacts as needed, and redevelops all non-medical factors of eligibility.

The Agency uses an evaluation process to provide quality feedback on recently processed OASDI cases. This process also includes SSI claims and redeterminations. The process, known as Transaction Accuracy Reviews, focuses on Field Office and Program Service Center quality. It relies on the case processing procedures as defined by the Agency's *Program Operations Manual System* instructions. When these instructions have not been followed and further development of the case is required, a personal contact with the recipient or their representative payee is made to bring the issue in question into compliance with the instructions and to determine whether there is any effect on payments. If an error is apparent from the material in the Field Office file and does not require any further development, the reviewer cites an error and determines the effect on payment. Quality feedback is provided to the office that processed the case. The review samples a total of about 20,000 cases annually—10,000 for each of the OASDI and SSI programs. Results from these reviews are extrapolated to produce national and regional data on the quality of approximately 5 million OASDI claims, as well as 4.2 million SSI claims, redeterminations and other actions processed each year.

Additionally, based on the findings from these quality reviews, targeted reviews are conducted on specific problems identified at the national or regional level. Targeted reviews are not limited to *Program Operations Manual System* compliance standards, but depend on the nature of the issue. Problem areas identified during the targeted reviews drive the selection of topics for these targeted reviews of 8,000 cases annually—4,000 for each of the OASDI and the SSI programs. The selections are distributed in proportion to the size of the recipient population of each Social Security region.

Assessment visits to Field Offices comprise a third element of the review, whereby Regional Office staff conducts field assessment visits to identify where work process improvements can be made. Reports are provided every six months, covering a rolling 12-month review period.

Performance Report

The annual PAR is used to report on the Agency's actual performance for the commitments outlined in the corresponding APP. This FY 2006 PAR also includes the Agency's comprehensive review of management and security controls for administrative and programmatic processes as well as accounting controls in its financial management systems.

Also discussed are the results of the audit of the FY 2006 financial statements and internal controls by PricewaterhouseCoopers, an independent accounting firm. The Agency uses the results of such reviews and assessments to take action to ensure that appropriate controls are in place to prevent unauthorized systems access and to increase confidence in the reliability of performance data.

Role of Social Security's Office of the Inspector General

OIG plays a key role in auditing performance measure data systems to determine reliability, data utility and relevance to policy decision-making. OIG annually audits a number of Social Security's performance measures and corresponding performance data. In FY 2006, OIG initiated a review of six GPRA performance measures reported in the Agency's FY 2005 PAR and nine performance measures that are being reported in this FY 2006 PAR.

Due to systems limitations, the Agency cannot maintain a full fiscal year's worth of detailed-level data related to several of its performance measures. In addition, the Agency believes that the cost for the additional systems storage would outweigh the return on investment. In response to the Agency's systems limitations, the OIG agreed to implement a real-time auditing approach by reviewing nine GPRA performance measures that are being reported in this FY 2006 PAR. The results of the real-time audit will not be available until early in 2007 and will be reported in the FY 2007 PAR.

The OIG's contractor, PricewaterhouseCoopers LLP, performed the work, and their objectives were to:

- Assess the effectiveness of internal controls and test critical controls over the data generation, calculation, and reporting processes for the specific performance indicator.
- Assess the overall reliability of the performance indicator's computer processed data. Data are reliable when they are complete, accurate and consistent, and are not subject to inappropriate alteration.
- Test the accuracy of results presented and disclosed in the PAR.
- Assess if the performance indicator provides a meaningful measurement of the program it measures and the achievement of its stated objective.

Of the six audited GPRA performance measures reported in the Agency's FY 2005 PAR, the OIG found the following related to the reliability of the computerized data used to calculate the performance measures:

- The computerized data for two of the performance measures were found to be reliable
- The computerized data for two of the performance measures were not available as the current contractor that maintains the performance measure data is not contractually obligated to provide SSA management with access to the data. As a result, the auditors could not conclude on the reliability of the data. It should be noted that management is updating the contract to require the contractor to provide SSA management with a SAS 70 report. The SAS 70 report will provide SSA with an assessment of the contractor's internal controls over data maintained for SSA.
- For one of the performance measures, the calculation of results was not based on computerized data. Therefore, the auditors did not complete an analysis of data reliability for this performance measure.

- For one of the performance measures the auditors found the data to be unreliable because an SSA programmer had direct access rights to the performance measure data. It should be noted that SSA management has since removed the programmer's direct update access

SSA has already implemented or agreed to implement a majority of the audit recommendations. In response to the audit observations made by the OIG, SSA is:

- Using a risk-based approach to evaluate access rights for all its programmatic and administrative systems. The systems identified as most tempting for high-risk activity have been successfully secured.
- Working to improve the overall documentation and internal controls for performance measures.
- Coordinating with performance measures owners to ensure that the measures are results- oriented and show progress in the accomplishment of the Agency's strategic objectives and goals.

Audit of SSA's FY 2006 Financial Statements

In accordance with the *Chief Financial Officer's Act of 1990*, SSA's financial statements were independently audited by PricewaterhouseCoopers LLP. The objective of this audit was to determine whether the financial statements fairly presented, in all material respects, the financial position of the Agency. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. The PricewaterhouseCoopers LLP audit report can be found in the *Financial Section* of this FY 2006 PAR.

Agency Challenges

Each year, the Social Security Administration’s (SSA) Office of the Inspector General (OIG) and the Government Accountability Office (GAO) specify major management challenges for the Agency. The following table lists these challenges, links the challenges to related Agency strategic goals and objectives, and shows the President’s Management Agenda (PMA) initiatives most closely related to both the challenges and the goals.

Agency challenges are grouped by the Agency strategic goal — **SERVICE, STEWARDSHIP, SOLVENCY** and **STAFF** — that addresses a specific challenge. PMAs are also listed to enhance the reader’s understanding of the relationships among the different elements.

SSA’S MAJOR MANAGEMENT CHALLENGES LINKED TO AGENCY STRATEGIC GOALS AND THE PMA		
Major Management Challenges as Designated by GAO and OIG	Strategic Goals and Objectives that Address the Challenges	PMA Items Related to Challenges and Goals
Management of the Disability Process (OIG) Electronic Government (OIG’s Service Delivery & Electronic Government) Service Delivery (GAO) Improve the Disability Determination Service Process and Return to Work (GAO) Disability Insurance - High Risk (GAO)	SERVICE Make the right decision in the disability process as early as possible Increase employment for people with disabilities by expanding opportunities Improve service through technology, focusing on accuracy, security, and efficiency	Expanded Electronic Government
Supplemental Security Income (GAO) Information Security (GAO) Improper Payments and Recovery of Overpayments (OIG) Social Security Number (SSN) Protection (OIG) Internal Control Environment and Performance Measures (OIG) Systems Security and Critical Infrastructure Protection (OIG)	STEWARDSHIP Detect and prevent fraudulent and improper payments and improve debt management Strengthen the integrity of the Social Security Number (SSN) issuance process to help prevent misuse and fraud of the SSN and card Ensure the accuracy of earnings records so that eligible people can receive the proper benefits due them Manage Agency finances and assets to link resources effectively to performance outcomes	Competitive Sourcing Improved Financial Performance Budget and Performance Integration (including Program Assessment Rating Tool (PART) requirements) Eliminating Improper Payments ¹
President Bush, Congress, GAO, the Congressional Budget Office, and the Board of Trustees of Social Security OASDI Trust Funds have called for reforms to strengthen Social Security	SOLVENCY Through education and research efforts, support reforms to ensure sustainable Solvency and more responsive retirement and disability programs	There are no PMA items that directly relate to Solvency.

¹ Program Initiative

SSA'S MAJOR MANAGEMENT CHALLENGES LINKED TO AGENCY STRATEGIC GOALS AND THE PMA		
Major Management Challenges as Designated by GAO and OIG	Strategic Goals and Objectives that Address the Challenges	PMA Items Related to Challenges and Goals
Managing Human Capital (GAO and OIG's Service Delivery & Electronic Government)	STAFF Recruit, develop and retain a high-performing workforce	Strategic Management of Human Capital

Source: OIG's Memo to the Commissioner dated November 30, 2005 - Re: *Top Issues Facing SSA Management – FY06*

Agency Challenges by Strategic Goal

SSA's current strategic goals and objectives, articulated in the *Agency Strategic Plan* published in January 2006, provide a framework for prioritizing projects and initiatives and allocating Agency resources required to achieve performance results as well as address management challenges. While strategic goals and objectives remain unchanged until a new strategic plan is published, strategies to minimize the effects of major management challenges can be modified.

A discussion follows of how Agency goals and objectives address the challenges identified by SSA's OIG and GAO as each challenge relates to the Agency's goals. It is important to note that many challenges cut across Agency strategic goals and objectives. For instance, the *Electronic Government* challenge relates not only to the **SERVICE** goal, but also to the Agency's **STEWARDSHIP** goal. Other challenges overlap. "*Better positioning SSA for future service delivery,*" for instance, is closely tied to other challenges such as "*Social Security Number integrity and protection,*" and "*Strengthen controls to protect the personal information SSA develops and maintains.*" Because of these interrelationships, it is more effective to group the challenges within the strategic goal to which they most closely relate: **SERVICE, STEWARDSHIP, SOLVENCY and STAFF.**

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

SERVICE Challenges

- Management of the Disability Process
- Improve Programs that Provide Support for People with Disabilities
- Better Position SSA for Future Service Delivery Challenges, Including Information Technology
- Electronic Government

SERVICE Strategic Objectives that Address the Challenges

- Make the Right Decision in the Disability Process as Early as Possible
- Increase Employment for People with Disabilities by Expanding Opportunities
- Improve Service through Technology, Focusing on Accuracy, Security, and Efficiency

President's Management Agenda Initiative Related to SERVICE

- Expanded Electronic Government

Addressing the Service Challenges Through Changes to the Disability Process

The SSA is committed to providing the high quality service the American people expect and deserve. In light of the significant growth in both the number and complexity of disability claims, major changes to the Agency's disability process were needed in order to provide timely and accurate service to its disability claimants. More efficient processing required technological and process improvements, some large and some small, to achieve SSA's Service goal.

After several years of outstanding effort from within SSA and cooperation with parties outside of the Agency, the new disability determination process is now becoming a reality. Social Security's strategic initiatives fall into two main categories – the new Disability Service Improvement (DSI) process and Electronic Disability Processing.

Disability Service Improvement Process

For the first time in 50 years, the Agency made significant changes to the disability determination process – changes that enhance the Agency's ability to make accurate, consistent, and timely decisions. The final regulation amending the Agency's disability determination process was published on March 31, 2006 and became effective on August 1, 2006. SSA is phasing in the DSI process on a region-by-region basis over an estimated five year period, beginning with the Boston Region. The new process, with the electronic disability claims process as its foundation, will shorten decision times and pay benefits much earlier in the process to people who are clearly disabled. As the Commissioner has said, "The changes we are making in the disability process will greatly improve the quality of service that Social Security provides to the millions of disabled workers and their families. The new process uses 21st century technology and improves accountability at every step. It reflects my goals of improving the accuracy, consistency and fairness of the Agency's process and ensuring that we make the right decision as early in the process as possible."

Changes Included in the DSI Process

Although DSI preserves many significant features of the current system, it includes important changes at every level in the process which, taken as a whole, will result in greatly improving our service to people with disabilities. These include: providing decisions within twenty days for people who are clearly disabled; eliminating the State Agency reconsideration and creating a federal level of review earlier in the process to ensure consistent and more timely decision-making nation wide; increasing the quality and availability of expert assistance for our disability adjudicators at every step of the process; and gradually replacing the Appeals Council with a Decision Review Board (DRB) which will promote accurate, consistent, and fair decision-making.

Establishing a Quick Disability Determination (QDD) Process: QDD is being used to identify and expedite claims for applicants with impairments that reflect a high probability that the claimant will be found disabled under SSA disability guidelines. Once identified, these claims are assigned to the State Disability Determination Service's (DDS) QDD unit. The DDS QDD units are staffed by experienced disability examiners who possess the knowledge, training, and experience to effectively carry out the QDD function. The number of QDD claims, relatively small at first, will increase gradually as SSA gains experience with the QDD system. If a fully favorable decision cannot be made on a QDD claim, the case is transferred to a non-QDD DDS unit and adjudicated using regular disability determination procedures.

Requiring the State Agency to More Fully Document and Explain in Clear and Understandable Language the Determination Made in Every Claim it Processes: The increased time devoted to these activities is expected to be offset by the elimination of the reconsideration step.

Creating a Federal Reviewing Official (FedRO): The FedRO provides a Federal review of the DDS determination much earlier in the disability appeals process—thus addressing discrepancies among State Agency allowance and denial rates and making the right decision as early in the process as possible. The FedRO is a highly trained attorney who produces nationally consistent, carefully documented, and well-reasoned decisions. The FedRO reviews any new evidence, and issues a decision to affirm, modify, or deny the initial DDS determination.

The FedRO obtains clarification from the DDS when the rationale for the initial determination is incomplete or unclear and provides feedback for continuous improvement. Reversals and claims with new and material evidence are decided in consultation with the Office of Medical and Vocational Expertise (OMVE). The FedRO decisions explain in clear and understandable language the specific reasons for the decision.

Creating the Office of Medical and Vocational Expertise (OMVE): The OMVE provides the expert assistance that adjudicators need to make disability determinations (effectuated by the Disability Determination Services), and decisions (rendered by the Hearings Offices) that are accurate, consistent, and fair. The OMVE advises adjudicators on the nature of the expertise that they may need and arranges for the provision of that expertise. It includes a national network of qualified medical, psychological, and vocational experts who are available to assist adjudicators at all levels of the disability determination process through the Administrative Law Judge (ALJ) level.

Closing the Record and Improving the Timeliness of the Hearing Process: The record generally closes after the ALJ issues a decision; however, there is provision for good cause exceptions, e.g., under certain conditions an unusual, unexpected, or unavoidable circumstance may have prevented the submission of evidence earlier. In addition, to improve the timeliness of the hearing process, the goal is to have an ALJ establish the time and place for a hearing within 90 days of the date the hearing request is received. This goal emphasizes the Agency's commitment to providing timely service. To ensure adequate time to prepare for a hearing, the ALJ notifies the claimant of the time and place of the hearing at least 75 days beforehand, unless the claimant agrees to a shorter notice period. Claimants or their representatives are required to submit evidence as soon as possible, but no later than 5 business days before the hearing unless an exception is met.

Establishing the Administrative Law Judge (ALJ) Decision as the Final Agency Decision: The ALJ decision is generally the final decision of the Agency unless the DRB renders the final decision. Although claimants' rights to request review of ALJ decisions in disability determination cases are being eliminated, they may request ALJ review of non-disability issues and ALJ dismissals. As part of SSA's careful implementation plan, the DRB is reviewing 100 percent of ALJ decisions in the Agency's Boston Region.

Creating a Decision Review Board (DRB) to gradually replace the Appeals Council: The Appeals Council will phase out as SSA implements DSI throughout the nation. The DRB, comprised of ALJs and Administrative Appeals Judges, is an adjudicatory and advisory body that promotes accurate, consistent, and fair decision making by reviewing ALJ decisions, both allowances and denials. The DRB evaluates and reviews ALJ decisions which are most likely to be problematic, before they are effectuated. The DRB also studies ALJ decisions that have been effectuated, identifies issues that impede consistent adjudication at all levels of the disability determination process, and recommends improvements to that process. The DRB may affirm, modify, or reverse ALJ decisions or remand a claim to the ALJ for further action.

Ensuring Both In-line and End-of-line Quality Review Throughout the Process: A major goal of the DSI process is to improve the quality of decision-making at all levels of the claims process. This includes an in-line and end-of-line quality review process, featuring an improved in-line review process by DDSs at the initial level, and a new, centralized, Office of Quality Performance to replace our current quality control system. SSA's new quality process also includes feedback loops at every level of the disability determination process to ensure continuous improvement. For example, the FedRO helps improve the quality of DDS determinations by explaining why the FedRO agrees or disagrees with the DDS determination. The ALJ's written decision provides similar feedback to the FedRO, and the DRB contributes to the feedback loops for the ALJ, FedRO, and DDS levels of adjudication.

Establishing a Disability Program Policy Council: This entity provides a forum to discuss policy issues and to make policy and procedural recommendations.

SSA is undertaking a major effort to enhance its collection and use of management information. The Agency intends to use improved management information to help make continuous improvements as the new DSI process is rolled out.

Electronic Disability Processing

To reduce delays inherent in the disability process, as well as the expense of shipping and storing folders, SSA implemented an electronic disability initiative known as electronic disability (*eDib*). The process replaces the paper disability folder with electronic records that are easily accessible to case processing personnel all across the country. *eDib* provides the foundation for DSI case processing. SSA is making great strides in moving its beginning-to-end disability claims processing/adjudication from a paper-laden environment to an electronic one. This lays a solid foundation for expedited case processing. *eDib* allows more than one employee or component to work on a claim at the same time, thus speeding up the process. Medical records can be quickly scanned into the system and made readily accessible to all adjudicators and experts. The system includes electronic safeguards to help adjudicators avoid mistakes, which will result in more accurate decision-making. It also protects the confidentiality of claimant information. SSA continues to make significant progress in implementing the electronic disability process. With all but two States using a fully electronic process, *eDib* is transforming how the Agency is processing disability claims. Beginning in July 2000 claimants were given the option of filing for disability benefits via the Internet. After six years in the process, over 91,000 initial disability claims have been filed using this option. The *Electronic Disability Collect System* is being used to process initial claims in over 93 percent of SSA's Field Offices; these claims are electronically transmitted to the State DDS.

To take full advantage of fully electronic processing, SSA has developed methods for receiving medical and other documentation necessary for processing disability claims. SSA has developed a free, easy-to-use, secure website called Electronic Records Express Services. This enables providers to submit electronic records (including scanned paper records) that can be safely uploaded and directly submitted into the electronic folder. Use of the website speeds the delivery of evidence and helps eliminate misplaced medical records.

As of September 1, 2006, 48 States and the territories of Guam, the Virgin Islands, and Puerto Rico have successfully completed Independence Day Assessment (IDA) certification, meaning they are certified to use electronic files as the official Agency record. The remaining States will be certified by the end of December 2006.

Through September 2006, 84% percent of all DDS initial claims were processed electronically. Ninety-five percent of Disability Examiners have been trained to use the Document Management Architecture which is the component of the electronic file that stores images and audio and video files.

- The following continuing activities support the move to the *eDib* process:
- Development of a process for electronic medical continuing disability reviews (CDRs);
- Expansion and improvement of Internet disability application and appeals services for applicants and their representatives;
- Development of processes to speed the request and retrieval of electronic evidence from medical, educational, and other third-party sources; and
- Expanded use of digital recording equipment in all SSA hearings offices, replacing equipment that had been in place for over 20 years. Although most digital records are being stored on compact disc, SSA is beginning to store digital recordings in the electronic folder.

Other Initiatives

Other initiatives to improve the disability determination process include reducing disability workload backlogs, revising and updating the medical listings, updating vocational policy to reflect market changes (including developing ways of more effectively measuring the physical and mental requirements of jobs that exist in the national economy), and improving training of Disability Examiners.

Addressing the Service Challenges Through Programs that Provide Support to People with Disabilities

SSA serves a diverse population of people with disabilities through the DI and SSI programs. SSA's beneficiaries represent various age groups and have different impairments, levels of education, work experience, and capacities for working. Many cannot work at all or on a sustained basis. Many, however, can work part-time or full-time with reasonable accommodations, with or without ongoing supports. The Agency is working to ensure that all beneficiaries with disabilities have the opportunity to learn and develop skills that could enable them to return to work. The strategies for increasing employment for people with disabilities are guided by and directly support the President's *New Freedom Initiative*.

SSA's Success In Increasing Employment Will:

- Increase the number of people with disabilities who are working.
- Result in an important contribution to the economy through the talents and earnings of these people.

The *Comprehensive Work Opportunity Initiative* represents the Agency's overarching strategy to assist people with disabilities who want to become more self-sufficient through employment. SSA recognizes that while many people may want to return to work, there are multiple barriers that may hinder employment. Barriers such as the:

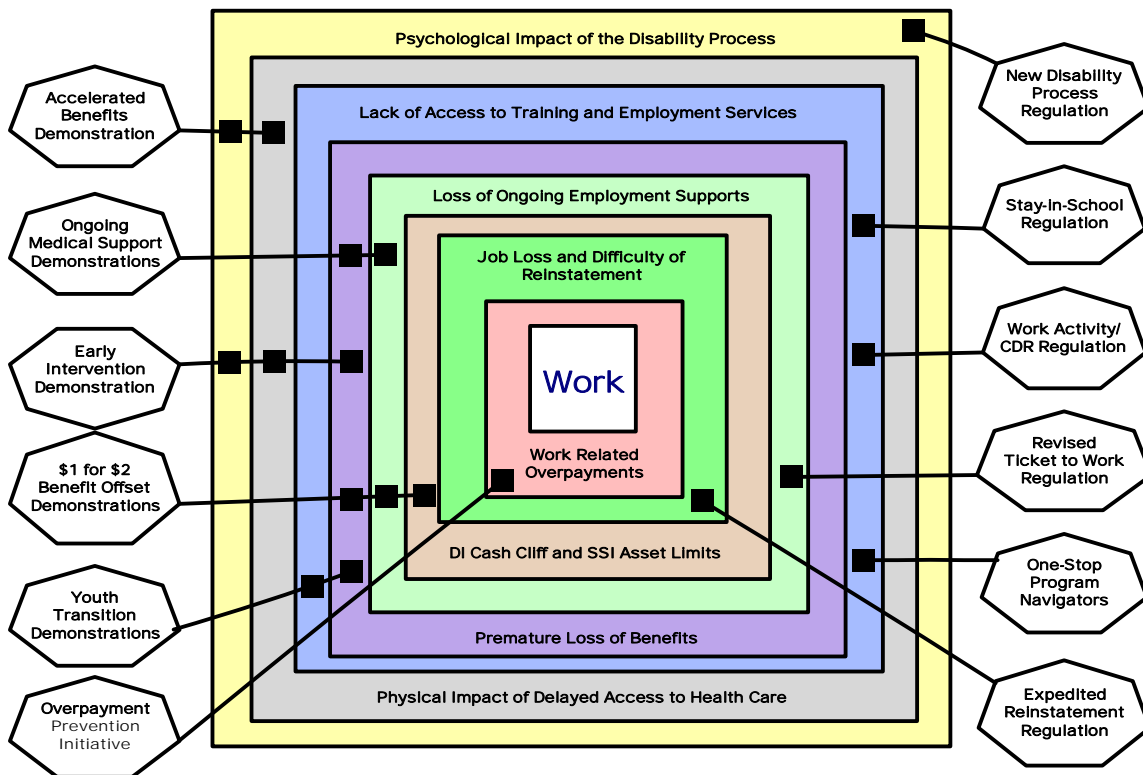
- Lack of access to training and employment services;
- Loss of ongoing employment supports;
- Loss of employment and difficulty with benefit reinstatement;
- Premature loss of benefits;
- Work related overpayments;
- Cash cliff (abrupt discontinuation of disability insurance benefits after an earnings threshold is reached);
- SSI asset limits; and
- Physical consequence of delayed access to health care which may prevent a person from achieving their goal of economic self-sufficiency.

Most people with disabilities, who want to work, face more than one barrier, often three, four or more. To effectively assist them, Social Security is addressing all barriers. To leave just one barrier standing is to keep a person on benefits from working.

The *Comprehensive Work Opportunity Initiative* addresses these underlying issues through a three-pronged approach. First, the Agency is continuing to market and strengthen the *Ticket to Work* program. Second, the Agency is designing, implementing, and evaluating demonstration projects aimed at supporting the efforts of people with disabilities who wish to enter or re-enter the workforce. For many of these projects, SSA is working in conjunction with other Federal and State agencies, such as the Department of Education and the Department of Labor, to provide support across a broad range of areas. Third, the Agency is continuing to develop and offer appropriate legislative and regulatory proposals aimed at encouraging beneficiaries and Employment Networks (qualified private or public entities or groups that enter into an agreement with SSA under the *Ticket to Work*

program to coordinate and deliver employment services to beneficiaries with disabilities) to participate in work incentive initiatives.

Comprehensive Work Opportunity Initiative: Overcoming Multiple Barriers to Employment



Ticket to Work Program

The *Ticket to Work* program directly supports the President’s *New Freedom Initiative* to expand employment opportunities for Americans with disabilities. The program provides beneficiaries with disabilities expanded options for accessing employment services, vocational rehabilitation services, and other support services to help them work and reach their employment goals. *Tickets* have been mailed out to more than 10 million beneficiaries nationwide and in the United States territories. *Tickets* continue to be sent to approximately 85,000 new beneficiaries each month as they are added to the disability rolls. Since the rollout began in 2002, more than 147,000 beneficiaries have used their *Tickets*.

In May 2003, SSA contracted for an independent and comprehensive five-year evaluation of the *Ticket to Work* program. Already, the *Ticket* evaluation has provided SSA with important feedback on the effectiveness and potential of the *Ticket* program. Key evaluation findings provided crucial guidance and were used to propose regulatory changes to strengthen the *Ticket* program.

In September 2005, SSA published a *Notice of Proposed Rule Making* to strengthen the *Ticket to Work* program. The changes would improve the overall effectiveness of the program in assisting people with disabilities who want to become more economically self-sufficient through employment. The proposed changes would:

- Expand the population of people eligible for *Tickets* to include those who are expected to improve medically;
- Modify the rules for *Ticket* assignment to enable beneficiaries to take advantage of a much broader combination of services from both Vocational Rehabilitation agencies and Employment Networks; and

- Modify the Employment Network payment systems to accelerate the payment period to Employment Networks serving DI beneficiaries, and increase the incentive for small or undercapitalized providers to participate as Employment Networks. There are two methods of payment an Employment Network can select at the time it enters into an agreement with SSA: the outcome payment system and the outcome-milestone payment system. The outcome payment system provides a schedule of payments to Employment Networks for up to 60 months (which do not have to be consecutive) per *Ticket* in which the beneficiary does not receive Social Security disability benefits or Federal SSI cash benefits because of work or earnings. For the outcome-milestone payment system, there are four milestones for which the Employment Network can be paid. The milestones must occur after the date on which the *Ticket* was first assigned and after the beneficiary starts work.

The Agency has numerous promotional activities underway to increase participation in the *Ticket to Work* program through:

- Encouraging Employment Networks and prospective Employment Networks to assist disability beneficiaries in finding and holding jobs;
- Conducting outreach and marketing activities to educate the public about programs and services that facilitate entry into the workforce; and
- Partnering with other public and private groups to remove employment barriers for people with disabilities.

Full implementation of the *Ticket to Work and Work Incentives Improvement Act* also involves two complementary programs:

Benefits Planning, Assistance and Outreach (BPAO) Program: The community-based BPAO program continues to provide work incentives planning and assistance to those beneficiaries with disabilities, conduct ongoing research efforts to those beneficiaries potentially eligible to participate in Federal and State work incentive programs, and work in collaboration with Federal, State, and private agencies and nonprofit organizations serving beneficiaries with disabilities. Through FY 2006, 113 projects successfully provided the full range of benefit planning services in all 50 States, the District of Columbia, and the U.S. Territories.

The Social Security Protection Act authorized and extended the program through FY 2009. For the provision of services through FY 2009, SSA issued a new nationwide, competitive Request for Applications for the Work Incentives Planning Assistance (WIPA) Program which replaced the BPAO Program when the cooperative agreements were awarded on September 30, 2006. This improved program places a new emphasis on return-to-work support and jobs for beneficiaries. The WIPA awardees will work with One-Stop Career Centers, Disability Program Navigators, Employment Networks, Vocational Rehabilitation agencies, and the Program Manager for Recruitment and Outreach. Also, to ensure quality services for beneficiaries, the Agency is developing a registry to ensure that awardees hire and retain qualified Community Work Incentive Coordinators.

Protection and Advocacy for Beneficiaries of Social Security (PABSS) program: Nationally, 57 PABSS projects provide a broad range of advocacy-related services to beneficiaries with disabilities. These include providing information and advice about obtaining vocational rehabilitation and other related employment services, and advocacy or other services that a disabled beneficiary may need to secure, maintain or regain gainful employment. The *Social Security Protection Act* reauthorized and extended the PABSS program through FY 2009.

Demonstration Projects

As part of the Comprehensive Work Opportunity Initiative, SSA's demonstration projects and other innovative initiatives test strategies to increase opportunities and break down potential barriers for people with disabilities who wish to enter or re-enter the workforce. The following website provides more in-depth information regarding each of the demonstration projects described below: www.socialsecurity.gov/disabilityresearch.

Initiatives Included in Disability Service Improvement

Accelerated Benefits Demonstration: This project, scheduled to begin in Spring 2007, will provide immediate health benefits and employment supports to certain newly-hired DI beneficiaries who have medical conditions that are expected to improve (or could possibly improve within two to three years) with access to appropriate medical care. Under current law, most DI beneficiaries must wait 24 months after cash benefits begin before they become entitled to Medicare. The demonstration project will test whether providing immediate health benefits, followed by appropriate employment supports, might improve the health and return-to-work outcomes for these beneficiaries and improve their self-sufficiency through employment. The project will also help SSA determine the costs and benefits associated with providing immediate medical benefits to these beneficiaries.

Youth Transition Demonstration: SSA has cooperative agreements to assist young SSI and DI beneficiaries (ages 14-25) to successfully transition from school to employment and ultimately to economic self-sufficiency. The projects provide a broad array of transition-related services and support for participants. Projects will continue to provide services through 2009.

Benefit Offset Demonstration: This demonstration will allow SSA to test the effect and cost of a sliding scale benefit offset for DI beneficiaries and applicants. Under this test, disability benefits would be reduced \$1 for every \$2 a DI beneficiary earns above a certain threshold. Under current rules, a beneficiary will lose DI entitlement and cash benefits after earning a substantial income for nine months. This potential loss of benefits and eventually the corresponding access to Medicare benefits is thought to discourage many beneficiaries from attempting to work. The study will include an early intervention model which will test whether providing supports and services to disability applicants would reduce entry into the Social Security disability program and result in improved employment, earnings, and other outcomes for people with disabilities. As of the end of July 2006, 608 participants were enrolled in four pilot States - Connecticut, Utah, Vermont, and Wisconsin. Findings from this pilot will provide information for the Benefit Offset National Demonstration, which is scheduled for implementation in 2007.

Other Ongoing Employment Support

Mental Health Treatment Study: This study is testing the effect that better access to treatment and rehabilitation services has on outcomes such as medical recovery, functioning, employment, and benefit receipt for DI beneficiaries with schizophrenia or an affective disorder as a primary impairment. The study uses provider networks that offer a range of integrated mental health disorder treatments (psychotherapeutic and pharmaceutical) and employment supports. The project provides an individualized, comprehensive care and support plan for each participant. The participant enrollment process began in September 2006.

California Human Immunodeficiency Virus/Auto Immune Disorders Demonstration Project: This project to be implemented in four California counties will provide support services and private health benefits to current Social Security Disability Insurance beneficiaries with a diagnosis of HIV/AIDS, immune disorder, and/or auto-immune disorder. Participating beneficiaries will receive a health benefits package and comprehensive employment support service coordination. An Expert Medical Unit will also be established to ensure that project participants are receiving the medical, vocational, and psychosocial services required to address the multiple issues inherent with these diagnoses. Each enrolled beneficiary will be assessed to determine the type of services and/or interventions needed for a sustained and successful return to work. Results derived from this demonstration project will help SSA to determine if such interventions can help beneficiaries achieve a faster and sustained return to work.

Other Initiatives

Disability Program Navigator (Navigator): Navigator, a cooperative project with the Department of Labor (DOL), provides seamless employment services to people with disabilities seeking to enter or re-enter the workforce. Navigators work in DOL's One-Stop Career Centers administered by the State Workforce Investment Boards. They provide a critical link to the local employment market and facilitate access to programs and services. The establishment of these centers is now completed. SSA has discussed with DOL the option of including the One-Stop Centers in the design of the Benefit Offset Demonstration project.

Legislative and Regulatory Changes

In addition to the changes to the *Ticket to Work* program, SSA has implemented and proposed several regulatory changes aimed at breaking down barriers to work. (See chart on page 30.) SSA's proposed work activity/CDR regulation modifies rules regarding CDRs for some beneficiaries to remove the potential disincentive of work activity. The Agency's recent final regulatory changes to remove barriers to employment include: 1) the *Stay-in-School Regulation* and 2) the *Expedited Reinstatement Regulation*. The first allows the continuation of benefit payments to certain participants in a program of vocational rehabilitation services, employment services, or other support services and extends eligibility for continuing benefits to students age 18 through 21 who have an individualized education plan. The second provides an expedited process for benefit reinstatement if a former disability recipient is no longer able to work.

Automation Initiatives

Overpayment prevention is an ongoing initiative aimed to prevent or minimize overpayments for disability beneficiaries. SSA has undertaken several automation initiatives including the *Disability Control File*, *eWork*, expanding access to the Office of Child Support Enforcement's earnings information, reporting wages via telephone during the Monthly Wage Reporting pilot, and using automated earnings verification procedures. These combined efforts will allow the Agency to identify and verify earnings more quickly, maintain control of work activity workloads more effectively, increase the efficiency of SSA's disability work-related work processes, and obtain better management information. In addition, SSA has been issuing report receipts while developing a work report database. This allows the Agency to maintain control of work reports from inception through the final determination process.

Addressing the Service Challenges Through Use of Technology

Advances in information technology are essential in meeting the Agency's future productivity challenges. The Social Security Advisory Board noted that the combination of dramatic workload growth and SSA's employee retirement wave "will place extraordinary pressures on the Agency to meet the public's need for service." In the face of these challenges, adopting technological solutions is essential to maintaining efficiency and supporting Agency employees who deliver the level of service the American public has come to expect.

Through SSA's Initiatives To Improve Service Through Technology, The Agency :

- Provided the public with easy and efficient access to SSA services without leaving their homes or workplaces, ultimately saving time and resources for the public.
- Improved Agency productivity and service through increased processing efficiencies.
- Conserved OASDI Trust Funds and general revenue monies.

SSA continually assesses the service needs of the public to determine how the Agency can meet those needs appropriately, efficiently and in a timely manner. An essential element in this process is the active public involvement in determining the form and content of needed services. To maximize the availability of automated telephone and Internet service, SSA takes advantage of technological advances and related policy changes that respond to the public's needs. Improvements in electronic service options benefit the public, whether they receive services through Agency employees or through the Internet or automated telephone services.

SSA's Executive Steering Committee ensures cost-effective electronic service delivery by guiding decisions regarding enhancements to the Agency's e-Government services. Although new services are added, the primary

objective is to enhance the functionality and the usability of current applications. Specific projects and services will be selected based on sound business case justifications.

The PMA requires Federal agencies to use modern technology to provide high-quality service, improve access to services, and reduce costs. SSA is committed to achieving the goals of expanded electronic Government while ensuring the security of its information infrastructure. By improving systems security and controls, the Agency can use current and future technology more effectively to fulfill the public's need.

With the increased volume and sophistication of online Governmental and private transactional applications, public expectations for Internet services continue to grow. These applications allow people to complete their business at the initial point of contact. The Agency continues to expand use of these services by improving their availability, encouraging the public to use the Agency's Internet website, and partnering with other Governmental and private entities to promote integrated service delivery.

For the foreseeable future, automated telephone service will remain one of the Agency's most important and effective service channels. The Agency has taken steps to automate more calls and to minimize the time it takes a caller to select a particular service. The implementation of speech recognition technology has reduced the time callers spend navigating through menu prompts and has reduced the Agency's manual workloads.

Electronic Service Delivery That Benefits the Public

Expanded electronic service delivery is critical to the ambitious goal of keeping up with growing core workloads. SSA continues to make it easier for people and organizations to get the service they need at its website -- www.socialsecurity.gov. SSA has implemented several strategies to gather more feedback in order to gain better insights about users of its web services. As part of this effort, SSA uses the *American Customer Satisfaction Index* (ACSI) online surveys on its website where both application and information pages are measured for satisfaction. In the September 2006 ACSI, the Internet Social Security Benefits Application and the information page "Help with Medicare Prescription Drug Plan Costs" received the highest scores among government websites. SSA's websites have an average satisfaction score of 80, outperforming the government index by six percent.

Specific strategies and activities for improving service delivery

Allowing Access to Online Services with Existing Identity Credentials: SSA has been piloting the use of existing identity credentials (e.g., PIN/Passwords issued to citizens by a third party) to access some of Social Security's online services. This first phase of the pilot, referred to as E-Authentication, allows people holding a credential issued by a trusted financial institution to start or change their direct deposit using the SSA Internet Direct Deposit application. The online application has continued to operate successfully since it was implemented in October 2005. SSA has also completed the development, and will soon implement, a second web-based application - Change of Address.

Promotion of the Agency's Website: SSA's Office of Communications continues to implement a national marketing plan to promote the Agency's website. In addition, Regional offices are encouraging third parties, such as large employers and medical institutions, to promote use of SSA's website throughout their communities. Furthermore, SSA is redesigning its home page, compiling like items under "drop down" menu windows and rearranging some of the most important items to appear in more eye-catching areas.

Use of Video Technology: SSA uses video technology to take claims and provide other services in three western States - North Dakota, Wyoming, and South Dakota. This service is in addition to the video hearings offered by the Office of Disability Adjudication and Review. SSA has entered into a joint venture with the University of North Dakota, the General Services Administration, local Government, and tribal leaders to establish video networks. Many people live in remote areas of the United States and have restricted access to SSA Field Offices. The video sites offer many of the services provided in a Field Office. SSA plans to expand the video network to provide additional sites and services. Locations in Montana are being considered, as well as establishing links between claimants and State DDS. The number of claims taken has increased significantly in areas offering video conferencing. Through video technology, SSA is better serving the public.

Enhancement of Security Program: While SSA implemented all Federal Information Security Management Act (FISMA) major program requirements within 18 months after the enactment of FISMA in December 2002, the Agency continues to evaluate and enhance its security program annually. A Congressional report card rates SSA's computer security efforts as among the best in Federal Government. The report issued by the House Government Reform Subcommittee on Technology Information Policy, Intergovernmental Relations and Census gave SSA an "A+" grade. This was one of the highest among Federal agencies, with grading based upon the FISMA reporting requirements.

SSA has now developed a stringent and comprehensive FISMA Certification and Accreditation program to ensure that it continues to improve its FISMA security programs annually. This involves human resources from various Agency components.

In addition to providing easier access to information, expanded electronic service delivery is critical to keeping up with growing workloads and providing more timely service. SSA developed a portfolio of services to provide online transactions and increased opportunities for the public to conduct Agency business electronically in a private and secure environment.

Accomplishments in Electronic Service Delivery

Internet Social Security Benefit Applications: Such applications allow the public to apply for Social Security retirement, spouse, and disability benefits online. As of September 2006, 334,900 applications for Social Security benefits were submitted online through secure Internet connections.

Improved Speech Recognition through SSA's Automated 800-Number Service: This improvement allows people to select and interact with an automated program by selecting options and responding to questions orally instead of using the numeric keypad on the telephone. Speech enabled automated telephone applications allow callers to conduct business and obtain programmatic related information. In FY 2006, there were 10,780,381 transactions for speech enabled automated applications, such as requesting replacement Medicare cards, proof of income letters, change of address, and direct deposit applications as well as requesting other forms and publications. This enhanced service increased network call handling capacity as more calls are handled via automated services.

Electronic Services for Current Beneficiaries: These services include requests for changes of address and direct deposit arrangements, replacement Medicare cards, proof of income letters, and replacement Internal Revenue Service (IRS) Form 1099. Cumulatively, the Internet and 800-number speech recognition service features handled over 12 million transactions in FY 2006.

Services for the General Public: These services include the Benefits Planner, Online Social Security Statement Request and Benefit Eligibility Screening Tools, which provided services to over 5 million website visitors as of September 2006.

Medicare Part D Subsidy Applications: These applications are available online to Medicare beneficiaries with limited income who want to apply for subsidized prescription drug coverage. The subsidy determination process can also be completed electronically using automated processes and computer matching operations. As of the end of September 2006, more than 5.5 million people applied for the extra help available for Medicare prescription drug costs. The extra help will pay most of the cost of monthly premiums, annual deductibles and prescription co-payments—an average of \$3,700 per person in extra help per year.

Screen Pop: Screen Pop is a new application that SSA launched this year which provides Teleservice Representatives (TSRs) with quicker access to information. When a person calls the 800-number, a TSR must verify the identity of the caller before disclosing information or making changes to SSA records. Prior to Screen Pop, the TSR had to manually enter the caller's Social Security Number (SSN) and then use the caller information screen to process the call. Screen Pop allows callers to enter their SSN on the telephone keypad prior to speaking to a TSR. Screen Pop will fill-in a caller's SSN to the call information screen, which contains basic information from the caller's SSA records and assists the TSR in processing the call. If the caller does not enter an SSN, their call is

then routed to the next available TSR who will manually complete the call information screen. Through the technology of Screen Pop, TSRs provide more timely service to callers.

Electronic Service Delivery That Benefits Other Agencies

SSA's initiatives have improved not only service to the public, but also Government-wide services. By establishing partnerships with other agencies, SSA and other Government agencies share best practices and find solutions to common problems. In further support of the electronic Government initiative, SSA participates in 19 of the 24 Presidential electronic Government initiatives and holds lead responsibility for one of these, *eVital*.

The *eVital* vision is to automate the current paper-based, manually intensive process used by health professionals, State registrars, and Federal agencies to report and obtain vital records information. One project, *Electronic Death Registration*, is an online real-time system that facilitates the timely registration of deaths by automating the current paper-based processes used to collect, process, analyze, and disseminate death information. SSA currently receives death data via *Electronic Death Registration* from 14 States, the District of Columbia and New York City. Seven additional States are in various phases of implementation. The Agency awarded funding to nine additional States in FY 2006.

SSA continues to support the Department of Health and Human Services (DHHS) in implementing the Intelligence Reform and Terrorism Prevention Act (IRTPA) provisions related to minimum standards for birth certificates. As a result of the passage of the IRTPA, the *Electronic Death Registration* project is being transitioned to DHHS since provisions in the legislation give DHHS the authority to award grants to the States to computerize birth and death records, match birth and death records within and among States, and to note the fact of death on birth certificates of deceased persons. IRTPA also requires DHHS, in coordination with the States and other Federal Agencies, to develop minimum standards for birth certificates. When the minimum standards go into effect, no Federal agency may accept a birth certificate that does not meet these standards. SSA is working with DHHS to develop these standards since this aspect of IRTPA will affect the Agency's evidentiary requirements.

SSA has numerous agreements in place to exchange data with other agencies to ensure that programs across Government agencies are administered fairly and accurately. These agreements allow SSA and other agencies to provide timely, seamless service to the public.

Current Data Exchanges

State Motor Vehicle Administrations: SSA has entered into agreements with the State Motor Vehicle Administrations to verify the name, SSN, and date of birth for drivers' licenses and State issued identification cards. SSA also provides, through the Motor Vehicle Administration in each State, a method for verifying the name, date of birth and last 4 digits of an SSN for people who do not have a driver's license or State issued identification card. SSA has entered into agreements with the States to provide these verifications through the American Association for Motor Vehicle Administration in response to the Help America Vote Act of 2002.

Other Agencies: Medicare Modernization Act matches have been negotiated with the Internal Revenue Service, Department of Veterans Affairs, Railroad Retirement Board, Health and Human Services/Office of Child Support Enforcement, Bureau of Public Debt, Treasury and the Office of Personnel Management for income verification to determine subsidy eligibility for the new Medicare Part D (Prescription Drug coverage) premium. SSA is responsible for collecting information regarding an applicant's income and resources to determine whether the applicant is eligible for a subsidy, and if so, the percentage of the subsidy.

Department of the Treasury and Financial Institutions: The *National Direct Deposit Initiative* is a data exchange with the Department of the Treasury and financial institutions to increase direct deposit enrollment. In October 2005, the first data exchange was done with a Mississippi bank. SSA identified 4,852 customers who were receiving Old-Age, Survivors, and Disability benefits via paper checks and who did not have a representative payee. A direct deposit enrollment form was mailed to them and, as a result, SSA has now enrolled 9.5 percent of the selected customers into direct deposit. SSA continues to promote this initiative and to work with Treasury on outreach and marketing to major banks.

Electronic Service Delivery That Benefits Employers

SSA made improvements in the electronic service delivery provided to employers and the business community, resulting in efficiencies in SSA's operations.

Strategies for Improving Service Delivery to Employers

Electronic Wage Reporting: Electronic wage reporting simplifies the process for businesses by allowing them to submit employee wage reports online. The *W-2 Online* internet-based system sends the wage and tax information to SSA, saving time and money for both the employer and the Agency. The service also includes the *AccuWage* tool for businesses that improves reporting accuracy and reduces the volume of error correction and necessary follow-up contacts. As of mid September 2006, SSA processed 74.7 percent (181 million) of the expected tax year (TY) 2005 W-2s electronically, exceeding its expectations of 70 percent. Also, as of late September 2006, SSA processed over 20,185 tax year 2005 W-2 corrections using the W-2 Correction online service which was implemented in January 2005 as part of the Electronic Wage Reporting process.

SSN Verification Service (SSNVS) and the Basic Pilot Program: Both of these initiatives support Electronic Service Delivery that Benefits Employers as well as the Employee Verification Programs. A detailed description of both of these initiatives can be found on pages 46-47.

The Certificates of Coverage Internet Application: This application allows employers to request proof of Social Security coverage for their employees working abroad. The Certificate of Coverage issued by SSA serves as proof that the employer and employee are exempt from Social Security taxes in the other country. This Internet application eliminates paper form filing, mailing, and processing. In FY 2006, SSA processed a total of 42,271 requests from employers seeking certification of employee Social Security coverage; 13,558 of these requests were submitted using the Internet-based application.

Opportunities still exist to make improvements in the electronic wage reporting service. By the end of the year, SSA will eliminate the use of tapes, cartridges and diskettes in an effort to increase electronic reporting over the Internet. This coincides with SSA's plans to accommodate more business by way of the Internet, improve earnings products and services for employers and employees, and improve the earnings establishment, correction and adjustment processes.

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

STEWARDSHIP Challenges:

- Integrity of the Supplemental Security Income Program
- Improper Payments
- Social Security Number Integrity and Protection
- Internal Control Environment and Performance Measures
- Strengthen Controls to Protect the Personal Information SSA Develops and Maintains
- Critical Infrastructure Protection and Systems Security

STEWARDSHIP Strategic Objectives that Address the Challenges:

- Detect and Prevent Fraudulent and Improper Payments and Improve Debt Management
- Strengthen Integrity of the Social Security Number Issuance Process to Help Prevent Misuse and Fraud of the Social Security Number and Card
- Ensure the Accuracy of Earnings Records so that Eligible People Can Receive the Proper Benefits Due Them
- Manage Agency Finances and Assets to Link Resources Effectively to Performance Outcomes

PMA Initiatives Related to STEWARDSHIP:

- Competitive Sourcing
- Improved Financial Performance
- Budget and Performance Integration (including PART requirements)
- Eliminating Improper Payments (Program Initiative)
- e-Government

Addressing the Stewardship Challenges Through Detecting and Preventing Fraudulent and Improper Payments and Improving Debt Management

This objective encompasses SSA's efforts to ensure that the Agency pays the right person the right amount. It includes activities for detecting and preventing payment error and fraud, and extends to recovery of overpayments and payment restitution.

Social Security's payment error rate for the Old-Age, Survivors, and Disability Insurance (OASDI) program is extremely low – a little less than one-half of a percent with respect to overpayments and a little less than two-tenths of a percent with respect to underpayments in FY 2005. Despite these low error rates, the Agency is committed to further reducing them, because in a program the size of Social Security each one-half of a percent increase in payment accuracy equates to \$2.6 billion of error prevented.

SSA's Initiatives To Detect, Prevent, And Collect Fraudulent And Improper Payments:

- Ensure that the public receives the benefits they are due.
- Assure taxpayers that OASDI Trust Fund monies and general revenue funds are correctly administered and disbursed.

The following discusses how SSA detects, prevents and corrects improper payments. (Also, see the Appendix, *Improper Payment Information Act of 2002 Detailed Report*.) In FY 2006, SSA's benefit payments were \$578 billion. Superior stewardship of these dollars is one of the Agency's primary goals. SSA's ongoing and broad-based stewardship efforts begin with training employees to administer technically complex programs and end with quality assurance reviews and outcome analyses of performance measures. These efforts are critical to eliminating improper payments. The PMA program initiative, Eliminating Improper Payments (see page 54), is addressed by this strategic objective.

In FY 2006, SSA targeted initiatives that have the most potential to improve the integrity of the Agency's programs across three fronts: improper payment detection; improper payment prevention; and debt collection - recovery of overpayments. Particular emphasis has been given to improving the more administratively and technically complex and more error-prone Supplemental Security Income (SSI) program. Some of these initiatives are discussed in greater detail below:

Detection and Prevention Activities

Pre-Effectuation Review

On February 8, 2006, the President signed the Deficit Reduction Act of 2005. It requires Social Security to conduct reviews of a specific percentage of SSI initial disability and blindness cases of people aged 18 and older that are allowed by the State Disability Determination Services (DDS). The provision was phased in beginning April 2006. In FY 2007, the review requirement will be 40 percent; for FYs 2008 and thereafter, 50 percent of all DDS allowances will be reviewed. SSA projects that these pre-effectuation reviews will save approximately \$490 million over 10 years. By the tenth year, projections are that these reviews will have identified and prevented improper payments in approximately 25,000 SSI disability and blindness determinations.

Medical Continuing Disability Review (CDR)

These reviews, which determine whether beneficiaries continue to be entitled to benefits based on their medical conditions, help ensure the integrity of the disability program. The Agency has made progress in its efforts to improve the CDR profiling process and procedures. Profiles identify for review those cases where medical improvement is much more likely. Those reviews dealing with severe impairments can be processed with a limited amount of contact that investigates only if there has been a change in the person's condition or work activity. CDRs have proven to be cost-effective, returning more than \$10 for each \$1 spent on this workload. Recognizing the financial return-on-investment, one of the Agency's long-term objectives is to reduce its backlog of cases requiring a CDR, which is contingent on annual funding.

eWork System

Work CDRs are used to develop and evaluate the worth of the beneficiary's earnings to determine if disability benefits should continue or cease. The *eWork* system, implemented nationwide in December 2004, provides a means of controlling and processing reports of work and earnings made by people receiving disability benefits. The system allows for improved coordination between Field Offices, enabling earnings information to be recorded at the point-of-contact, thereby reducing the occurrence of overpayments. The *eWork* system allows SSA employees to process work CDRs more efficiently, timely and accurately. The application provides improved management information and tighter controls on the work CDR process.

SSI Non-Disability Redeterminations

These redeterminations are used to detect and prevent SSI overpayments and underpayments. Required by law, the redeterminations are periodic reviews of non-medical factors of SSI eligibility. In FY 2006, nearly 1.1 million SSI recipients had their eligibility reviewed at some point during the year. The estimated benefits from the FY 2005 redeterminations totaled nearly \$1.5 billion in overpayments collected or prevented and almost \$1.1 billion in underpayments paid or prevented. SSI non-disability redeterminations have proven to be cost-effective, returning more than \$7 for each \$1 spent on this workload. Recognizing the financial return-on-investment, one of the Agency's long-term objectives is to reduce its backlog of cases requiring a SSI non-disability redetermination, which is contingent on annual funding.

eRZ

The *eRZ* (electronic redeterminations) project will assist the Agency in avoiding overpayments and erroneous payments to ineligible beneficiaries through quicker and more aggressive actions taken in error-prone and problematic workloads. Scheduled redeterminations are selected depending on an assigned error profile or likelihood of changes in circumstance that may affect either a person's or a couple's SSI payment eligibility or payment amount. These redeterminations are profiled and ranked according to the probability of error. Currently,

Claims Representatives at Field Offices handle high-error profile redeterminations through face-to-face or telephone interviews. SSA's eRZ project is developing a mailer for high error profile redeterminations to enable these redeterminations to be handled electronically. The proposal calls for a phased-in approach with 60,000 mailers sent out in October 2006 and full implementation to occur in October 2007.

Computer Matching Activities

SSA's extensive computer matching programs ensure that benefit entitlement status and payment amounts are accurate. These automated matches are done on an ongoing, periodic basis (usually monthly) and alert SSA to such events as nursing home admissions, changes in prisoner status, deportation, and recent employment of people paying child support.

Information and data exchanges between SSA and other Government agencies result in programmatic and administrative savings of over \$2 billion each year. Data exchanges currently being used include the:

"Secondary Payer" Match: This match involves the Internal Revenue Service (IRS), SSA and the Centers for Medicare and Medicaid Services (CMS). The three agencies share pertinent data, allowing CMS to identify Medicare beneficiaries eligible for private health insurance through a spouse's employer and allowing for recovery of Medicare payments from the primary carrier. This provides better health insurance coverage for the beneficiary along with lower costs to the Government.

Veterans Administration Benefit Match: This match allows SSA to determine if an SSI recipient is also receiving a Veteran's pension or compensation, since SSI payments are reduced for other types of income. It also detects changes to the Veteran's benefit that allow earlier offset to the SSI payment.

Social Security/Railroad Retirement Board Match: This match allows for automatic exchange of eligibility information needed by both programs.

Department of Labor and Social Security Exchange: This exchange facilitates data sharing between State Workforce Agencies and SSA. The exchange permits SSA Field Office employees to obtain unemployment and wage data online in 35 States. State Workforce Agencies obtain Social Security Numbers and payment data based on agreements in 15 States. SSA started exchanging data in September 2004.

IRS Match: SSA receives information about unearned income for use in the SSI program. This match alone saves the SSI program over \$47.9 million per year.

Unreported Wages as a Source of Improper Payments

Unreported wages have been the second leading cause of improper payments for the last 5 years. Recipient/representative payee failure to provide an accurate and timely report of wages was the major factor in wage-related improper payments, occurring in 89 percent of overpayment dollars. SSA is addressing this issue through the two wage reporting pilots described below.

Telephone Wage Reporting Pilot: SSA seeks to reduce improper payments in the SSI program by testing various methods of providing the public with a quick and easy way to report earnings changes. The *Telephone Wage Reporting Pilot* is designed to allow SSI recipients and other persons whose income may affect benefits and eligibility to report wages via the telephone. The phone system allows the SSI recipient to report wages either orally using voice-recognition software or by using the phone keypad. It also produces a receipt to recipients with the reported wage amount. Timely reporting of wage changes will help SSA issue more accurate payments to recipients.

Software for the current *Telephone Wage Reporting Pilot* was completed in mid-December 2005. Users reported their wages from January through September, 2006. After a formal evaluation, a decision will be made on making the system available on a wider basis.

Mid-America Program Service Center (MAMPSC) Wage Reporting Pilot: A separate Centralized Monthly Wage Reporting Test was conducted during calendar year 2005 and 2006 in the Mid-America Program Service Center. The purpose of this pilot was to determine if SSI payment accuracy could be improved by processing wage reports at a centralized site. The Kansas City Regional Office of Quality Performance was involved in the evaluation. Evaluation of the pilot showed that the participation rate of the wage reporters and the accuracy of ongoing SSI payments can be improved by identifying potential reporters and then controlling and following-up on missing reports. Evaluation of the pilot showed that a centralized process does not improve the timeliness of handling earnings reports. As a result, when the centralized pilot ended in September 2006, the wage reports formerly handled by the Mid-America Program Service Center began to be processed by Field Offices. The Agency is reviewing the current SSI wage reporting process with a goal of developing recommendations for the establishment of a national structured wage reporting process. Each region will develop a customized plan which may include centralized units within the region.

Automation of the Federal Fugitive Felon Database

SSA recently implemented the *Fugitive Felon SSA Control File*. The *Fugitive Felon SSA Control File* automates a former manual process and is used to record, monitor, and control warrant information received from law enforcement agencies. A person avoiding prosecution for a felony, avoiding confinement after conviction of a felony, or who violated a condition of parole or probation is not eligible to receive Social Security or SSI benefits. A fugitive felon is also prohibited from serving as a representative payee. A separate software program, the Fugitive Felon Automated Processing, is used to monitor SSI beneficiaries. SSA's Office of the Inspector General and other SSA components work together in the *Fugitive Felon* program to identify and take action against fugitive felons and parole or probation violators who are collecting benefits. Since the inception of this program in 1996, the Office of the Inspector General has identified over 303,000 fugitives receiving SSI or OASDI benefits or acting as representative payees. As of June 2006, investigations have resulted in the apprehension of more than 41,500 fugitives. The *Fugitive Felon SSA Control File* is helping SSA make more timely suspension decisions, detect fraud and prevent erroneous payments.

Access to Financial Information

By law, SSA can now obtain a permanent authorization to verify any financial account information for SSI applicants/recipients or people whose resources are material to SSI eligibility, e.g., a spouse. This is now a condition of SSI eligibility. Starting in November 2006, SSA will begin collecting authorizations to access financial records, allowing the Agency to identify individuals with undisclosed bank accounts, or accounts that exceed SSI program resource limits. Through this program, SSA expects to eliminate a substantial number of improper SSI payments caused by excess financial account resources.

Residency Violations

SSA has tested the feasibility and effectiveness of a new process to detect potential residency violations by examining 6,000 images of SSI checks, looking for those that were endorsed by financial institutions outside the United States. In addition, the Agency monitors the withdrawal records from automated teller machines in foreign countries for SSI recipients receiving their benefits by direct deposit. The Agency also implemented an automated match with the Department of Homeland Security in July 2005 to notify SSA of people who have left the United States.

Cooperative Disability Investigation

This program represents one of SSA's most successful anti-fraud initiatives. Cooperative Disability Investigation units represent a joint effort between SSA's Office of the Inspector General, the State DDSs, and SSA. Currently, 19 Cooperative Disability Investigation units in 17 States investigate suspicious Social Security and SSI disability claims at the initial claims phase and later, and then report the results of their investigations to the State DDSs to facilitate accurate and timely decisions. The unit's reports are also used to pursue criminal, civil, civil monetary and administrative remedies when fraud or similar fault is discovered. Based on these investigations, SSA is able to:

- Prevent payments to recipients who are not disabled;
- Stop payments for recipients who have disguised or falsified medical improvement or work activity;
- Reopen cases and stop payments to recipients who should never have been entitled to disability benefits; and
- Pursue Civil Monetary Penalties or administrative actions.

Since its inception in 1998, Cooperative Disability Investigation efforts have resulted in preventing over \$575 million in improper payments. In addition, Cooperative Disability Investigation units have received more than 19,200 allegations of fraud in the disability programs. The vast majority came directly from DDS adjudicators in the field. The investigative results have been used to support over 10,000 disability related denials or terminations.

Agency Strategies for Recovering Overpayments

SSA uses aggressive debt collection tools to recover delinquent benefit overpayments from former beneficiaries. SSA refers delinquent debts to the *Treasury Offset Program* (TOP) to recover debts from Federal tax refunds and other Federal payments. SSA withholds SSI overpayments from the benefits of persons who become entitled to Old-Age, Survivors, and Disability Insurance benefits, refers debts to credit bureaus, and requests employers to offset wages of delinquent debtors. The *Non-citizen Benefit Clarification and Other Technical Amendments Act of 1998* authorized cross-program recovery to collect a person's SSI debt from any Social Security benefits due that person at the rate of 10 percent of the debtor's SSA benefit. The *Social Security Protection Act of 2004* expanded "Cost Program Recovery" to allow 100 percent withholding from underpayments and withholding of SSA debts from SSI benefits. Additionally, SSA's strategy for increasing the recovery of overpayments includes the following initiatives:

- Building a scoring system that prioritizes unresolved debts. This will help to balance debt workloads with operational resources. It will also ensure that these resources are expended on the debt that has the most potential for recovery; and
- Providing SSA operating components with a tool that organizes debt information more efficiently for individual case processing and better workload management. This tool, OP-WIZ, is now in use in Field Offices and Program Service Centers. A new tool is being developed specifically for use in contacting debtors by telephone.

Agency Strategies for Debt Collection

To monitor debt recovery performance, SSA created a performance measure that characterizes the debt owed to the Agency in terms of the recovery status of the debt, i.e., the proportion of the debt being recovered either by withholding benefits or by payments made by the debtors.

The residual debts are categorized into one of three additional classifications. *New Debts* are those debts which have been detected within the past 60 days. This corresponds with the amount of time they are afforded to exercise their due process rights. *Debts Under Appeal* are those debts where the debtor has filed an appeal, reconsideration or waiver request, and for which the determination is pending within 90 days of the request. *Debts Not in a Collection Arrangement* includes all those debts that have not been written off and do not fit into the other categories. These are essentially the debts which require some action on the part of the Agency to either get them into a collection arrangement or to write them off.

This measure focuses on the desired status of pending debts, recognizing that there is some level of debt that is not yet at the point where it is subject to being in a collection arrangement, i.e., new debt and debt under appeal. It represents the desired actions that should be taken on pending debts, collections, a collection arrangement, or a write-off. Collections and write-offs influence the measure by reducing the size of the universe of debts being measured, while new collection arrangements increase the percent of debt relative to the performance target.

Write-offs are intended to identify those debts that will not be collected by refund and for which continued application of resources to collect by refund is a loss to the taxpayer. These debts are not subject to a statute of limitations and are therefore recoverable when these persons return to the benefit rolls. Also, even though they have been written off, they can still be considered for recovery under the *Treasury Offset Program* (TOP).

In order to achieve this level of performance, SSA uses aggressive debt collection tools. Debts are subject to SSA's internal debt collection program that uses automated processes to bill and follow-up with persons who do not set up repayment arrangements. SSA's debt collectors pursue those persons who do not respond to automated billing and follow-up. Delinquent debts are referred to the Treasury Department for inclusion in its TOP. The TOP allows for recovery of debts from Federal tax refunds and other Federal payments, including Federal pensions. SSA also withholds payments from debtors in one benefits program who are receiving payments in other SSA administered programs. In addition, to encourage voluntary repayment, SSA reports delinquent debtors to credit bureaus. Beginning in FY 2005, SSA began garnishing the wages of delinquent debtors.

In order to improve its ability to recover outstanding debts, SSA either has underway or plans to implement the following:

- Systems capabilities that will increase the ability to recover debts that are subject to benefit offset when the debtor is receiving benefits in a program other than the one in which the debt exists; and
- Regulations to permit SSA to recover debts owed by Federal employees by offset of their salaries.

SSA is exploring other ways to implement additional debt recovery tools. Among them are: interest charging; private collection agencies; and use of Treasury's collection centers.

Addressing the Stewardship Challenges Through Improvements to the Social Security Number (SSN) Assignment and Issuance Process

The process of assigning and issuing SSNs (known as enumeration) is a core Agency function. The original purpose of the SSN was to enable SSA to keep an accurate record of earnings covered under Social Security and to pay benefits based on those earnings. The Social Security card provides a written record of the number that has been assigned to the individual so that employers can accurately report each worker's earnings. Although SSA's purpose for assigning a number and issuing a card has not changed, the use of the SSN as a convenient means of identifying records in large public and private systems of records has increased over the years. The cumulative effect has been that the SSN has become the most widely used records identifier by both Government and the private sector. An unintended consequence is that the SSN has also been used by people intent on stealing another person's identity or committing SSN fraud. As stewards of the Social Security program, one of SSA's strategic objectives is to strengthen the integrity of the enumeration process. To minimize SSN misuse and protect against identity fraud SSA continues to strengthen the integrity of the SSN through:

- Introducing new policy initiatives;
- Improving automated systems processes;
- Enhancing verification services;
- Combating identification theft; and
- Collaborating with other agencies in support of National security.

Ways SSA Strengthens The Integrity Of The SSN

- Implements robust evidence standards for getting an SSN
- Redesigns enumeration systems to ensure accurate processing
- Works in partnership with DHS to strengthen the Basic Pilot employment eligibility process

Improving Automated Systems Processes

SSA has developed and implemented automated processes in coordination with other agencies to further strengthen the integrity of the enumeration process.

Automated Processes

Assigning SSNs to 90% of U.S. Born Children via Enumeration at Birth (EAB): EAB is a process for assigning SSNs to newborns as part of the birth registration process at the hospital or birthing center.

Assigning SSNs through Enumeration at Entry (EAE) to Adult Permanent Resident Aliens: Based on data collected as part of the immigration process, SSA and the Department of Homeland Security are discussing expanding the program to other groups of aliens, such as certain work authorized non-immigrants.

SS-5 Assistant: SSA introduced improved software, known as the SS-5 Assistant, for use by SSA employees to ensure compliance with SSA's comprehensive enumeration policies and procedures. The SS-5 Assistant became the mandatory front-end input mechanism for processing all enumeration actions. The application simplifies the complex policies and documentation requirements associated with the enumeration workload by determining what documents, proofs and verifications are needed prior to processing of the application. Use of this application ensures that the appropriate documentation and third party verifications are completed prior to processing the SS-5, thereby maintaining the integrity of the SSN.

Introducing New Policy Initiatives

New policy initiatives have been implemented under the *Intelligence Reform and Terrorism Prevention Act* (IRTPA) of 2004, PL 108-458. Effective December 17, 2005, SSA:

- Limited the number of replacement SSN cards an individual can receive to 3 per year, 10 per lifetime with certain exceptions;
- Established minimum standards for evidence documents or records submitted to establish eligibility for original or replacement SSN cards other than for purposes of enumeration at birth; and
- Required independent verification of any birth record for a person applying for an original SSN including those under age 1.

Procedural verification requirements increase the accuracy of SSN assignment. Current policy requires:

- Verification with the issuing vital records office of all U.S. birth certificates for persons applying for original SSNs; and
- Verification of immigration documents for all non-citizens and verifying refugees' documents with the Department of State (DOS) outside of the EAE process.

Enhancing Verification Services

SSA provides over 500 million SSN verifications annually. Of these, approximately 220 million are for State and Federal agencies involved in income or health maintenance programs. SSA checks death reports as part of the verification process on requests from employers. Additionally, pursuant to IRTPA, SSA is developing fraud indicators to be included in verification processes used by employers and State agencies. SSA implemented SSN verification process changes designed to further improve the Agency's service to employers and the wage reporting process, and to combat SSN fraud.

Verification Process Changes

Death Indicator: The addition of a death indicator in March 2006 to the verification processes used by employers and State agencies (required by IRTPA). SSA plans to add death indicators to the remaining verification processes in 2007.

Expansion of the Social Security Number Verification System (SSNVS): This expansion will allow employers to verify up to 10 SSNs at a time instantaneously or up to 250,000 with a response returned on the next business day. Additionally, pursuant to IRTPA, SSA is developing fraud indicators to be included in verification processes used by employers and State agencies.

Combating ID Theft

SSA policy and procedures protect against identity theft by limiting the disclosure of SSN information to properly identified individuals and authorized users. SSA encrypts data transmitted to other Federal, State, and local agencies and has security policies that limit access to sensitive personal information to those who have a "need to know." Procedures in place to limit disclosure of SSN information only to appropriate persons include:

- Not releasing SSNs or any personal information to a caller who cannot provide his or her SSN;
- Displaying only a "truncated" SSN (the last 4 digits of the SSN) on the *Social Security Statement*; and
- Removing the SSN from checks issued by the Department of Treasury.

Collaborating with other Agencies in Support of National Security

SSA has been working with other agencies in order to strengthen the integrity of the SSN.

Interagency Task Force: As required by IRTPA, SSA formed an interagency task force to further secure the SSN card from counterfeiting, tampering, alteration and theft. The task force completed its work, and SSA developed a plan for producing a new, more secure Social Security Card, based on the task force requirements. Final execution of the plan is on hold pending developments on immigration reform which could significantly change the new Social Security Card.

Timely Posting of Death Information: SSA works with the Bureau of Vital Statistics in each State to ensure timely reporting and posting of death information. As the Electronic Death Registration process (see page 36) is implemented in more jurisdictions and verification processes are in place, this data will be used to further bolster the integrity of the SSN and associated verifications.

Social Security Card Centers: The Social Security Card Centers, a joint effort of SSA, SSA's Office of the Inspector General, and DHS, strengthen SSN application procedures and ensure that applications are processed with a high degree of integrity, efficiency and expertise. To improve the Agency's ability to better serve the public and maintain the integrity of the SSN, SSA opened Social Security Card Centers in Las Vegas, Nevada and Brooklyn and Queens, New York. The Agency plans to open additional centers as resources permit over the next several years, based on SSN workloads and other service delivery factors.

Addressing the Stewardship Challenges Through Ensuring the Accuracy of Earnings Records

Maintaining accurate records of earnings is critical to effective stewardship of SSA's programs and resources. SSA uses these reported earnings to determine a person's eligibility for, and the amount of, retirement, survivors, disability and health insurance benefits. SSA validates the names and Social Security Numbers (SSNs) on the Wage and Tax Statements (Forms W-2) the Agency receives against information in its own records. When an earnings report contains a name and/or SSN that does not match SSA's records and cannot be resolved, the report cannot be posted to the correct earnings record in SSA's *Master Earnings File*. Instead, the report is posted to the *Earnings Suspense File*, a repository for unmatched wages. Over the years, SSA has developed various tools to assist employers in verifying an employee's SSN, so that Social Security can properly credit the earnings record.

SSA's Actions To Increase The Accuracy Of Earnings Records:

- Ensure that eligible taxpayers receive the full Social Security benefits to which they are entitled.
- Protect the OASDI Trust Funds by ensuring that benefits are being paid accurately.
- Increase the public's confidence in the reliability of the Social Security system.

Because one of the SSA's most important responsibilities is to maintain reliable records of wages employers pay workers, accuracy in recording those earnings is critical. SSA's ability to do so, however, greatly depends on employers and employees correctly reporting names and SSNs. As such, SSA provides employers information and services to help them with this responsibility. SSA maintains a comprehensive website designed especially for employers and the business community at <http://www.socialsecurity.gov/employer>.

The Agency also provides the following telephone and fax services for employers:

- Employers can verify up to five SSNs at no cost by calling SSA's toll-free number for employers (1-800-772-6270). Employers may also use this number to get answers to any questions they may have or to request assistance.
- Employers also have the option to fax a paper listing to the local Social Security office to verify up to 50 names and SSNs.

Employee Verification Programs

The *Employee Verification System (EVS)* and its successor - the *Social Security Number Verification System (SSNVS)*, are SSA's free, automated, and most widely used verification programs available to employers to verify large numbers of employees' names and SSNs. Participation in EVS/SSNVS is voluntary and is available to employers to ensure information related to their current and new employees is valid before the employer submits their Forms W-2 to SSA. Employers must register to gain access to EVS/SSNVS.

The SSNVS online system was implemented nationally in June 2005. In addition to the required data fields (employee's SSN, first and last name), employers can also provide optional information, such as an employee's date of birth and gender for more detailed verification of information. SSA confirms whether the information the employer submitted matches SSA's records. Additionally, in January 2004, SSA started disclosing information when records indicated the SSN belonged to a deceased worker.

SSA continues marketing efforts through Employer Service Liaison Officer (ESLO) seminars. The high volume of new SSNVS users and total verification requests shows that SSA's approach has been successful. In November 2005, over 4 million numbers were verified. This is more than five times the total for November 2004 when SSNVS was still a pilot. Further, in the first six months of 2006, the Agency processed over 17.4 million verifications for over 21,000 employers.

Employers may verify requests of:

- Up to 50 names and SSNs on paper;
- Any number of SSNs by magnetic media;
- Up to 10 SSNs via SSNVS on the Internet with an immediate online reply; or
- Up to 250,000 SSNs via SSNVS' overnight request with a next Government business day reply.

Basic Pilot

The Basic Pilot is a program conducted jointly by SSA and the Department of Homeland Security (DHS), whereby employers electronically verify the employment eligibility of newly-hired employees. This voluntary program helps employers determine whether a person is eligible to work in the United States. Basic Pilot is viewed as a key component of proposed comprehensive immigration legislation that would mandate and extend its use.

Participating employers register with DHS to use their automated system to verify an employee's SSN and work authorization status. The information the employer submits to DHS is sent to SSA to verify that the SSN, name and date of birth match information in SSA records. The Basic Pilot system first checks the information entered by the employer against SSA's database to verify the name, SSN, and date of birth of all newly-hired employees, regardless of citizenship. When SSA's enumeration records show the number holder is a U.S. citizen, the Basic Pilot automated system confirms employment eligibility. If the employer enters an Alien Registration Number or I-94 Number after SSA confirms the SSN, name and date of birth, the Basic Pilot system automatically checks the data against the DHS' database.

If the Basic Pilot finds that the employee's name, SSN, and/or date of birth do not match SSA's records, or that an employee who represented him or herself to be a citizen is not a citizen, the employer will receive an "SSA Tentative Non-Confirmation." If the Basic Pilot finds that the employee has presented a non-work SSN for work purposes, the employer will receive a "DHS Tentative Confirmation." In either case, the employer asks the employee whether he/she wishes to contest the tentative non-confirmation. If contested, the employee must contact SSA or DHS within eight Government business days of the notification. After the employee contacts SSA or DHS to correct the record, the employer resubmits the information through the Basic Pilot system. If the system still does not confirm employment eligibility after the employer resubmits the information, the employer may terminate the new-hire.

As of July 17, 2006, DHS and SSA had signed agreements with over 10,000 employers, representing about 36,000 employer sites. For FY 2005, SSA received approximately 100,000 Basic Pilot queries each month. So far, for FY 2006, SSA is receiving an average of 150,000 Basic Pilot requests a month. In June 2006, the Agency received over 182,000 queries.

Other Initiatives

In addition, SSA has an employer education campaign in place to tell employers about electronic reporting through promotional materials, conferences, articles for trade publications and direct contact. Included in the campaign are visits with large payroll service providers and other companies to educate and encourage them to report earnings electronically. In May 2006, a National Payroll Reporting Forum was sponsored by SSA and the Internal Revenue Service. The purpose of the forum was for Federal agencies and the business community to meet to identify, discuss and resolve common wage and tax reporting issues.

SSA continues to send out annual *Social Security Statements* to eligible persons age 25 and over who are not yet in benefit status. As of August 2006, 138,086,598 *Statements* were issued. People are asked to review their earnings history for completeness and accuracy and to notify SSA if they believe any of the information is incorrect.

Addressing the Stewardship Challenges Through Managing Agency Finances and Assets to Link Resources Effectively to Performance Outcomes

Three aspects of SSA's response to the STEWARDSHIP challenges also relate directly to the President's Management Agenda. Discussions on Budget and Performance Integration, Improved Financial Performance and Competitive Sourcing can be found in the subsection beginning on page 54. The remaining initiatives, which relate both to Agency stewardship and challenges, are discussed in this section.

SSA's Actions To Efficiently Manage Agency Finances And Assets And Effectively Link Resources To Performance Outcomes Ensure That:

- Tax dollars are used efficiently and effectively.
- Tax dollars are properly managed.
- Tax dollars are spent wisely and responsibly for the greatest public benefit.

Management Information Improvements

Timely, useful and reliable data are necessary for internal and external decision-makers to support effective management. This includes performance evaluation, resource allocation, and workload prioritization. The responsibility for ensuring that performance and financial data are available, valid and reliable extends to all segments of the Agency.

The *Managerial Cost Accountability System* is considered a key enabler in monitoring and reporting on Agency progress toward achieving its strategic goals and objectives and tracking resource expenditures. The system focuses on providing critical performance and financial information needed by managers and staff. It processes a variety of data from widely dispersed Agency processes, programs, workloads and financial systems, and combines the data into a modern managerial accountability system. The system promotes performance accountability for the programs that SSA administers. For example, the system could be used to generate detailed managerial cost accountability information that could be used to identify which of SSA's 1,318 Field Offices has a particularly high production or efficiency rate, and hence lower costs per unit of work, for a particular workload. Best practices for processing that workload could then be identified and shared with all Field Offices.

The Agency's Security Plan

SSA continues to be proactive in evaluating and enhancing its security program annually. Providing adequate security is a significant undertaking. SSA is proud of its track record in safeguarding the Agency's mainframes. In addition, SSA is in compliance with the Federal Information Security Management Act, by having a Security Plan in place that documents SSA's initiatives to develop, implement and maintain an Agency-wide security program. It is an essential part of ensuring the confidentiality and integrity of Agency data and the protection of SSA's large-scale computers.

Major Areas of Continuous Security Control

Rules of Behavior and Personnel Security Controls: SSA's Information Technology Security Program includes a Rules of Behavior document and personnel security controls such as separation of duties, individual accountability and access controls that include the principle of "least" privileges, i.e., people are given only the level of access needed to do their jobs. The access controls also identify position-sensitivity and risk levels for automated information systems.

Training: SSA's three-pronged Information Technology security training program includes basic ongoing awareness training for all employees to adequately fulfill their responsibilities, training adaptable for employee-specific needs, and training for employees whose primary responsibility is security.

Incident Response Capability: The Agency has long had security-related reporting procedures in place for various incidents. The plan includes the SSA Security Response Team, which was formed to address threats against the Agency's information systems and to assist the workforce with handling systems incidents.

Risk Management: SSA's *Risk Management* program ensures a continuous review and monitoring of development, implementation, and maintenance of the major Information Technology automated systems and their controls, which are critical to the Agency's mission. This includes the certification and accreditation of these systems. The certification and accreditation process occurs every 3 years. SSA uses a number of approaches to satisfy risk management requirements, i.e., risk analysis, risk management reviews, the annual self-assessment, the consolidated integrity review process, and a systems security life cycle process. Management, technical, and security personnel are included and consulted at each stage of systems development.

Contingency Planning and Disaster Recovery

SSA's contingency planning is designed to minimize the occurrence of situations that could compromise the confidentiality and integrity of Agency data, the availability of resources and the services needed to continue essential business operations. To ensure the continuity of essential operations in an emergency situation, a series of Presidential Executive Orders, Presidential Directives and preparedness circulars mandate the development of Continuity of Operations Plans for all Federal agencies.

These directives, including a Homeland Security Presidential Directive issued in December 2003, call for a national effort to ensure the security of interconnected infrastructures for Federal, public and private entities, and provide for protection plans covering national assets from physical and cyber attacks. SSA established an Agency-wide Critical Federal Infrastructure Protection Workgroup that developed a plan outlining a comprehensive approach for the protection of cyber systems, physical security and for continuity of operations.

Safety and Physical Security Practices

Safety and physical security practices at SSA comply with the Federally-directed alert level mandated by the Department of Homeland Security. SSA identifies and addresses new vulnerabilities and replaces aging equipment when its systems life ends. Additionally, expanded environmental health and safety programs ensure all Agency employees work in safe surroundings. Guards are on duty at all SSA offices during working hours. Agency practices also provide for education and resources committed to preventing accidents and exposures to potentially dangerous conditions, and to respond in the event of environmental health hazards or other dangerous situations.

The Agency Information Technology Infrastructure

The information technology infrastructure supports all of SSA's programmatic and administrative workloads. Most Agency service delivery channels rely on this sophisticated and complex basis of computer operations. The information technology policies provide for periodic hardware and software upgrades, technology refreshments and improved economies-of-scale in the information technology environment. The foundation of this aspect of Agency policy rests on three operational basics:

Availability: Users have access to information technology services during the hours of operation of SSA's Field Offices, and toll-free telephone service is available to the public from 7 AM to 7 PM. Recorded information and services are available at the toll-free telephone service 24 hours a day. Online services and claims are available to the public from 5 AM to 1 AM Monday through Friday, 5 AM to 11 PM on Saturday and 8 AM to 11:30 PM on Sunday.

Stability: Services are continuously available during expected access hours, barring even brief outages.

Maintainability: Information technology hardware and software is widespread; critical production use is maintained at near-current release levels to ensure quality support service from vendors and suppliers.

Strategic Goal 3: SOLVENCY

To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations

For many years, Social Security's trustees have called for timely changes to be made to Social Security to protect future generations. As the *Required Supplementary Information: Social Insurance* section of the Performance and Accountability Report (see page 160) shows, there is a present value shortfall of \$4.6 trillion over the 75-year period, which means that \$4.6 trillion today earning interest would be sufficient to cover the 75-year shortfall. In 2017, Social Security benefit payments will exceed income and tax revenues to the program. By 2040, if no changes are made, the OASDI Trusts Fund will be exhausted and benefits would have to be cut by 26 percent in that year.

To address Social Security reform issues related to the solvency of the OASDI Trust Funds, SSA will provide analytical and data support to the Administration and Congress on legislative proposals. This includes items such as estimating how much a proposal is going to cost (cost estimates) and attempting to determine the effects of given proposals on specific demographic segments of the population (distributional analysis). For example, the SSA Office of the Chief Actuary provides cost estimates for numerous congressional and other proposals to sustain solvency, including effects on the unified budget, the OASDI Trust Fund operations, and the cash flow between the OASDI Trust Funds and the general funds of the Treasury.

The SSA Office of Policy prepares distributional analyses on projected outcomes under current law and proposed changes to current law. The Office of Research, Evaluation, and Statistics develops and maintains several projection models for undertaking such analyses, and it produces more than a dozen regular statistical reports that provide detailed data on program size and trends. SSA maintains three Retirement Research Centers that focus research on Social Security solvency and reform, retirement planning and risk management, measures of retiree well-being, and trends in labor force participation. The annual Retirement Research Consortium conference highlights key findings from this research.

SSA is also actively involved in educating the American people on the solvency issues facing the Old-Age and Survivors Insurance and the Disability Insurance programs and in working with the Administration and Congress on proposals that would address these solvency issues. Actuarial projections indicate that these programs are not solvent in the long term. SSA's Solvency goal is a pledge that the Agency will continue to participate in the national discussion on how to make its programs solvent for the long term. To date, no consensus has been reached on a set of reforms that would achieve sustainable solvency for these two programs.

Strategic Goal 4: STAFF

To strategically manage and align STAFF to support the mission of the Agency

STAFF Challenge:

- Human Capital

STAFF Strategic Objective that Addresses the Challenge:

- Recruit, Develop and Retain a High-Performing Workforce

PMA Initiative Related to STAFF:

- Strategic Management of Human Capital

Addressing the Staff Challenge Through Recruiting, Developing and Retaining a High Performing Workforce

SSA has demonstrated outstanding leadership among Federal agencies in the human capital arena. SSA won the Leading Edge Award for its forward-thinking and strategic approaches to workforce planning, and administration and delivery of its high-performing human capital initiatives.

SSA has a staff of committed, creative and highly capable employees, who are the Agency's most critical asset in maintaining the highest level of service to the public. By 2010, it is anticipated that approximately 40 percent of SSA's employees will be eligible to retire. The Agency's workloads are also expected to grow dramatically as the baby boom generation approaches their peak disability and retirement years. As a result, the greatest organizational challenge facing SSA is to ensure that it has a workforce with the skills and tools necessary to process increasing workloads. In addition, the Agency needs to promote superior employee performance and encourage employee retention.

SSA's Strategies To Recruit, Develop And Retain A High-Performing Workforce Will Allow The Agency To:

- Continue to provide service to the public that is timely and of the highest quality, and
- Increase productivity resulting in a savings to the OASDI Trust Funds and general revenues.

Like the baby boomers in the general workforce, SSA employees will begin to retire in greater numbers. By 2015, 54 percent of current employees will become eligible for retirement. Without effective planning and preparation, this anticipated wave of retirements can affect SSA's ability to maintain its current high level of service to the public. It could also result in a significant drain to the Agency's institutional knowledge and expertise.

SSA has initiatives in place to effectively manage escalating workload growth and the potential increase in employee retirements. The Agency employs a wide variety of tools, activities and strategies to recruit, engage, support, and retain its high-performing workforce. It optimizes organizational structures, uses state-of-the-art automation in its many processes, emphasizes training and offers a large array of job enrichment and leadership development programs. The Agency employs strategic succession planning techniques and emphasizes the value of effective performance management systems that help managers make distinctions among individual levels of performance. Some of these strategies and results (based on FY 2005 data) are summarized below. Results based on FY 2006 data will be available for the 2007 Performance and Accountability Report.

Recruitment

SSA continues to use personnel hiring flexibilities strategically. In addition, the hiring process is strategically managed to ensure timely selections and has expanded the use of structured interviewing in order to select the best possible job candidate. In serving a diverse population, SSA successfully maintains a high degree of diversity in its workforce, and ensures that specific groups are not under-represented. From FY 2001 through FY 2005 the Agency has hired over 18,000 new employees, replacing the 17,700 who retired or resigned during the same period. This has positioned SSA well as the peak of the retirement wave approaches. In this massive recruitment effort, the Agency hired 2,200 new front-line employees in support of the Medicare legislation. SSA's average time to hire during FY 2005 averaged less than 27 days.

Diversity

Social Security's employees reflect the public they serve. In FY 2005, the overall workforce representation equaled or exceeded the Civilian Labor Force for women, minorities, African Americans, Hispanics, Asian

Americans/Pacific Islanders, American Indians/Alaskan Natives, and Disabled Veterans. In addition, Employees with Disabilities had an overall workforce representation in SSA of 7.9 percent compared to a Federal workforce representation rate of 7.0 percent.

Retention

The Agency is continuously improving its human capital practices to guarantee talented managers and employees are available to implement important programs and enhance and protect the economic well-being of millions of Americans. Structured orientation and training programs facilitate employee engagement and welcome new employees. SSA has experienced a steady improvement in retaining new hires. The 2-year new hire retention rate has increased from 84 percent for those hired in 1998 to 88 percent for those hired in 2004. SSA's overall retention rate for all employees for FY 2005 was 93.4 percent, as compared to 91.6 percent Government-wide.

Strategic Competencies and Knowledge Management

In order to prepare the workforce of the future, SSA identifies the competencies needed for its mission-critical positions and ensures that hiring and training address these needs. In addition, in FY 2006, SSA focused on the competencies needed to support the Disability Service Improvement (DSI) initiative. SSA continues to create an environment that fosters effective knowledge management. SSA's knowledge management strategies include maintenance of web-based materials, process documentation, succession planning, mentoring, filling positions before key vacancies occur, using understudies in targeted critical positions, and strategic placement of rehired annuitants.

Training

SSA trains employees in over 1,500 locations through a combination of advanced technology and traditional training methods. In addition to classroom training, the Agency provides interactive video training and computer-based training via the Intranet and Internet. In 2006 SSA provided continuous, twenty-four hour a day access to the Government-wide GoLearn website, which provides access to over 2,400 online courses. Since its inception, in April 2005 through early September 2006, approximately 10,380 SSA employees have accessed the site and there have been over 18,000 course registrations. In addition, SSA developed competency-based training for key targeted mission-critical positions as well as training focused on the Medicare Prescription Drug legislation and training supporting SSA's DSI initiatives. In August 2006, SSA implemented a new training tool, Video on Demand, nationwide. Video on Demand allows employees to select and watch training video lessons using computers located at their workstations. As of September 2006, there were 35 courses available and Video on Demand had been accessed 28,542 times.

Reaching Out to Staff

Employees have electronic access to information about personnel benefits and employee services at their computers. This feature saves staff resources and promotes increased confidentiality of employee information. In 2006, SSA enhanced employee services through an online pre-retirement seminar, which makes comprehensive retirement information available to employees at work or at home. It addresses the Civil Service and Federal Employee Health Benefits, Federal Employee Group Life Insurance, Long Term Care and Financial/Estate Planning.

Providing Employees with Better Tools

SSA continues to develop efficient and user-friendly tools to enable employees to accomplish their tasks and better serve the public. Employees have online access to personnel, payroll and training data, video conferencing and automated case processing systems that support increased productivity. The workforce has become proficient in the use and application of technology resulting in a more satisfied employee providing quality service to an ever increasing beneficiary base.

Leadership and Succession Planning

SSA is investing resources in developing talented leaders who will positively influence organizational performance and workforce satisfaction. The Agency's national leadership development programs provide high-potential

employees with the training, development, and support they need to prepare for increasingly responsible leadership roles. In FY 2006, SSA conducted three national leadership development programs:

- A Leadership Development Program for General Schedule GS-9 to 12 employees was ongoing during the year.
- An Advanced Leadership Program for GS-13 to 14 employees was completed for one group of candidates; and new candidates were invited to apply for the FY 2007 program.
- A Senior Executive Service Career Development Program for GS-15 candidates was conducted nationwide.

The Agency also encouraged and supported various regional and component-level development programs.

SSA is making significant gains in enhancing the skills of its new and mid-level managers who play key roles in ensuring performance improvements and employee retention. The Agency provided redesigned training called “Transition to Leadership” to new supervisors in FY 2006. This training is provided through five separate courses. In an effort to strengthen the competencies of Agency managers further, SSA successfully piloted a new leadership symposium that develops the knowledge and skills of GS-14 and GS-15 mid-level managers. These training and development strategies, coupled with SSA’s Retirement Wave analysis, form the core of its succession plans.

Performance Culture

Linking employee performance to the Agency mission and goals is an ongoing priority. The alignment of employee performance with Agency mission and strategic goals will be reinforced through a new, multi-level performance appraisal program for all employees below the GS-15 level and for GS-15 employees in the bargaining unit. Training on this new appraisal program, which places a strong emphasis on the importance of ongoing communication and accountability, was conducted in FY 2006. The new appraisal program which went into effect on October 1, 2006, will foster an Agency culture that encourages ongoing interaction and communication between the manager and employee on staff performance and measures the employee’s contribution to the results that are needed to achieve the Agency’s public service mission.

The President’s Management Agenda

The Presidential Management Agenda was launched in August 2001 as a strategy for improving the management and performance of the Federal Government. It focuses on the management aspects of administering Federal programs, and identifies areas where deficiencies are most apparent and where the Government can begin to deliver concrete, measurable results.

For each initiative, the PMA establishes clear, Government-wide goals from which agencies then develop and implement detailed, aggressive action plans to achieve those goals. Most importantly, agencies are held publicly accountable for adopting these disciplines. To that end, a grading system of “green” (the highest score), “yellow” and “red” (the lowest score) was developed. Each quarter, agencies are rated on their status in achieving the overall goals for each initiative and on their progress in implementing their action plans. The Social Security Administration has progressed from status scores of “yellow” in three of the PMA initiatives and “red” in two of the initiatives in 2001, to status scores of “green” in four of the five and PMA initiatives, and “yellow” in one of them as of June 2006 (see chart at the end of this section). The PMA includes five Government-wide initiatives and ten program-specific initiatives that apply to a subset of Federal agencies. It is helping departments and agencies to be more results-oriented in their performance.

The Five Key Government-Wide Initiatives

Strategic Management of Human Capital

Strategic Management of Human Capital is having processes in place to ensure the right person is in the right job, at the right time, and who is not only performing, but performing well.

Competitive Sourcing

Competitive Sourcing is regularly examining the commercial activities performed by the Government to determine whether it is more efficient to obtain such services from Federal employees or from the private sector.

Improved Financial Performance

Improved Financial Performance is accurately accounting for the taxpayers' money and providing timely and accurate program cost information to inform management decisions and control costs.

Expanded Electronic Government

Expanded Electronic Government is ensuring that the Federal Government's annual investment in information technology significantly improves its ability to serve the public, and that information technology systems are secure, and delivered on time and on budget.

Budget and Performance Integration

Budget and Performance Integration is ensuring that performance is routinely considered in funding and management decisions and programs achieve expected results and work toward continual improvement.

SSA's Program Initiative - Eliminating Improper Payments




























































In addition to the five key initiatives, SSA is involved in the PMA program initiative, Eliminating Improper Payments. An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, or the recipient uses the funds in an improper manner. Based on 2004 audit estimates, Federal agencies made more than \$45.1 billion in improper payments in FY 2004. This new initiative requires agencies to measure their improper payments on an annual basis, develop improvement targets and corrective actions, and track the results annually to ensure the corrective actions are effective.

SSA undertakes projects with the most potential to improve program integrity across three fronts: prevention of improper payments, detection of improper payments, and collection of debt. In addition to the special initiatives highlighted in the PMA, the Agency has core, ongoing stewardship efforts that are critical to the overall success of eliminating improper payments. SSA obtains beneficiary financial information from independent sources sooner and uses technology more effectively. Additionally, SSA has initiated new computer matching agreements, conducted wage reporting pilots, and implemented improvements to debt recovery programs.

SSA's Scorecard

As shown in the chart below, SSA's performance under the PMA has steadily moved toward "green" status. As of September 30, 2006, the Agency scored "green" for status on four of five Government-wide items, and "green" for progress in implementation on four of five Government-wide items. SSA has also earned "yellow" for status and "green" for progress for the program initiative, Eliminating Improper Payments.

SSA's President's Management Agenda Scorecard

	Strategic Management of Human Capital	Competitive Sourcing	Improved Financial Management	Expanded Electronic Government	Budget and Performance Integration	Eliminating Improper Payments ¹
Date	Status/ Progress	Status/ Progress	Status/ Progress	Status/ Progress	Status/ Progress	Status/ Progress
9/30/01	 / Yellow /	 / Red /	 / Yellow /	 / Yellow /	 / Red /	
9/30/02	 /  Yellow / Green	 /  Red / Yellow	 /  Yellow / Green	 /  Yellow/Yellow	 /  Yellow / Green	
9/30/03	 /  Yellow / Green	 /  Red / Green	 /  Green / Green	 /  Yellow / Green	 /  Yellow / Green	
9/30/04	 /  Green / Green	 /  Yellow / Green	 /  Green / Green	 /  Yellow/Yellow	 /  Green / Green	
9/30/05	 /  Green / Green	 /  Yellow / Green	 /  Green / Green	 /  Yellow / Green	 /  Green / Green	 /  Yellow / Green
9/30/06	 /  Green / Green	 /  Green / Green	 /  Green / Green	 /  Yellow / Red	 /  Green / Green	 /  Yellow / Green

¹ Introduced in August 2004, this program initiative, which previously was included in the Improved Financial Management PMA as a management issue, highlights Social Security's current special projects regarding program integrity.

Highlights of Financial Position

Overview of Financial Data

SSA's financial statements and footnotes appear on pages 123 through 173. The financial statements presented in this report received an unqualified opinion from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate funds which are financed by payroll taxes, interest on investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

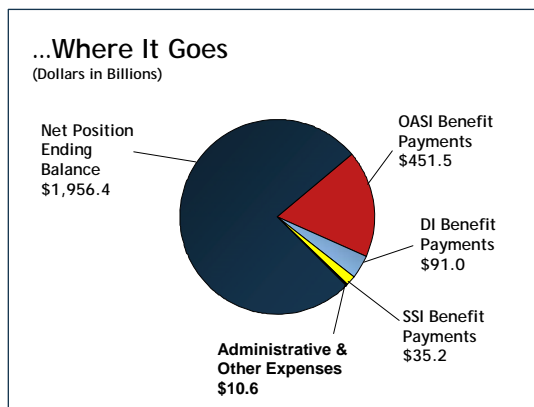
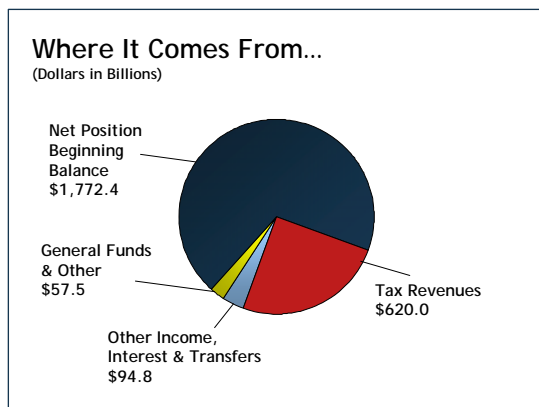
Balance Sheet: The Balance Sheet displayed on page 124 reflects total assets of \$2,036 billion, a 10.2 percent increase over the previous year. Approximately 98 percent of assets are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The \$185.9 billion growth (10.3 percent) in investments from 2005 is primarily due to tax revenues of \$620 billion and interest on those investments of \$99.9 billion, exceeding the cost of operations of \$588 billion. The majority of our liabilities, 83.5 percent, consist of benefits that have accrued as of the end of the fiscal year but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Liabilities grew in 2006 by \$4.5 billion (6 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew \$184.1 billion or 10.4 percent to \$1,956.4 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 53.7 percent of the growth of the investments, up from 53.4 percent in 2005.

Statement of Net Cost: Net cost of operations increased 3.5 percent or \$19.7 billion from \$568.2 billion in 2005 to \$588.0 billion in 2006. This increase in the net cost of operations is primarily due to the first wave of baby boomers attaining retirement age. Of this increase, \$19.3 billion (3.5 percent growth) resulted from increased benefit payments and \$0.4 billion (3.5 percent growth) resulted from operating expenses. The net cost and benefit payments of the OASI program both grew 4.4 percent while operating expenses grew by 3.8 percent. The number of OASI beneficiaries grew 1 percent to 40.4 million while average benefit payments grew by 5.2 percent to \$948 per month. The net cost and benefit payments of the DI program grew 1.5 percent and 1.4 percent, respectively. Operating expenses grew by 6.4 percent. The number of DI beneficiaries grew by 3.6 percent while average benefits increased 5.6 percent to \$806 per month.

The net cost and benefit payments of the SSI program decreased 2.3 percent and 2.7 percent, respectively. The decrease is primarily due to SSI having 13 months of benefit payment activity in FY 2005, versus 12 months of activity in FY 2006. Operating expenses grew by 2.1 percent. The number of SSI beneficiaries grew by 1.8 percent while maximum benefits increased by 4.1 percent to \$603 per month. The operating expenses of the Other program grew by 1.4 percent.

Statement of Changes in Net Position: The Statement of Changes in Net Position reflects an increase of \$184.1 billion in the net position of SSA. This increase is primarily attributable to a \$185.9 billion increase in investments. At this time tax revenues continue to exceed benefit payments. The following charts summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds SSA was provided in FY 2006 and how these funds were used. These statements are displayed on pages 125 and 126, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate investments to pay future benefits. When funds are needed to pay administrative expenses or benefit entitlements,

investments are redeemed to supply cash to cover the outlays. Administrative expenses, as a percent of benefit expenses, is 1.8 percent. In 2006, total financing sources grew by \$38.1 billion or 5.2 percent from \$733.9 billion in 2005 to \$772.0 billion in 2006. The primary sources for this growth were a payroll and income tax revenue increase of \$31.6 billion (5.4 percent) from 2005 due to a continuing improvement in the United States' economy and investment income of \$6.9 billion (7.4 percent) from 2005. The growth in investment income was due to increasing assets of the combined OASI and DI Trust Funds and an increase in the average interest yield from 6.15 percent to 6.43 percent.



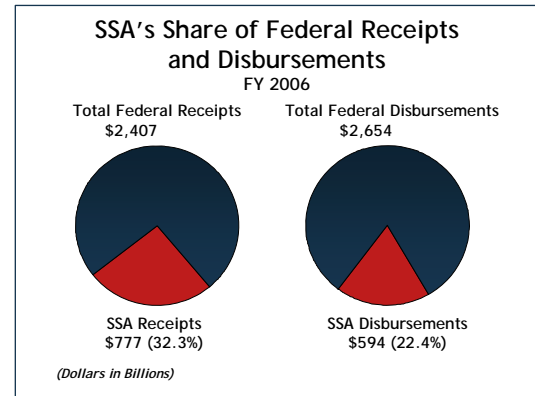
Statement of Budgetary Resources: This statement displayed on page 127 shows that SSA had \$630.9 billion in budgetary resources of which \$1.8 billion remained unobligated at year-end. SSA recorded total net outlays of \$585.5 billion by the end of the year. Budgetary resources grew \$25.5 billion, or 4.2 percent from 2005, while net outlays increased \$24.2 billion, or 4.3 percent.

Statement of Financing: This statement reconciles “Total resources used to finance activities,” an expression of budgetary spending, with the “Net cost of operations,” the proprietary expenses of the Agency. It is the bridge between an entity’s budgetary and financial accounting by identifying the change in activity from one period to another. The statement displayed on page 128 identifies \$589.7 billion in budgetary spending for FY 2006, an increase of \$19.3 billion or 3.4 percent over last year. This corresponds to the increase in benefit payments reported on the Statement of Net Cost. This total is offset by \$2.0 billion in resources not part of the net cost of operations, and is increased by \$0.3 billion in components of net cost of operations that will not require or generate resources in the current period. The \$2.0 billion is made up primarily of transfers between Federal agencies that do not affect the Statement of Net Cost, and Offsetting Receipts reported on the Statement of Budgetary Resources. The resulting balance reflects a \$588.0 billion net cost of operations for the year, an increase of \$19.7 billion or 3.5 percent over FY 2005.

Statement of Social Insurance: Effective for FY 2006 and thereafter, Federal Accounting Standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of existing and future participants of social insurance programs, the present value of the cost of providing scheduled benefits to those same individuals and the difference between the income and cost. The Statement of Social Insurance displayed on page 129 for the Social Security program covers a period of 75 years in the future and the information and disclosures presented are deemed essential to fair presentation of our financial information.

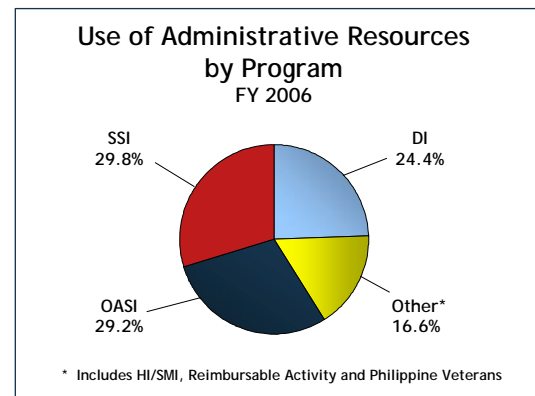
SSA's Share of Federal Operations

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the chart to the right. Receipts for our programs represented 32.3 percent of the \$2.4 trillion in total Federal receipts, a decrease of 1.8 percent over last year as Federal income tax collections grew more rapidly than payroll taxes. Disbursements decreased by 0.3 percent to 22.4 percent of Federal disbursements.



Use of Administrative Resources

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2006 in terms of the programs SSA administers or supports. Although the DI program comprises only 15.7 percent of the total benefit payments made by SSA, it consumes 24.4 percent of annual administrative resources. Likewise, while the SSI program comprises only 6.1 percent of the total benefit payments made by SSA, it consumes 29.8 percent of annual administrative resources. Claims for DI and SSI disability benefits are processed through State Disability Determination Services where a decision is rendered on whether the claimant is disabled. In addition, the Agency is required to perform continuing disability reviews on many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2005 use of administrative resources by program was 29.1 percent for the OASI program, 23.7 percent for the DI program, 30.2 percent for the SSI program and 17.0 percent for Other.



OASI and DI Trust Fund Solvency

Pay-as-you-go Financing

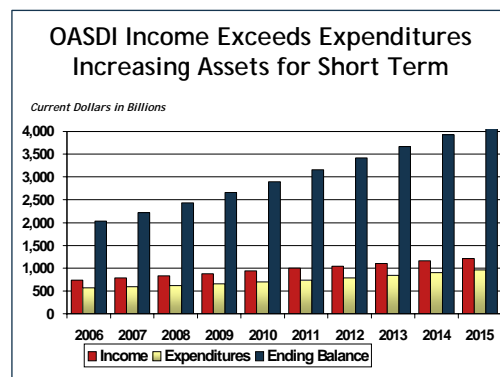
The OASI and DI Trust Funds are deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund assets. In recent years, current income has exceeded program obligations for the OASDI program, and thus the combined OASI and DI Trust Fund assets have been growing. The following table shows that OASI and DI Trust Fund assets, expressed in terms of the number of months of program obligations that these assets could finance has grown from 33.6 months at the end of FY 2002 to an estimated 40.8 months at the end of FY 2006, an increase of 21 percent.

Number of Months of Expenditures Year End Assets Can Pay (End of FY)					
	2002	2003	2004	2005	2006
OASI	35.0	37.8	39.9	42.0	44.2
DI	25.9	26.2	25.4	24.7	24.0
Combined	33.6	35.9	37.5	39.1	40.8

Note: Values for 2005 and 2006 are estimates that are based on 2006 Trustees Report intermediate assumptions.

Short Term Financing

The OASI and DI Trust Funds are deemed adequately financed for the short term when actuarial estimates of OASI and DI Trust Fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2006 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2006 Trustees Report, OASDI estimated expenditures and income for 2015 are 81 percent and 73 percent higher than the corresponding amounts in 2005 (\$530 billion and \$702 billion, respectively). From the end of 2005 to the end of 2015, assets are expected to grow by 125 percent, from \$1.9 trillion to \$4.2 trillion.



Long Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. In 2017, program cost will exceed tax revenues, and, in 2040, the combined OASI and DI Trust Funds will be exhausted according to the projections by Social Security's Chief Actuary. The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth rates well below historical levels. In present value terms, the 75 year shortfall is \$4.6 trillion, which is 1.9 percent of taxable payroll and about 0.7 percent of Gross Domestic Product (GDP) over the same period. Possible reform alternatives being discussed – singularly or in combination with each other – are (1) increasing payroll taxes, (2) slowing the growth in benefits, (3) using general revenues or (4) increasing expected returns by investing, at least in part, in private securities through either personal accounts or direct investment of OASI and DI Trust Fund assets.

For more information, pages 158 through 173 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

Limitation on Financial Statements

The basic financial statements beginning on page 124 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of SSA in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

Systems and Controls

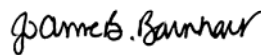
Management Assurances

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement Fiscal Year 2006

SSA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. SSA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, SSA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

SSA also conducts reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, SSA can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2006.

In addition, SSA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that SSA's internal control over financial reporting was operating effectively as of September 30, 2006.



Jo Anne B. Barnhart
November 7, 2006

Federal Managers' Financial Integrity Act Program

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

- Integrating management controls into its business processes and financial management systems at all organizational levels;
- Reviewing its management controls and financial management systems controls on a regularly recurring basis; and,
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

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

When a major control weakness is identified in the Agency, it is considered by the Agency's Executive Internal Control (EIC) Committee to determine if the weakness should be considered a material weakness and thus submitted to the Agency head for final determination. The EIC committee, consisting of senior managers and chaired by the Deputy Commissioner of Social Security, ensures SSA compliance with the requirements of FMFIA and other related legislative and regulatory requirements. The Committee provides executive oversight of the management control program, addresses management control issues that have a substantial impact upon the Agency's mission, monitors the progress of actions to correct management control weaknesses, ensures SSA's critical infrastructure is protected and ensures the Agency has a viable continuity of operations plan. The Committee also provides recommendations for improvement in those areas to the Agency head.

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

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

Management Control Review Program

SSA has an Agency-wide review program for management controls in its administrative and programmatic processes. The Agency requires that a minimum of 10 percent of field offices (FO) be reviewed each fiscal year. The FOs are chosen for review by considering performance measures in selected critical processes and by using the experience and judgment of the regional security personnel. During FY 2006, SSA's managers and contractor conducted reviews of 215 FOs, 6 Program Service Centers (PSC) and 14 Hearings offices.

SSA continues to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). During FY 2006, updated security policy and guidelines were issued to the DDS's. The DDSs perform annual security self-reviews using the guidelines and a review checklist. Additionally, SSA's Regional Offices (RO) and contractors perform independent security review of the DDSs using this same review checklist. The ROs develop a 5-year review plan in which each State DDS is reviewed at least once to ensure adherence to SSA's policies. During FY 2006, SSA and contractor conducted reviews of 15 DDS sites.

SSA contracted with an independent public accounting firm to review the Agency's management control program, evaluate the effectiveness of the program and make recommendations for improvement. Annually, the contractor reviews operations at SSA's central office, selected ROs, 24-30 FOs, selected PSCs, and selected DDS's. The

contractor's efforts have indicated that SSA's management control review program appears to be effective in meeting management's expectations for compliance with Federal requirements.

Financial Management Systems (FMS) Review Program

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

During FY 2006, SSA's contractor conducted detailed reviews of SSA's Title 2 Redesign System, Retirement, Survivors and Disability Insurance Accounting System, Supplemental Security Income Records Maintenance System, and Social Security Number Establishment and Correction System. The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations or Federal standards.

Federal Financial Management Improvement Act

The Commissioner has determined that SSA's financial management systems were in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) for FY 2006. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2006 financial statements, the report on management's assertion about the effectiveness of internal controls and the report on compliance with laws and regulations. She also considered the results of the financial management systems reviews and management control reviews conducted by the Agency and its independent contractor.

Financial Statement Audit

The Office of the Inspector General (OIG) contracted for the audit of SSA's FY 2006 financial statements. The auditor found that the basic financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The auditor also found that management fairly stated that SSA's internal control over financial reporting was operating effectively, and reported no instances of noncompliance with laws, regulations or other matters.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to conduct an annual self-assessment review of their Major Information Technology Systems Security Testing and Controls (ST&E) program, to develop and implement remediation efforts for identified security weaknesses and vulnerabilities, and to report to OMB on the Agency's compliance. An independent contractor's evaluation indicated that SSA's controls methodology was consistent with established FISMA requirements. SSA's OIG also performed an independent review of SSA's compliance with FISMA and concluded that, with the exception of procedural areas needing improvement, SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on September 29, 2006.

Financial Management

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

Goals and Strategies

The President's Management Agenda (PMA) is a coordinated strategy to reform Federal management and improve program performance. The PMA outlines five government-wide and nine agency specific areas that need to be revamped to better serve the American people. One of the five government-wide targets is to improve financial performance by ensuring that agencies have accurate and timely financial information to manage cost and inform decision-making.

OMB issued scorecard standards for success for each of the five PMA initiatives. In order for agencies to be considered in the "green" category (the highest score) for the Improved Financial Performance initiative, they must satisfy the following standards for success:

- Meets all yellow standards for success by:
 - Receiving an unqualified opinion on its financial statements
 - Meeting financial statement reporting deadlines
 - Reporting in its audited annual financial statements that its systems are in compliance with the FFMA
 - Having no chronic or significant Anti-Deficiency Act Violations
 - Having no repeat auditor-reported internal control material weaknesses
 - Having no material non-compliance with laws or regulations
 - Having no repeat material weaknesses or non-conformances under Section 2 and Section 4 of FMFIA that impact the agency's internal control over financial reporting or financial systems.
- Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations.
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.

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

In addition to efforts related to the PMA, SSA is aggressively working to ensure compliance with the recently revised OMB Circular A-123, *Management's Responsibility for Internal Control*. Beginning in FY 2006, the circular requires that the internal controls that support the financial reporting process are documented and tested to allow management to make an assertion regarding the effectiveness of these internal controls. SSA has documented the financial reporting process, determined the most significant risks, as well as the controls in place to mitigate these risks, and developed and executed a test plan to test the effectiveness of these controls. This information, as well as the results of the review programs discussed on the preceding pages of the Systems and Controls section, served as the basis for the required assertion on the internal controls. The required assertion may be found under Management Assurances at the beginning of the Systems and Controls section.

Financial Management Systems Framework

SSA's FMS inventory is reviewed annually and is updated to reflect the most recent status as a result of systems modernization projects. Accordingly, the FMS inventory may change from year to year depending on the progress made in modernization projects. In FY 2006, SSA utilized the following active FMS:

Program Benefits

- Title II Redesign System
- Retirement, Survivors and Disability Insurance (RSDI) Accounting System
- Supplemental Security Income (SSI) Records Maintenance System
- Earnings Record Maintenance System
- Social Security Number Establishment and Correction System

Debt Management

- Debt Management System (DMS)
- Recovery of Overpayments, Accounting and Reporting System (ROAR)

Financial/Administrative

- Social Security Online Accounting and Reporting System (SSOARS)
- Cost Analysis System (CAS)
- Supply System
- Property Accountability System
- SSA Streamlined Acquisition System

SSA continues the long term development of its FMS following a defined strategy. In the Program Benefits category, SSA is continuously involved in streamlining the systems and incorporating new legislative requirements. The major effort in this category is to eventually subsume the RSDI Accounting System into the umbrella Title II System. SSOARS, a federally certified accounting system based on Oracle Federal Financials, was implemented as SSA's System of Record on October 1, 2003. During FY 2006, a user-friendly "front-end" for accessing the Agency's financial accounting system data and integrating budget allocations with expenditure data was developed. The functionality makes financial data easily available to all managers throughout the Agency. SSA is keeping all options open and assessing all available Financial Management Line of Business alternatives in conjunction with an ongoing assessment of SSA's existing accounting system and the potential need for replacement to meet government-wide standards.

Improper Payments Information Act of 2002

Narrative Summary of Implementation Efforts for FY 2006 and Agency Plans for FY 2007-FY 2009

Background

A key component of the President's Management Agenda is the initiative to reduce improper payments. The Improper Payments Information Act of 2002 (IPIA), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in those programs that are susceptible to significant improper payment and the actions they are taking to reduce such payments. IPIA has extended the improper payments reporting requirements beyond those programs and activities listed in the former Section 57 of OMB Circular A-11.

OMB guidance on implementation of IPIA calls for SSA to continue to report on improper payments information for the OASI and DI programs, in addition to the SSI program, as was required by Section 57 of OMB Circular A-11. SSA is to report on the improper payments found in the OASI and DI programs even though the level of such payments in these programs have continually been well below the threshold cited in IPIA. The OMB guidance also calls for the *FY 2006 Performance and Accountability Report* to include the most recently available data in reducing

improper payments. Due to timing of the payment accuracy analysis, SSA's FY 2006 report includes results for FY 2005. Please refer to the *Appendix* for a detailed report of the FY 2005 results and plans to reduce improper payments.

Since OMB guidance on IPPIA requires the evaluation of all payment outlays beyond the OASI, DI and SSI programs that SSA administers, SSA has performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments. More information on the evaluation of improper payments is provided in the *Appendix* of the report.

Recovery Auditing

In FY 2005, SSA conducted an internal recovery audit of contractor payments in accordance with Section 831 of the Defense Authorization Act for Fiscal Year 2002 which requires agencies that enter into contracts with a total value in excess of \$500 million in a FY initiate a program to identify and recover payment errors. Using its own resources, SSA established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer assisted auditing techniques are utilized to identify possible duplicate payments. Results from the audit do not indicate any susceptibility to significant improper payments nor any problems with recovery activity. The recovery audit program scope included a review of administrative contractor payments for FY 2005 totaling \$1.4 billion. Of that amount, about .01 percent or \$178,199 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments. Please refer to the *Appendix* for a detailed report on SSA's recovery auditing initiative.

Agency Efforts and Future Plans

SSA's OASI, DI and SSI quality assurance (QA) payment accuracy (Stewardship) reviews provide the data to measure the payment outlays in these programs each fiscal year. The FY 2005 OASDI accuracy rate continues to be at a significantly high level; 99.6 percent for overpayments and 99.8 percent for underpayments. Even though we have achieved this high accuracy rate, we still strive to make additional achievements in payment accuracy. The detailed report on SSA's efforts to reduce improper payments identifies the major causes of improper payments over the past several years in the OASI and DI programs and the actions the Agency has taken to address these causes.

In the SSI program, SSA has established an ambitious 5-year goal to achieve 96 percent overpayment accuracy by FY 2008 and maintain that rate in FY 2009. Success in achieving the SSI goal is dependent on the effectiveness of the activities outlined in SSA's SSI Corrective Action Plan. In FY 2005, SSI payment accuracy results were 93.6 percent for overpayments and 98.6 percent for underpayments. The major causes of SSI overpayments in FY 2005 were wages and financial accounts (such as savings and checking accounts). The major causes of SSI underpayments in FY 2005 were wages, living arrangements, and in-kind support and maintenance.

OASDI Improper Payment Initiatives

- A Substantial Gainful Activity (SGA) software tool, called eWork, is available in every field office to ensure proper handling of SGA cases. In addition, SSA completed an agreement in December 2005 with the Office of Child Support and Enforcement (OCSE) that permits computer matching with OCSE's "new hires" file that is expected to be useful in identifying unreported work and earnings.
- The Agency is working with State governments to improve the current paper-based process to report death data. Electronic Death Reporting (EDR), a web-based automation of the death registration process, would provide timely and accurate death data. Currently, SSA is receiving death data via EDR from 14 States, New York City and the District of Columbia. The Agency has awarded funding to nine additional States in FY 2006. Fifteen States are in the process of implementing EDR.
- For the past several years, SSA implemented initiatives to correct computation errors in benefit payments. SSA is in the process of developing automated capabilities that will further prevent, identify and correct computation errors.

- Improvements were made to wage and self-employment earnings reports by modifying the Social Security Statement and increasing electronic filing of W-2's. In addition, the Social Security Number Verification System was implemented nationally in June 2005 providing employers a web-based vehicle in which to verify names and SSN's of employees for wage reporting purposes. To date, 46.9 million SSNs have been verified through this system.
- Correction of workers compensation offset errors, the second leading cause of OASDI underpayments for FYs 2001 through 2005, continues through dedication of SSA's Operations staff to rework affected cases and exploring possible data exchanges.

SSI Improper Payments Initiatives

- A national workgroup was formed in 2006 to begin developing a comprehensive strategy to maximize SSI wage reporting nationwide, while minimizing the resource impact through automation and policy efficiencies.
- In FY 2004, SSA completed a test to determine the feasibility of implementing monthly wage reporting using touch-tone and telephone technology. Based upon the results of the first test, SSA is conducting and evaluating a second test using a different authentication process. Results of the second test will determine whether to proceed with this technology that offers the opportunity to prevent SSI wage overpayments estimated at \$416 million in FY 2005.
- To further improve SSI payment accuracy, the Foster Care and Independence Act of 1999 gives the Commissioner the authority to require SSI recipients to provide authorization for SSA to obtain any and all financial institution records. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination. In February 2005, SSA initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering of this study concluded in FY 2005. A report of the study findings is expected to be released by November 2006. SSI financial account issues accounted for a projected \$503 million in overpayment deficiencies for FY 2005.
- Effective January 2001, SSA began using online queries to access OCSE quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. SSA also undertook a pilot match study that explored the feasibility and usefulness of a quarterly match with the "new hires" OCSE file. A study report is expected by November 2006.
- Improper SSI payments due to living arrangements and in-kind support and maintenance result from recipients not reporting changes in their household living situations or changes in the recipient's contributions to household expenses. This is a complex area where recipient understanding of reporting requirements is very difficult to address. For this reason a portion of the annual SSI redetermination workload is targeted to addressing improper payments due to living arrangement changes. The redetermination process is the most powerful tool available to SSA for preventing and detecting all types of SSI improper payments, including those due to living arrangements and in-kind support and maintenance.

PERFORMANCE
SECTION



Agency Performance

Summary of FY 2006 Performance

The following summarizes the Social Security Administration's (SSA) achievements toward reaching its targets for the performance measures specified in its *Revised Final Performance Plan for Fiscal Year 2006*. In cases where end-of-year data are not available, year-to-date performance is shown along with an indication of when the final data will be available. For these measures the end-of-year data will be provided in the FY 2007 *Performance and Accountability Report* (PAR). Similarly, for those measures where year-to-date data were provided in the last PAR, final data are displayed in the "trend" section of the particular measure. For milestones and new performance measures, there is a discussion section in place of a chart or trend section.

The performance data presented in this section are in accordance with the guidance provided by the Office of Management and Budget (OMB) Circulars A-11 and A-136. The *Data Quality* discussion in the *Overview of Key Performance Indicators, Goals and Results* section (page 21) describes continuing efforts to strengthen the quality and timeliness of SSA's performance information in order to increase its value to SSA's management and interested parties. Agency managers routinely use this performance data to improve the quality of program management and to demonstrate accountability in achieving program results.

Status of FY 2006 Performance Measures by Goal and Objective

In 2001 the Agency developed a multi-year plan to meet the ongoing challenges facing SSA. This plan, which lays out the specific expectations for achievements and results, documents the Agency's performance and accomplishments from FY 2001 through FY 2006. It also provides detailed discussions on how well the Agency met the goals.

The tables on the following pages provide an overview of SSA's performance measures. The measures are organized under the objectives they support. The objectives are those specified in SSA's *Strategic Plan for FY 2006 – FY 2011* and the *Revised Final Performance Plan for Fiscal Year 2006*.

Agency Performance Summary

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

Strategic Objective 1.1: Make the right decision in the disability process as early as possible

Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
1.1a KPI	Number of initial disability claims processed by the Disability Determination Services (DDS)	2,663,000	2,532,264	74
1.1b KPI	Maintain the number of initial disability claims pending in the DDS (at or below the FY 2006/2007 goal)	577,000	555,071	75
1.1c KPI	Number of SSA hearings processed	560,000	558,978	75
1.1d KPI	Maintain the number of SSA hearings pending (at or below the FY 2006/2007 goal)	756,000	715,568	76
1.1e KPI	Average processing time for initial disability claims	93 days	88 days ²	77
1.1f KPI	Average processing time for SSA hearings	467 days	483 days	78
1.1g	Average processing time for hearings appeals	242 days	203 days	78
1.1h	DDS net accuracy rate (allowances and denials combined)	97%	96% ² Estimated	79
1.1i	Disability hearings decision accuracy rate	90%	No data will be available for FY 2006	80
1.1j	Agency decisional accuracy rate (ADA)	97%	97% ² Estimated	81

Strategic Objective 1.2: Increase employment for people with disabilities by expanding opportunities

Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
1.2a	Number of DI and SSI beneficiaries, with tickets assigned, who work (over CY 2003 baseline of 14,052)	22,483	22,483 Estimated Data available July 2007	82
1.2b	Number of SSI disabled beneficiaries earning at least \$100 per month	268,419	247,143	83

¹ Detailed information regarding these measures can be found on the page indicated.

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

<i>Strategic Objective 1.3: Improve service through technology, focusing on accuracy, security, and efficiency</i>				
Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
1.3a	Retirement and Survivor Insurance (RSI) claims processed	3,911,000	3,789,328	84
1.3b	Optimize the speed in answering 800-number calls	330 seconds	278 seconds	85
1.3c	Optimize the 800-number busy rate for calls offered to Agents	10%	12% ²	86
1.3d KPI	Increase the usage of electronic entitlement and supporting actions	300% growth over FY 2004 baseline (2,211,200)	291.8% growth over FY 2004 baseline (2,165,865)	87
1.3e KPI	Increase the percent of employee reports (W-2 forms) filed electronically	70%	75% ²	89
1.3f KPI	Percent of individuals who do business with SSA rating the overall service as "excellent," "very good," or "good"	83%	82%	90
1.3g	Improve workload information using <i>Social Security Unified Measurement System</i> (SUMS)	Complete 66% of SUMS projects	66% of SUMS projects completed	90

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

Strategic Objective 2.1: Detect and prevent fraudulent and improper payments and improve debt management

Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
2.1a KPI	SSI non-disability redeterminations processed	1,244,000	1,070,822	91
2.1b KPI	Number of periodic CDRs processed to determine continuing entitlement based on disability	1,242,000	1,337,638	92
2.1c	Percent of SSI payments free of overpayments (O/P) and underpayments (U/P)	95.4% (O/P) 98.8% (U/P)	Not Available Data available June 2007	93
2.1d	Percent of outstanding SSI debt in a collection arrangement	55%	53% ²	94
2.1e	Percent of OASDI payments free of O/P and U/P	99.8% (O/P) 99.8% (U/P)	Not Available Data available June 2007	95
2.1f	Percent of outstanding OASDI debt in a collection arrangement	43%	42% ²	96

¹ Detailed information regarding these measures can be found on the page indicated.

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

<i>Strategic Objective 2.2: Strengthen the integrity of the Social Security Number issuance process to help prevent misuse and fraud of the Social Security Number and card</i>				
Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
2.2a	Percent of original SSNs issued that are free of critical error	98%	98% Estimated	97
2.2b	Number of Social Security Numbers (SSNs) processed	18,000,000	17,259,110	99

<i>Strategic Objective 2.3: Ensure the accuracy of earnings records so that eligible individuals can receive the proper benefits due them</i>				
Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
2.3a	Remove 3 percent of the earnings items that remain in the Earnings Suspense File (ESF) for a new tax year and post the earnings to the correct earnings records	3%	1% ²	100

<i>Strategic Objective 2.4: Manage Agency finances and assets to link resources effectively to performance outcomes</i>				
Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
2.4a	Continue to achieve 2 percent productivity improvement on average	2% on average	2.49% on average	101
2.4b KPI	Disability Determination Service (DDS) case production per workyear (PPWY)	262	241 ²	101
2.4c	SSA hearings case production per workyear (PPWY)	104	100 ²	102
2.4d	Maintain zero outside infiltrations of SSA's programmatic mainframes	0	0	103
2.4e	Enhance efforts to improve financial performance using Managerial Cost Accountability System (MCAS)	Complete 29% of MCAS projects	29% of MCAS projects completed	104
2.4f	Receive an unqualified opinion on SSA's financial statements from the auditors	Receive an unqualified opinion	Received an unqualified opinion	105
2.4g KPI	Get to "green" on the President's Management Agenda (PMA) initiatives status scores	Achieve a status score of "green" on four of five PMA initiatives	Achieved a status score of "green" on four of five PMA initiatives	106

¹ Detailed information regarding these measures can be found on the page indicated.

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

Strategic Goal 3: SOLVENCY

To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations

Strategic Objective 3.1: Through education and research efforts, support reforms to ensure sustainable Solvency and more responsive retirement and disability programs

Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
3.1a KPI	Provide support to the Administration and Congress in developing legislative proposals and implementing reforms to achieve sustainable solvency for Social Security	Conduct analysis for the Administration and Congress on key issues related to implementing Social Security reforms	Completed	107
3.1b	Issue annual SSA-initiated <i>Social Security Statements</i> to eligible individuals age 25 and older	100%	100%	108

Strategic Goal 4: STAFF

To strategically manage and align STAFF to support the mission of the Agency

Strategic Objective 4: Recruit, develop, and retain a high-performing workforce

Performance Indicator		FY 2006 Goal	FY 2006 Actual	See Page# ¹
4.1a KPI	Minimize skill and knowledge gaps in mission-critical positions	Competency-based entry-level training curriculum will be developed for 100% of the remaining targeted public contact positions - Benefit Authorizers, Claims Authorizers, and Technical Support Technicians	Completed	109
4.1b	Align employee performance with Agency mission and strategic goals	Develop a communication and training plan to facilitate implementation of the new performance assessment system for employees at the GS-14 and below level and GS-15s who are covered by the SSA / American Federation of Government Employees (AFGE) National Agreement	Completed	110

¹ Detailed information regarding these measures can be found on the page indicated.

Program Assessment Rating Tool (PART) Measures

Measure	FY 2006 Goal	FY 2006 Actual	See Page# ¹
Average processing time for initial disability claims	93 days	88 days ²	77
Average processing time for SSA hearings	467 days	483 days	78
DDS net accuracy rate (allowances and denials combined)	97%	96% ² Estimated	79
Number of DI and SSI beneficiaries, with tickets assigned, who work (over CY 2003 baseline of 14,052)	22,483	22,483 Estimated Data available July 2007	82
Percent of SSI payments free of overpayments	95.4%	Not Available Data available June 2007	93
Percent of SSI payments free of underpayments	98.8%	Not Available Data available June 2007	93
Disability Determination Services (DDS) case production per workyear (PPWY)	262	241 ²	101
SSA hearings case production per workyear (PPWY)	104	100 ²	102
Percent of SSI Aged claims processed by the time the first payment is due or within 14 days of the effective filing date	75%	91% ²	112
Note: Not a performance measure for the Annual Performance Plan			

Individual Performance Measure Results

SSA identifies performance measures that link directly to Agency objectives and ultimately to SSA's mission. This section reports SSA's FY 2006 performance for each individual performance and Program Assessment Rating Tool (PART) measure. Included for each measure are the FY 2006 goal, the actual performance achieved, whether the goal was met, and if the goal was not met, an explanation as to why and what actions the Agency will take toward improvement. Established measures include historical data and trend charts, which concentrate on results for the past six years. For new and revised measures, historical and trend information is not provided. Final data for some performance measures are not available at the end of the fiscal year. Data for these measures are captured and reported at only one point in time. In cases where FY 2006 end-of-year data are not available, year-to-date performance or estimates are shown along with an indication of when the final data will be available. For these measures the end-of-year data will be provided in the FY 2007 PAR. This report also includes final FY 2005 data for those performance measures for which final data were not available when the FY 2005 PAR was submitted.

On its PART assessment, SSA achieved "moderately effective" - the second highest score - for both the DI and the SSI programs. Per the OMB definition, a program rated moderately effective has set ambitious goals and is well-managed. SSA is continuing to expand employment opportunities of for DI beneficiaries through its Ticket to Work and Area Incentive Coordinators efforts. SSA continues to pursue strategies to reduce the average disability determination processing time, increase decisional consistency and accuracy, and ensure that the right determination

¹ Detailed information regarding these measures can be found on the page indicated.

² The actual number is rounded to the nearest whole number using the standard rounding convention of rounding up numbers that are .5 or higher and rounding down those .4 or less.

or decision is made as early in the disability determination process as possible. SSA is dedicated to program improvement and continues to address PART recommendations in our strategic plans and budget.

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

Strategic Objective 1.1: Make the right decision in the disability process as early as possible

1.1a – Number of initial disability claims processed by the Disability Determination Services (DDS)

FY 2006 Goal: 2,663,000

Performance: 2,532,264

Goal Met: No

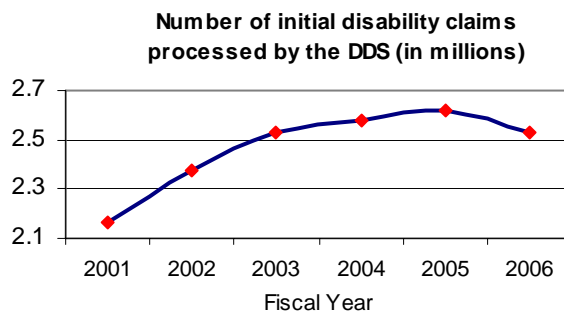
Discussion: The number of disability claims processed by the DDS in FY 2006 exceeded the number processed in FY 2001 (2,166,623) by 16.9 percent (365,641). The following factors affected the number of claims processed in FY 2006:

- 1) The number of initial disability claims received was lower than anticipated. Certain levels of receipts are needed so that the DDS has an adequate number of cases to process. As discussed on the following page, the number of disability claims pending in the DDS reached a 6-year low in FY 2006;
- 2) Changes in business processes and systems enhancements as a result of the new electronic disability (*eDib*) process. The *eDib* process enhances the Agency’s ability to make more accurate, consistent, and timely decisions. It allows more than one employee or claims processing component to work on a claim at the same time, thus speeding up the process;
- 3) The training required for a new process, the learning curve, and working simultaneously in the old and new processes also prevented SSA from further increasing the number of claims processed to achieve this goal.

SSA continues to make significant progress in implementing the electronic disability process. *eDib* is already a reality in 48 States, as well as the territories of Guam, the Virgin Islands, and Puerto Rico - all of which are using a fully electronic process, and the remaining States will be fully electronic by the end of December 2006. Many positive results have been realized. For example, 97 percent of disability examiners have been trained to use the Document Management Architecture, which is the component of the electronic file that stores document images and audio/video files. Through the implementation of these new processes, SSA will be better positioned to meet future goals for this measure.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	2,166,623
2002	2,376,572
2003	2,526,020
2004	2,574,848
2005	2,617,231
2006	2,532,264



Data Definition: DDS count of initial disability claims processed, including disabled dependents

Data Source: National Disability Determination Services System

1.1b – Maintain the number of initial disability claims pending in the DDS (at or below the FY 2006/2007 goal)

FY 2006 Goal: 577,000

Performance: 555,071

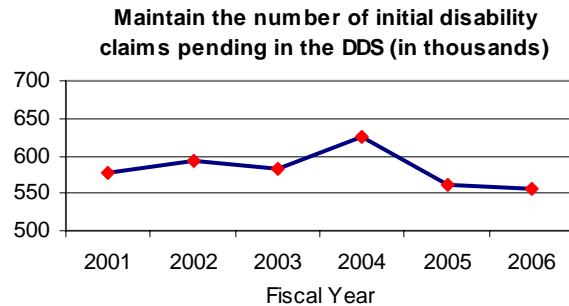
Goal Met: Yes

Discussion: In FY 2006, the number of initial disability claims pending in the DDS reached a 6-year low. This achievement is especially significant because this is one of SSA’s fastest growing core workloads. SSA reduced the pending number of claims to 555,071, which is 21,929 less than the goal in spite of ongoing challenges. SSA is also making great strides in moving its disability claims process from a paper to an electronic environment. As more States and territories became certified to process claims electronically, the time it took to process claims declined. This has contributed to a decrease in the number of initial disability claims pending in the DDS.

SSA is committed to making even more progress in lowering its pending disability workload in the future as disability examiners, and other personnel involved in processing disability claims, become more proficient in electronically processing claims. This, along with the Agency’s new disability service initiative, will enhance the Agency’s ability to make accurate, consistent and timely disability decisions.

Trend:

Fiscal Year	Performance
2001	578,524
2002	592,692
2003	581,929
2004	624,658
2005	560,529
2006	555,071



Data Definition: DDS count of initial disability claims pending, including disabled dependents

Data Source: National Disability Determination Services System

1.1c – Number of SSA hearings processed

FY 2006 Goal: 560,000

Performance: 558,978

Goal Met: No

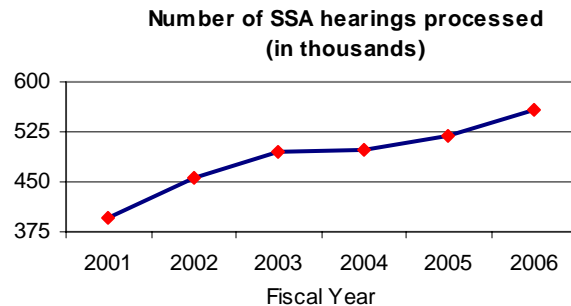
Discussion: Compared to FY 2001, the Hearing Offices processed 163,413 more hearings in FY 2006. This represents a 41 percent improvement over the past six years. This improvement occurred during *eDib* implementation, which included the following new processes: converting to a new management information system; video hearings; and electronic folder processing. Also, the Agency did not realize the number of receipts expected in FY 2006.

Based on the following activities, the Agency will continue to become more efficient and productive with regard to the hearings workload:

- 1) In FY 2006, SSA restructured its organization to improve the management of its appeals process as described on page 13 in the Agency Organization section;
- 2) The 100 new Administrative Law Judges (ALJ) hired in February 2005, are approaching the 2-year period when maximum productivity is achieved. These judges are fully utilizing the new processes, which include conversion to a new management information system; video hearings; and electronic folder processing; and
- 3) By the end of FY 2006, 49 Hearings Offices in 22 States successfully completed Independence Day Assessment (IDA) certification, meaning they are certified to use electronic files as the official Agency record. The remaining States will be certified by the end of December 2006.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	395,565
2002	454,718
2003	493,923
2004	497,379
2005	519,359
2006	558,978



Data Definition: Social Security Administration (SSA) hearings processed by the Office of Disability Adjudication and Review (ODAR)

Data Source: ODAR Case Processing Management System (CPMS)

1.1d – Maintain the number of SSA hearings pending (at or below the FY 2006/2007 goal)

FY 2006 Goal: 756,000

Performance: 715,568

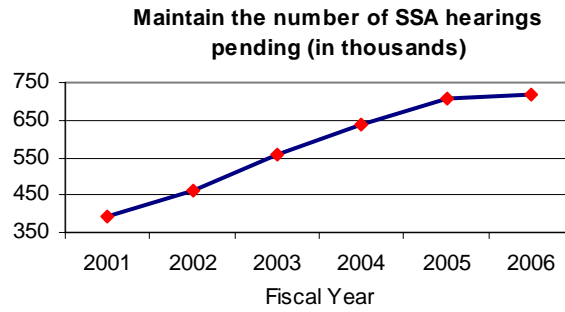
Goal Met: Yes

Discussion: Along with the new management structure discussed in 1.1c, the Agency continued the process of eDib implementation. The number of pending cases increased slightly between FY 2005 and FY 2006 due to effect of the restructuring, training new hires, and the transition to the new electronic process. The number of hearings pending are expected to decline as electronic and video hearing volumes increase. The number of hearings processed electronically has increased as more Hearing Offices acquire the ability to use the electronic folder. At the end of FY 2006, 134 Hearing Offices in all States (except New York), Puerto Rico and the District of Columbia had the capability to conduct electronic hearings. This represents 93 percent of all Hearing Offices (134 of 144 Hearings Offices).

In FY 2006, 78 video hearing sites were installed, bringing the nationwide count to 375. Video hearings allow the Agency to reach more claimants in remote areas, reducing the time it takes to schedule and conduct hearings for these individuals. In FY 2006, there were 41,457 video hearings held compared to 24,999 held in FY 2005.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	392,387
2002	463,052
2003	556,369
2004	635,601
2005	708,164
2006	715,568



Data Definition: SSA hearings pending in ODAR

Data Source: Case Processing Management System (CPMS)

1.1e – Average processing time for initial disability claims

FY 2006 Goal: 93 days

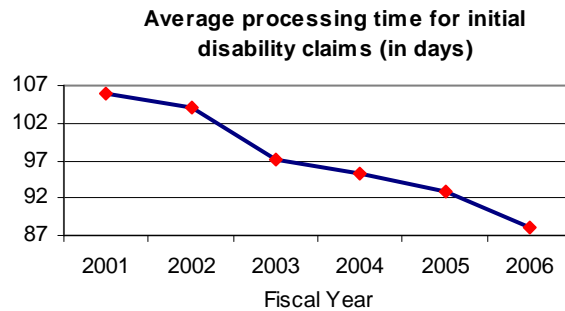
Performance: 88 days

Goal Met: Yes

Discussion: Timely processing of initial disability claims is a critical aspect of SSA's service delivery to the public. The Agency has made significant strides in this area over the last several years. The average processing time for initial disability claims has steadily decreased from 106 days in 2001 to 88 days in FY 2006. Recent improvements in the disability claims process in both the SSA Field Offices and State DDSs, such as the implementation of the electronic disability (*eDib*) process and the electronic signature proxy process, contributed to meeting the FY 2006 goal. Signature proxy allows the virtual signing of a document without requiring the claimant to visit a field office. It is used by claimants who file by telephone or on the Internet. This feature continues the Agency's progress toward a fully electronic environment. Improvements in processing time are expected to continue as employees gain increased proficiency in processing claims via *eDib*.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	106 days
2002	104 days
2003	97 days
2004	95 days
2005	93 days*
2006	88 days*



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

Data Definition: The fiscal year average processing time for Title II (Social Security) and Title XVI (SSI) claims combined. Processing time is measured from the application date (or protective filing date) to either the date of the denial notice or the date the system completes processing an award.

Data Source: Title II Management Information Initial Claims Record (MIICR) Processing Time; Social Security Unified Measurement System (SUMS)

1.1f – Average processing time for SSA hearings

FY 2006 Goal: 467 days

Performance: 483 days

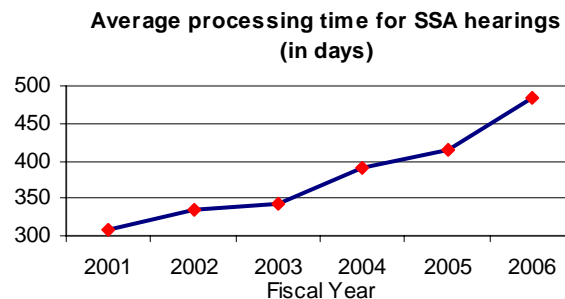
Goal Met: No

Discussion: Processing time for hearings increased in FY 2006 for several reasons:

- 1) The Agency focused on reducing the level of older cases pending. Older cases tended to be more problematic and took longer to decide;
- 2) The hiring of 100 new Administrative Law Judges (ALJs) in FY 2005. It takes approximately two years before maximum productivity will be achieved;
- 3) The legislatively mandated transfer of Medicare hearings to the Centers for Medicare and Medicaid Services (CMS) removed a large number of cases from this processing time count. Certain types of Medicare cases are much faster and easier to process. Therefore, the transfer of the Medicare hearings to CMS contributed to an increased average processing time for SSA; and
- 4) The Agency's transition from a paper to an electronic process (e.g., training, learning curve, dual process, etc.). The new management structure, having more experienced ALJs, fully implementing *eDib*, and increased use of video and electronic hearings will have a positive effect on future processing time for SSA hearings.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	308 days
2002	336 days
2003	344 days
2004	391 days
2005	415 days
2006	483 days



Note: FY 2001 – FY 2005 included Medicare and SSA hearings

Data Definition: The average elapsed time, from the hearing request date until the date of disposition of SSA cases at the hearings level (disability and non-disability cases) processed during all months of the fiscal year.

Data Source: Case Processing Management System (CPMS)

1.1g – Average processing time for hearings appeals

FY 2006 Goal: 242 days

Performance: 203 days

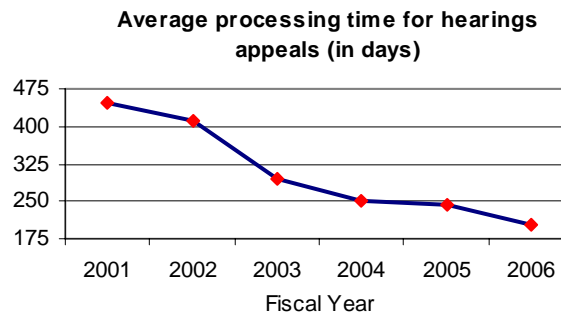
Goal Met: Yes

Discussion: SSA has taken proactive steps over the years to reduce the number of older claims that had accrued at the Appeals Council, which has resulted in significant accomplishments in this area. Since 2001, the average number of days needed to process hearings appeals has decreased by 55 percent; from 447 days in FY 2001 to 203 days in FY 2006. Factors that contributed to the lowering of processing time included balancing workloads and identifying and clearing of incoming cases ready for immediate processing.

Reducing the time it takes for a person to receive a decision on a claim, from initial filing to final administrative appeal, is one of SSA's high priorities. Decreasing the time to process hearings appeals improves SSA's service to the public.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	447 days
2002	412 days
2003	294 days
2004	251 days
2005	242 days
2006	203 days



Note: In SSA's FY 2005 PAR, this measure was termed Reduce the average number of days needed to process hearings appeals.

Data Definition: The 12-month average processing time for decisions on appeals of hearings. Monthly processing time is calculated as an average over the course of the fiscal year. Processing time begins with the date of the request and ends when the disposition is entered into the *Appeals Council Automated Processing System (ACAPS)* which is the date the decision is date stamped, released, and mailed.

Data Source: ACAPS

1.1h – DDS net accuracy rate (allowances and denials combined)

FY 2005 Goal:	97%
Performance:	96%*
Goal Met:	No
FY 2006 Goal:	97%
Estimated Performance:	96%* **
Goal to be Met:	No

Discussion: The Agency invests a great deal of effort to ensure the accuracy of decisions on initial disability claims. These efforts include providing training and regional office support to the State Disability Determination Services (DDS), building better relationships with medical providers to ensure that medical evidence is received and complete, and ensuring claims files are randomly selected for consistency and quality review.

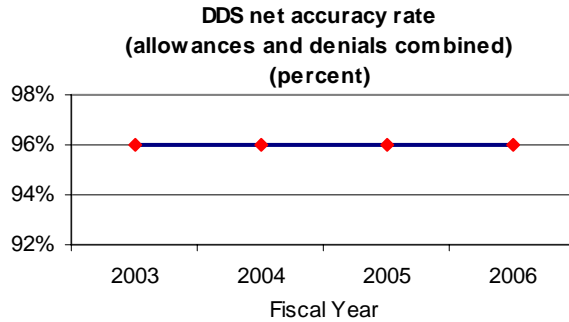
Over the years, this goal has proven to be very challenging. The rules and instructions for administering the disability adjudication process are very complex, requiring years of experience for the disability examiner to become proficient. In order to address the complexities of the disability adjudicative process, the DDSs invest significant time in training and mentoring programs and have expanded their in-line quality reviews of claims to include reviews of both Social Security and SSI claims. SSA believes that the implementation of the new disability process and continued training and emphasis on accuracy will position the Agency to meet this goal in the future.

The Agency is addressing ways to supply the disability examiner with relevant and timely information and to provide a variety of policy information and instructions as well as information for disability training programs and newsletters on its website. The Agency has developed a web-based application called Program Policy Online, which is designed to assist DDS employees in obtaining policy and procedural information. Program Policy Online

presents step-by-step processing instructions and will help the DDS employees find information more quickly by using searching capabilities based on their job tasks and position.

Trend: This was a new measure for FY 2003

<u>Fiscal Year</u>	<u>Performance</u>
2003	96%*
2004	96%*
2005	96%*
2006	96%* Estimated**



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

**The performance data shown for FY 2006 is based on performance through June 2006. Actual end-of-year data will not be available until January 2007 and will be reported in the FY 2007 PAR.

Data Definition: Net accuracy is the percentage of correct initial State disability determinations and based on the net error rate, i.e., the number of corrected deficient cases with changed disability decisions, plus the number of deficient cases not corrected within 90 days from the end of the period covered by the report, divided by the number of cases reviewed.

Data Source: Disability Quality Assurance Data Bases

Note: Deficient cases corrected after the 90-day period are still counted as a deficiency.

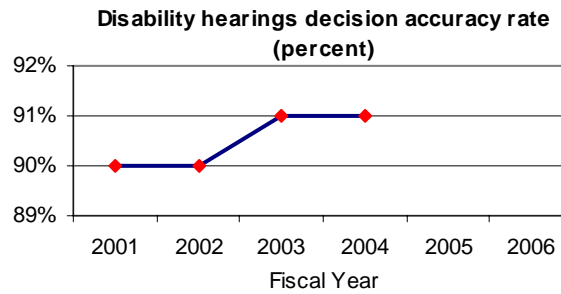
1.1i – Disability hearings decision accuracy rate

FY 2005 Goal:	90%
Performance:	n/a
Goal Met:	n/a
FY 2006 Goal:	90%
Performance:	n/a
Goal Met:	n/a

Discussion: The Commissioner of Social Security made the decision to suspend the Administrative Law Judge Peer Review process, which was the data source for this measure. As part of the Disability Service Improvement initiative, SSA established a Decision Review Board which is responsible for reviewing ALJ decisions for accuracy and consistency.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	90%
2002	90%
2003	91%
2004	91%
2005	n/a
2006	n/a



Note: In SSA’s FY 2005 PAR, this measure was termed *Disability hearings accuracy rate*.

Data Definition: The percent of disability hearing decisions (favorable or unfavorable) supported by “substantial evidence” -- less than a preponderance of evidence, but sufficient to be reasonably convincing of the position’s credibility when no opposing evidence clearly indicates another finding/conclusion, requires less support than the “weight of the evidence” rule, i.e., evidence on one side of an issue need not possess greater weight or be more convincing/credible to be “substantial.” Federal Courts use it to evaluate decisional accuracy. The Appeals Council uses it to determine which hearing decisions to review.

Data Source: *Biennial Disability Hearings Quality Review Process Peer Review Reports*. The Peer Review Reports are based on a review of ALJ decisions and focus on six major areas: hearing case characteristics, substantial evidence review, *de novo* review, due process issues, legal sufficiency issues and special reviews.

1.1j – Agency decisional accuracy rate (ADA)

FY 2005 Goal:	97%
Performance:	97%*
Goal Met:	Yes
FY 2006 Goal:	97%
Estimated Performance:	97%* **
Goal Met:	Yes

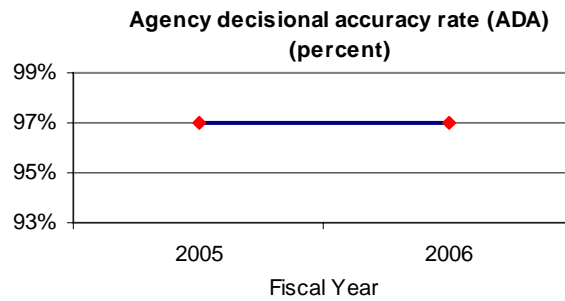
Discussion: The Agency uses findings from this measure to target areas needing improvement in accuracy. The ADA rate is updated quarterly on a fiscal year-to-date basis and is reported after the close of the 3-month period following the report period. This allows time for corrective action to take place. It is predicted that the final numbers will indicate that SSA did meet its 97 percent FY 2006 accuracy target.

This measure more precisely portrays the Agency’s initial disability determination accuracy because it includes in the calculation all corrective actions taken in connection with SSA quality control reviews that are performed before DDS determinations are effectuated. (This measure expands on the DDS accuracy rate measure 1.1i described on page 80 in that it includes among Agency correct decisions those incorrect DDS determinations that were corrected by SSA on a pre-effectuation basis.) As a service measure, it is a way for both the public and the Agency to know that a high standard of accuracy is being maintained and that the accuracy of SSA decisions can be relied on to a high degree.

To elevate the level of attention on quality issues, in FY 2006 the Agency established the Chief Quality Officer to direct the Agency-wide quality performance management program. Accuracy is an important aspect of the five dimensions of quality (accuracy, productivity, cost, timeliness and service).

Trend: This was a new measure for FY 2005

Fiscal Year	Performance
2005	97%*
2006	97%* Estimated**



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

** The performance data shown for FY 2006 is based on performance through June 2006. Actual end-of-year data will not be available until January 2007 and will be reported in the FY 2007 PAR.

Note: ADA is updated quarterly. It represents an accurate measure of bottom-line decisional correctness of initial disability determinations. Unlike the DDS net accuracy rate, it is an estimate of the number of correct decisions after OQP corrective actions. ADA is updated quarterly on a fiscal year-to-date basis, and is reported after the close of the 3-month period following the report period, to allow time for corrective actions to take place.

Data Definition: ADA estimates total errors in all initial State agency disability determinations based on the quality assurance (QA) sample review conducted in the Disability Quality Branches (DQBs). Errors are defined as those cases in which decisions change upon correction. The errors that are corrected in the regional QA and Pre-effectuation reviews (PER) are subtracted from the total estimated errors. The remaining uncorrected errors are the “incorrect” cases in ADA. The remaining correct cases divided by the total cases represent ADA.

Data Source: Disability Quality Assurance Data Bases

Strategic Objective 1.2: Increase employment for people with disabilities by expanding opportunities

1.2a – Number of DI and SSI beneficiaries, with tickets assigned, who work (over Calendar Year [CY] 2003 baseline of 14,052)

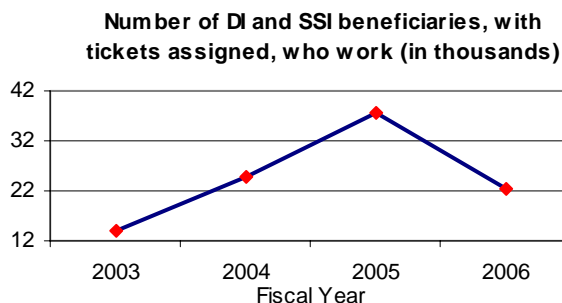
FY 2005 Goal:	40% over baseline - 19,673
Performance:	37,424
Goal Met:	Yes
FY 2006 Goal:	60% over baseline - 22,483
Estimated Performance:	60% over baseline - 22,483*
Goal to be Met:	Yes

Discussion: This measure supports the Agency’s service goal to increase disabled beneficiaries’ access to employment opportunities through the Ticket to Work program. Through changes in legislation, advances in medicine, and technology improvements, the workplace is now more amenable to persons with disabilities than in past decades. SSA is committed to facilitating access to employment by educating employers and the public about the benefits of the Ticket to Work program.

SSA is continuing to strengthen and market the Ticket to Work Program. The Agency has proposed a new regulation that will increase the flexibility Ticket holders have in using their ticket. SSA will be conducting meetings, conferences, community forums, informational seminars and media events to increase awareness of the program and satisfy a need for community outreach. These initiatives should continue to have a positive influence on Social Security Disability Insurance beneficiaries and disabled SSI recipients attempting to work.

Trend: This was a new measure for FY 2003

Fiscal Year	Performance
2003	14,052 (baseline)
2004	24,784 (76%)
2005	37,424
2006	22,483 <i>Estimated*</i>



* Based on past performance the Agency expects to meet its goal for FY 2006. Actual data for FY 2006 will not be available until July 2007 and will be reported in the FY 2007 PAR. The targets were initially set as 20 percent incremental improvements over a CY 2003 baseline. Due to the delay in obtaining actual end-of-year data adjustments to the targets could not be made. As a result, performance totals are anticipated to be higher than the established targets.

New performance measures are being proposed for FY 2007 and beyond that will better reflect beneficiaries' access to employment services and their engagement in significant levels of work activity.

Data Definition: Count the number of DI, SSI, and concurrent beneficiaries who have used their ticket to sign up with an Employment Network or State Vocational Rehabilitation Agency and who have recorded earnings in the *Disability Control File (DCF)* in any month of the calendar year. The data are provided on a calendar year basis and reported in June of the following year.

Data Source: The Verify Update Earnings Screen's (VERN) Work and Earnings Reports data field in the Disability Control File

1.2b – Number of SSI disabled beneficiaries earning at least \$100 per month

FY 2005 Goal:	255,637
Performance:	237,782
Goal Met:	No
FY 2006 Goal:	268,419*
Performance:	247,143
Goal Met:	No

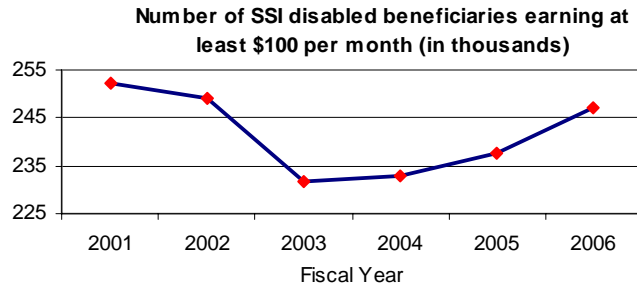
Discussion: SSA encourages all disabled beneficiaries to take advantage of various work incentives in order to increase their economic independence and self-sufficiency. Due to the dynamics of the SSI population, which include factors such as levels of education, work experience, and capacities for working, a more graduated approach to joining the workforce is often appropriate.

The strategies for increasing employment for disabled people are guided by and directly support the President's *New Freedom Initiatives*, a nationwide effort to remove barriers to community living for people of all ages with disabilities and long-term illnesses. SSA has a number of strategies and work incentives in place to assist disabled

people who want to become more self-sufficient. It will take several years to see the full benefits and results of these efforts. Factors such as the economy and educational and training resources affect the Agency's ability to achieve this goal.

Trend:

Fiscal Year	Performance
2001	252,219
2002	249,175
2003	231,870
2004	232,775
2005	237,782
2006	247,143



* Based on audit recommendations made by SSA's Inspector General, SSA agreed to change the methodology for calculating performance. Beginning in FY 2005, the calculation was revised from using an end-of-year snapshot to an average of all four quarters. As a result, the published FY 2006 goal of 268,419 was based on a 5 percent increase over the FY 2005 goal (255,637) instead of the new baseline of FY 2005 actual performance (237,782) calculated under the quarter-averaging methodology. The FY 2007 and 2008 goals will be based on FY 2006 actual performance.

Data Definition: The number of working Supplemental Security Income (SSI) disabled beneficiaries earning at least \$100 per month. This measure is intended to reflect the impact of all work incentives for SSI disabled beneficiaries. Through FY 2004, performance against this measure was calculated based on an end-of-year snapshot. Effective with FY 2005, SSA averages the four fiscal year quarterly results to determine annual performance.

Data Source: SSI Disabled Recipients Who Work report

Strategic Objective 1.3: Improve service through technology, focusing on accuracy, security, and efficiency

1.3a – Retirement and Survivors Insurance (RSI) claims processed

FY 2006 Goal: 3,911,000

Performance: 3,789,328

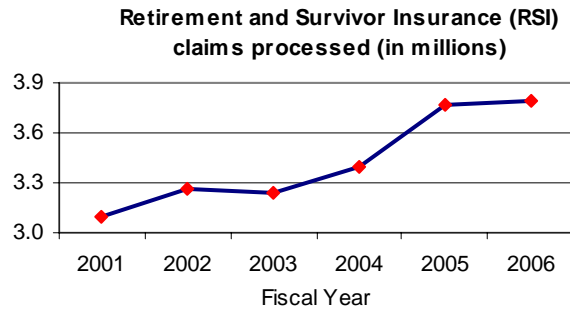
Goal Met: No

Discussion: The number of RSI claims processed in FY 2006 exceeded the number processed in FY 2001 (3,092,743) by 22.5 percent (696,585). Each year, this goal is based on actuarial estimates, prior years' claims receipts, legislative or policy changes and other factors. The Agency did not realize the number of receipts expected in FY 2006, therefore the goal of processing 3,911,000 RSI cases could not be achieved. However, RSI case processing time and appointment availability were at acceptable levels.

Over the past few years, SSA introduced a number of initiatives improving the application process for RSI claims. The Agency has successfully managed and expedited the claims process using improved technology for an ever increasing number of beneficiaries. The public now has the capability to obtain a retirement benefit estimate and file for retirement benefits online. The use of signature proxy was also implemented, which allows for virtual signing of the application without requiring the beneficiary to visit an SSA field office. It is used by claimants who file by telephone or on the Internet. As this trend in filing for benefits online is expected to continue over the next decade, SSA faces the challenge of providing cost effective electronic service delivery.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	3,092,743
2002	3,266,297
2003	3,238,871
2004	3,399,471
2005	3,762,977
2006	3,789,328



Data Definition: All initial claims for retirement, survivors, and Medicare processed by the Regional Commissioner (RC)/Field Offices (FOs) and Office of Central Operations (OCO). This includes totalization claims.

Data Source: Integrated Work Measurement System/District Office Workload Report (IWMS/DOWR) cells 00112, 00212; Office of International Operations (OIO) Ad Hoc Report; Division of Direct Service Operations (DDSO) Teleclaims Report; Program Service Center (PSC); Internet Retirement Insurance Benefits (IRIB); and Immediate Claims Taking Unit (ICTU).

1.3b – Optimize the speed in answering 800-number calls

FY 2006 Goal: 330 seconds

Performance: 278 seconds

Goal Met: Yes

Discussion: Advances in telephone communication technology provide the public with greater access to services and allow SSA to more efficiently meet the needs of the public. Telephone communication is an important tool in conducting business with the public. Whether or not a person is receiving benefits from SSA, they will likely have an occasion to contact SSA by telephone. SSA’s goal is for these interactions to be responsive and timely.

SSA made great strides in the speed of answering 800-number calls. In January 2006, call volumes increased significantly as a result of inquiries related to the Medicare Prescription Drug Program. Average speed of answer rose from 360 seconds in October 2005 to a high of 414 seconds in January 2006. Following the January high, the average speed of answer declined each month allowing SSA to achieve and surpass its goal of 330 seconds for FY 2006.

Average speed of answer is affected by a variety of factors including the number of available agents, the average handle time per call, and the wait tolerance of callers to remain on hold. In order to maintain the 330 second goal, significant changes will be needed in the form of new automation and/or additional hiring since call volumes are expected to continually increase each fiscal year. The projected increase in call volumes is directly tied to actuarial projections and Agency workload forecasting.

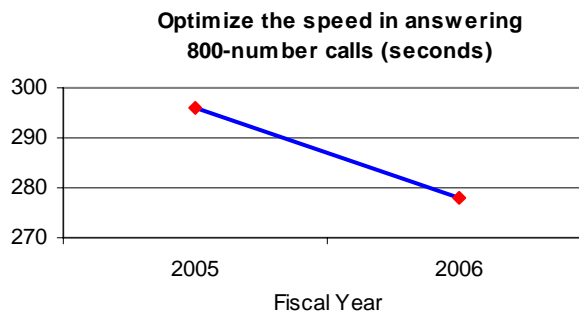
In 2006, SSA continued to realize increased efficiencies through the Call Center Network Solution, a system that allows the routing of calls to the next available agent at any site in the national network. This allows the network to handle the optimum number of calls per agent, which translates into improved service to the public through technological enhancements. The increased use of automated response options also contributed to success in achieving the goal.

Closely related to this measure is 1.3f – “Percent of individuals who do business with SSA rating the overall service as “excellent,” “very good,” or “good.” The high quality service provided by SSA employees, as evidenced by the very favorable ratings they received for their courtesy, helpfulness, job knowledge, and the clarity of their explanations, continues to be a key factor in the overall public perception of the Agency’s service.

*Excellent, very good, or good ratings of these categories were virtually all 90 percent or better for all service delivery channels (800-number, Field Office telephone service, and office visits).

Trend: This was a new measure for FY 2005.

<u>Fiscal Year</u>	<u>Performance</u>
2005	296 seconds
2006	278 seconds



Note: The number of transactions (either live or automated service) handled by SSA’s 800-number was 55,070,693 in FY 2005 and 59,475,747 in FY 2006.

Data Definition: Answer wait time of all calls divided by all calls answered by agents (includes calls that do not queue). Wait time begins from the time callers first hear the message that they will be connected with the next available agent and ends when an agent answers. Calls that go straight to an agent without waiting in the queue have a zero average speed of answer (ASA), but are included in the ASA for all calls, i.e., they are included in the average. ASA does not include callers who hang up once in the queue, but did not get an answer.

Data Source: Report generated by Cisco router software

1.3c – Optimize the 800-number busy rate for calls offered to Agents

FY 2006 Goal: 10%
Performance: 12%
Goal Met: No

Discussion: SSA is committed to answer the phone when the public calls. Through advancements under the Call Center Network Solution, a system that allows callers to reach SSA on the first try, SSA met the 10 percent goal for FY 2005. While actuarial projections and Agency workload forecasting indicated that call volumes would continue to increase, the Agency was confident that performance could be maintained and, therefore, the performance goal for FY 2006 remained at 10 percent, which is the same as the FY 2005 performance goal.

SSA was given the responsibility for the application for and determination of the premium subsidy for Medicare Part D Prescription Drug Plan. Although it was expected that call volumes would increase due to the January 2006 implementation of Medicare Part D Prescription Drug Plan, it was not anticipated that the public would see SSA as a point of contact for all Part D issues. Medicare Part D inquiries caused an increase in calls to SSA resulting in the 800-number busy rate reaching a high of 23 percent in January 2006.

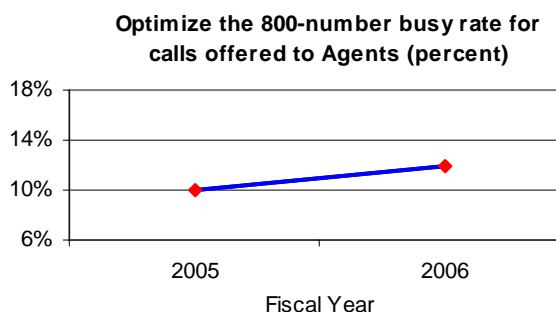
As a result of legislation, major changes to the Social Security number application process were implemented on December 17, 2005. These changes affected both original and replacement card applications and also contributed to increased call volumes. The busy rate has steadily declined every month since the high in January. It should also be noted that the Agency received over four million more 800-number transactions in FY 2006 than in FY 2005 which also contributed to the Agency not meeting this goal.

A complimentary measure is performance measure 1.3f – “Percent of individuals who do business with SSA rating the overall service as “excellent,” “very good,” or “good.” The high quality service provided by SSA employees, as evidenced by the very favorable ratings they received for their courtesy, helpfulness, job knowledge, and the clarity of their explanations, continues to be a key factor in the overall public perception of the Agency’s service.

* Excellent, very good, or good ratings of these categories were virtually all 90 percent or better for all service delivery channels (800-number service, Field Office telephone service, and office visits.)

Trend: This was a new measure for FY 2005.

<u>Fiscal Year</u>	<u>Performance</u>
2005	10%
2006	12%



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

Data Definition: Number of busy messages divided by number of calls offered to agents (displayed as a percentage). A busy message is the voice message a caller receives when no agent is available to answer the call because the queue has reached its maximum capacity of waiting calls. When this happens, the person is asked to call back later.

Data Source: Report generated by Cisco router software

1.3d – Increase the usage of electronic entitlement and supporting actions

FY 2006 Goal: 300% growth over FY 2004 baseline (2,211,200)

Performance: 291.8% growth over FY 2004 baseline (2,165,865)

Goal Met: No

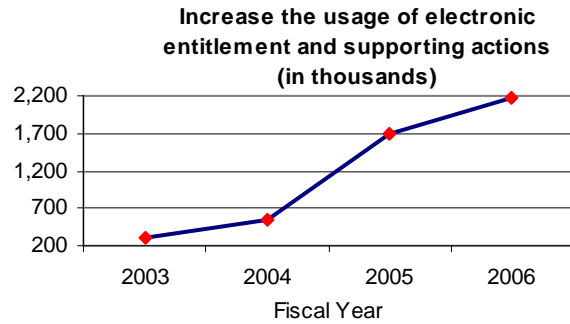
Discussion: SSA is proud to offer one of the best and most secure Internet service delivery channels in the Federal government at www.socialsecurity.gov. Users of this site consistently rate it very highly. Both the Internet Benefits Application and the information page, “Help with Medicare Prescription Drug Plan Costs,” received the highest scores among government websites in the September 2006 *American Customer Satisfaction Index* produced by Stephen M. Ross Business School at the University of Michigan in partnership with the American Society for Quality and the International consulting firm, CFI Group. SSA runs several *American Customer Satisfaction Index* (ACSI) surveys on the Agency’s website, collecting data on informational pages as well as on-line applications. ACSI surveys are widely used in both the Federal and private sectors to measure public satisfaction with features of web sites. The surveys provide agencies with standard, statistical measurements of public satisfaction that are directly comparable to other ACSI users.

The usage of the seven applications in this measure remained on target to achieve the goal through the first half of the fiscal year; however, an unexpected dip in performance occurred in the third quarter. Environmental factors outside of the Agency’s control, such as increased media coverage of potential privacy breaches related to the theft of personal information, may have influenced the public’s decision to avoid conducting business via electronic channels. In addition, usage of SSA’s Proof of Income application did not grow at the pace anticipated based on last year’s performance. This lower than anticipated usage may be related to the fact that, for security reasons, SSA mails the requested information via surface mail rather than email, adding time to the delivery of the document.

SSA continues to expand access to information and services through Internet resources and enhance the functionality and usability of current applications. Expanding the services SSA can provide through additional use of technology not only improves service to the public, but also saves the Agency time and money. These continued efforts will help the Agency to achieve this goal in the future.

Trend: This was a new measure for FY 2003.

Fiscal Year	Performance
2003	295,219
2004	87.3% growth* 552,810
2005	471.1% growth* 1,685,959
2006	291.8% growth* 2,165,865



* Over baseline

Note: As a result of the decision to count only fully successful transactions beginning in FY 2005, the FY 2003 baseline changed from 334,016 to 295,219 to reflect fully successful transactions for comparison to the FY 2005 performance target. For the same reason, the FY 2004 performance changed from actual performance of 611,266 to 552,810. The FY 2006 target has been modified to 300 percent growth over the FY 2004 baseline. This is expected to be a more realistic reflection of what the Agency can accomplish than the FY 2005 performance target.

Data Definition: This indicator consists of an aggregate measure of representative electronic transactions the public performs with SSA. Beginning with FY 2005, a decision was made to track application counts for electronic services that represent only fully successful transactions. This will maintain consistency throughout all applications and provide a better representation of performance.

The following are included in the FY 2004 baseline:

- Internet Social Security Benefit Application includes:
 - Retirement Application (effective 11/00)
 - Spouse Application (effective 3/01)
 - Disability Application (effective 1/02)
- Proof of Income Letter - Internet (effective 3/99)
- Proof of Income Letter – 800# voice enabled (effective 7/04)
- Medicare Replacement Card – Internet (iMRC) (effective 7/00)
- Medicare Replacement Card – 800# voice enabled (effective 7/04)
- Password based Change of Address (effective 4/01)
- Knowledge based Change of Address (effective 2/04)
- Internet Change of Direct Deposit (iCDD) (effective 8/01)

Applications continue to be added on an ongoing basis.

Data Source: Executive and Management Information System (EMIS); Title II Internet Claims report; Electronic Service Delivery Report

1.3e – Increase the percent of employee reports (W-2 forms) filed electronically

FY 2006 Goal: 70%

Performance: 75%

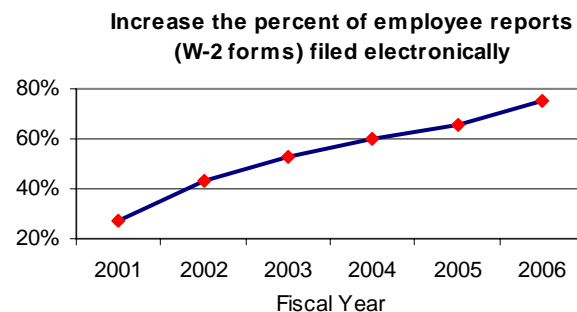
Goal Met: Yes

Discussion: SSA’s vision is to provide a variety of cost-effective electronic government services to citizens, businesses and other government agencies, within the next few years. Within the scope of this measure, Electronic Wage Reporting simplifies the process for businesses by allowing them to submit employee wage reports (Form W-2) online. The service also includes the *AccuWage* tool for businesses, which improves reporting accuracy and reduces the volume of error corrections and necessary follow-up contacts. In addition, *W-2 Online* is a service that meets the needs of small businesses by providing online entry and printing of W-2 wage and tax statement forms for distribution to employees. The Agency’s ability to receive electronically filed wage reports through the Internet provides the business community with an easy-to-use, cost effective filing process.

SSA has made significant improvements in the process for employers to report earnings. The Agency recently received results from a survey that was conducted to provide insight into how to encourage small business reporters to report wages electronically. The survey results indicated that most small businesses switched from paper to the electronic reporting process as a result of SSA’s promotional materials, payroll and employer conferences, articles and trade publications, and direct contact with large employers. SSA also plans to increase electronic business via the Internet by improving earnings products and services for accountants that prepare W-2s. At a May 2006 Software Developers Conference, SSA received input from several sources for strategies to switch paper filers to an electronic filing process. As a result, SSA will pilot a Web Service for Tax Year 2006.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	27%*
2002	43%*
2003	53%*
2004	60%
2005	66%
2006	75%*



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

Data Definition: This percent is the number of W-2s filed electronically and processed to completion for a tax year, divided by the total number of W-2s for that tax year processed to completion by the end of the processing year (mid-January).

Note: “Processed to completion” means that the W-2 was not rejected in the process – earnings were either posted to an individual earnings record or updated to the *Earnings Suspense File* (ESF).

Data Source: Earnings Management Information Operational Data Store (EMODS) reports

1.3f – Percent of individuals who do business with SSA rating the overall service as “excellent,” “very good,” or “good”

FY 2006 Goal: 83%
 Performance: 82%
 Goal Met: No

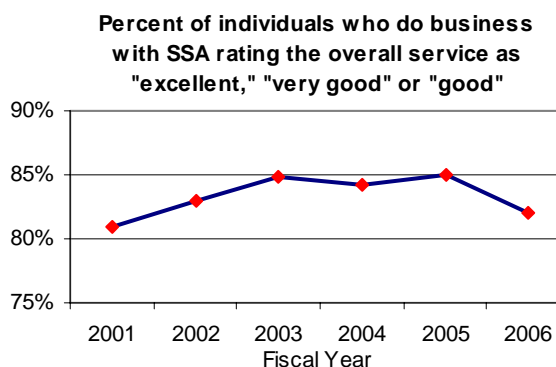
Discussion: SSA continually assesses the service needs of the public to determine how the Agency can meet those needs appropriately, efficiently, courteously, and in a timely manner. In the face of increasing workload growth, the Agency faces challenges in maintaining efficiency and delivering the level of service the public has come to expect.

With natural disasters like Hurricane Katrina, major changes occurred to the Social Security number application process that affected both original and replacement card applications and the implementation of Medicare Part D, call volumes increased dramatically in FY 2006. Satisfaction with telephone service, both on the 800 number and in Field Offices, was lower this year than in FY 2005. SSA has received very high ratings in years prior to 2006. SSA expects that in the future, overall public perception of the Agency’s service will reflect the previous high ratings for courtesy, helpfulness, job knowledge and the clarity of explanations.

On September 20, 2006, Foresee Results published its *Federal American Customer Satisfaction Index* Scorecard, which measures satisfaction on a 100-point scale. SSA had the two top scoring websites; the Internet Social Security Benefits Application and Help with Medicare Prescription Plan Drug Costs Application, which topped all Federal websites with scores of 88 and 87 respectively. This is the fourth consecutive quarter these applications have led Federal sites. Further, these two applications, together with SSA's Business Services Online and SSA's Retirement Planner, captured 4 of the top 5 spots in the E-Commerce category. SSA's aggregate score (79.6 for 6 surveys) was the highest among all Federal agencies running multiple surveys.

Trend:

Fiscal Year	Performance
2001	81%
2002	83%
2003	85%
2004	84%
2005	85%
2006	82%



Data Definition: Percent of respondents who rate overall service as “good,” “very good,” or “excellent” on a 6-point scale ranging from “excellent” to “very poor” divided by the total number of respondents to that question.

Data Source: SSA’s annual surveys of 800-number callers, FO callers, and FO and hearings office visitors

1.3g – Improve workload information using *Social Security Unified Measurement System* (SUMS)

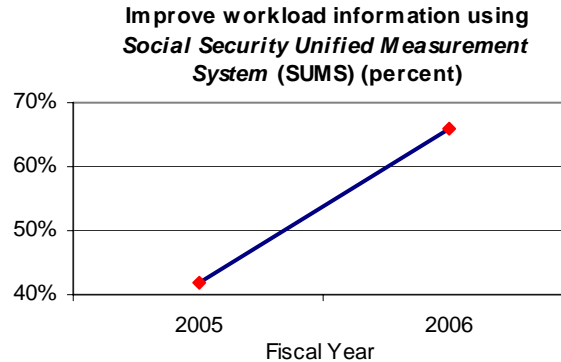
FY 2006 Goal: Complete 66% of SUMS projects
 Performance: 66% of SUMS projects completed
 Goal Met: Yes

Discussion: The Agency has recognized the need to improve the quality, consistency and access to information used by managers and analysts throughout SSA to manage work and account for resources. The objective of the Social Security Unified Measurement System is to create a system that counts and measures all work in a consistent

manner. This system provides information needed to help make business decisions and comply with government standards. Access to web based reports, workload listings and other information are available online, eliminating the need for paper reports.

Trend: This was a new measure for FY 2005.

<u>Fiscal Year</u>	<u>Performance</u>
2005	42%
2006	66%



Data Definition: SUMS is a series of projects that provides improved workload control and management information. Each project consists of multiple releases. A methodology which weights individual projects to create a combined percentage is used to track the overall completion of this initiative. This formula scores the deliverables within each project, which includes the creation of the SUMS data store, control listings, performance measures, and SUMS counts. Completion percentages are also attributed to cross cutting projects, including Time Allocation and the Customer Service Record to derive an overall SUMS completion percentage.

Data Source: SUMS/MCAS project plan; reports to the SUMS/MCAS Executive Steering Committee on systems releases and the status of projects under development.

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

Strategic Objective 2.1: Detect and prevent fraudulent and improper payments and improve debt management

2.1a – SSI non-disability redeterminations processed

FY 2006 Goal: 1,244,000

Performance: 1,070,822

Goal Met: No

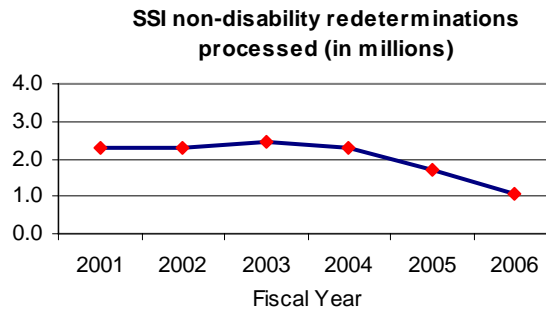
Discussion: The most powerful tool available for eliminating improper SSI payments is the redeterminations process, which focuses on the income and resource factors affecting eligibility and payment amounts. Periodic redeterminations are required by law and result in billions of dollars in payment changes. The Agency saves approximately \$7 for every \$1 spent in processing redeterminations.

Many systems enhancements have contributed to the Agency’s ability to manage this workload. SSA has consistently met (or nearly met) its goal for number of redeterminations processed through careful adherence to schedule dates and improved reporting methods for changes in information.

Overall Agency resource constraints have contributed to a reduction in the number of FY 2005 and FY 2006 SSI non-disability redeterminations processed. Despite the savings that SSI redeterminations provide, SSA must prioritize resources, giving priority to providing service to the American people.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	2,315,856
2002	2,311,499
2003	2,449,674
2004	2,278,566
2005	1,724,875
2006	1,070,822



Data Definition: All non-disability eligibility redeterminations of SSI beneficiaries that are processed to completion resulting from diary actions (scheduled), and those initiated as a result of events reported by beneficiaries (unscheduled).

Data Source: Redetermination Service Delivery Objective (RZ SDO) Report, Post-eligibility (PE) Data Warehouse

2.1b – Number of periodic CDRs processed to determine continuing entitlement based on disability

FY 2006 Goal: 1,242,000

Performance: 1,337,638

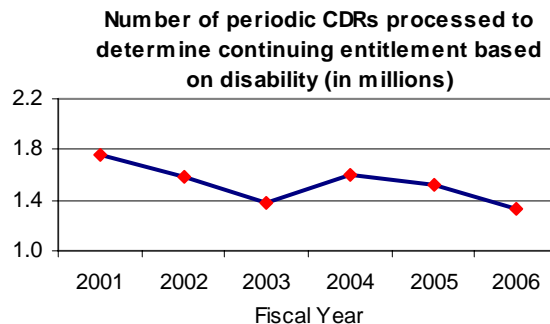
Goal Met: Yes

Discussion: SSA uses CDRs to periodically determine if disabled beneficiaries continue to meet the definition of disability, and whether disability benefits should continue. CDRs help ensure the integrity of the disability program by ensuring that beneficiaries receive the benefits they are due and help to ensure that Disability Insurance Trust Fund money and general revenue funds are spent correctly. The Agency saves over \$10 for every \$1 spent on processing CDRs.

Overall, Agency resource constraints have contributed to a reduction in the number of FY 2005 and FY 2006 medical CDRs processed. Also, the Agency has made progress in its efforts to improve the CDR profiling process and procedures. Profiles identify cases for review where medical improvement is much more likely. Cases involving severe impairments can be processed with a limited amount of contact and are only investigated if there has been a change in a person’s condition or work activity.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	1,762,517
2002	1,586,091
2003	1,371,255
2004	1,604,680
2005	1,515,477
2006	1,337,638



Data Definition: Count includes periodic reviews and other CDRs processed by the DDS and mailers not requiring medical reviews.

Data Source: Disability Operational Data Store (DIODS) and the CDR tracking files

Note: Data provided from DIODS used to calculate a portion of the performance indicator is not archived and maintained for audit purposes.

2.1c – Percent of SSI payments free of overpayments (O/P) and underpayments (U/P)

FY 2005 Goal:	Overpayment accuracy:	94.9%
	Underpayment accuracy:	98.8%
Performance:	Overpayment accuracy:	93.6%
	Underpayment accuracy:	98.6%
Goal Met:	Overpayment accuracy:	No
	Underpayment accuracy:	No
FY 2006 Goal:	Overpayment accuracy:	95.4%
	Underpayment accuracy:	98.8%
Performance:	Overpayment accuracy:	Not Available*
	Underpayment accuracy:	Not Available*
Goal to be Met:	Overpayment accuracy:	Not Available*
	Underpayment accuracy:	Not Available*

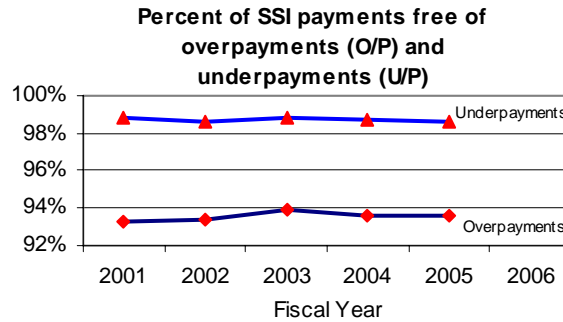
Discussion: As stewards of the portion of general funds that supports SSI payments, it is critical that SSA carefully manages amounts paid. A large part of this performance measure is addressed through the SSI redetermination process (performance measure 2.1a). Because of the way benefits are paid, many payments are based on projections, such as future earnings, that must later be verified and a determination made as to the accuracy of the initial payment amount. Particular emphasis has been given to improving the more complex and error-prone SSI program. This performance measure is linked to SSA’s initiatives addressing the President’s Management Agenda program initiative, “Eliminating Improper Payments.” In addition, SSA’s efforts regarding the reduction of improper payments are highlighted in the Improper Payments Information Act of 2002 Detailed Report on page 204.

Achievement of this goal is linked to resources required to implement new error prevention initiatives. For more detailed information on specific initiatives the Agency is using to prevent overpayments and underpayments, please refer to the Agency challenges section of this Performance and Accountability Report.

The Agency did not meet the FY 2005 goal and subsequently, does not anticipate meeting the FY 2006 goal. Despite the implementation of the initiatives mentioned above, the Agency was forced to make some very tough decisions with regard to achieving certain goals and targets. The decision was made to use available resources to focus on public service goals knowing that certain stewardship goals would not be met as a result. The reduction in the number of SSI non-disability redeterminations, which help to identify and reduce overpayments and underpayments, was a contributing factor to not meeting this goal. As resources permit, the Agency will continue to implement new initiatives that will help achieve this goal in the future.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	O/P: 93.3% U/P: 98.8%
2002	O/P: 93.4% U/P: 98.6%
2003	O/P: 93.9% U/P: 98.8%
2004	O/P: 93.6% U/P: 98.7%
2005	O/P: 93.6% U/P: 98.6%
2006	O/P: Not Available* U/P: Not Available*



* Actual data for FY 2006 will not be available until July 2007 and will be reported in the FY 2007 PAR.

Data Definition: The SSI payment accuracy rate free of overpayments and underpayments is determined by an annual review of a statistically valid sample of the beneficiary rolls; i.e., the findings are representative of the universe of the payments issued with 95 percent precision and confidence levels of +/- 0.7 percent for O/P and +/- .03 percent for U/P. The rate is computed by first subtracting the amount of incorrect payments from the dollars overpaid or underpaid in a fiscal year, and then dividing these dollars by the total dollars paid for the fiscal year. This percentage is subtracted from 100 percent to determine the accuracy rate. The current measuring system captures the accuracy rate of the non-medical aspects of eligibility for SSI payment outlays.

Data Source: SSI Stewardship Report

Note: The SSI payment accuracy (stewardship) report is based on a monthly sample of SSI (Title XVI) cases randomly selected from the SSI payment rolls, consisting of all recipients in current pay status. The sampled cases are reviewed for non-medical factors of eligibility and, in each case, the recipient or representative payee is interviewed (usually during in-home visits), collateral contacts are made, as needed, and all factors of eligibility are redeveloped as of the sample month. The stewardship data are reported on a fiscal year basis (targeted for June 30 of the year following the year of review) and provide an overall accuracy measurement of the payments to all recipients currently on the SSI rolls.

2.1d – Percent of outstanding SSI debt in a collection arrangement

FY 2006 Goal: 55%
Performance: 53%
Goal Met: No

Discussion: SSA’s stewardship responsibilities require that the Agency recover as much debt as possible. The Agency employs a wide variety of safeguards designed to prevent overpayments; however, not all overpayments can be prevented. In some situations no practical method of preventing overpayments is available. The Agency aggressively pursues collection of overpayments.

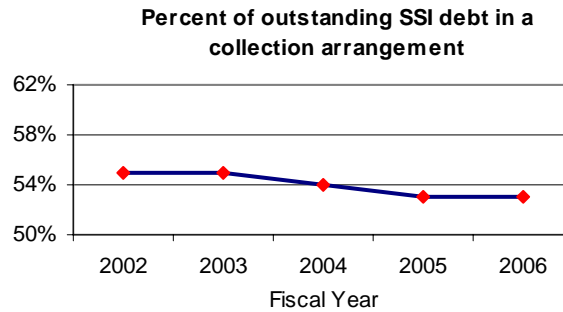
The Agency continues to use aggressive debt collection tools to recover delinquent benefit overpayments. The Agency uses both internal and authorized external collection tools to collect what is owed. Internal methods include benefit withholding from people receiving benefits and an Agency billing and follow-up system to collect overpayments from people who are no longer receiving benefits.

The Agency also has a broad based initiative to improve the way debts are resolved. The core feature of the initiative, which was implemented late in the fiscal year, is prioritization of unresolved debts based on their potential

for cost-effective recovery. This prioritization will lead to more timely and effective resolution at lower cost. It is anticipated that the first phase of actions based on this initiative will improve the measured SSI performance goals by about 2 percentage points. Although, the FY 2006 goal was not met, the Agency anticipates meeting this goal in the future by continuing to develop initiatives to collect debt.

Trend: This was a new measure for FY 2002.

<u>Fiscal Year</u>	<u>Performance</u>
2002	55%*
2003	55%*
2004	54%**
2005	53%*
2006	53%*



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

**The data reported from October 2003 through April 2004 was incomplete and could not be accurately recalculated. The actual FY 2004 performance represents cumulative data from May 2004 through September 2004 only.

Data Definition: The percent of outstanding SSI debt that is scheduled for collection by benefit withholding or installment payment. The rate is expressed as the average for the year, i.e., the percent is calculated monthly and the annual performance is derived by averaging the results for the most recent 12 months. Outstanding SSI debt is grouped into four main categories: newly established debt; debt that involves a current due process request, such as waiver; debt that is in a collection arrangement; and debt that is not in a collection arrangement. The percent of debt in a collection arrangement is computed by dividing the dollars in that category by the total dollar amount of outstanding debt in all four categories.

Note: Data is shown as a 12-month rolling average.

Data Source: Supplemental Security Record (SSR)

2.1 e – Percent of OASDI payments free of overpayment (O/P) and underpayment (U/P)

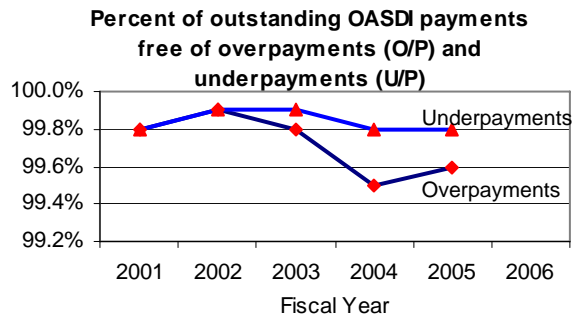
FY 2005 Goal:	Overpayment accuracy:	99.8%
	Underpayment accuracy:	99.8%
Performance:	Overpayment accuracy:	99.6%
	Underpayment accuracy:	99.8%
Goal Met:	Overpayment accuracy:	No
	Underpayment accuracy:	Yes
FY 2006 Goal:	Overpayment accuracy:	99.8%
	Underpayment accuracy:	99.8%
Performance:	Overpayment accuracy:	Not Available*
	Underpayment accuracy:	Not Available*
Goal to be Met:	Overpayment accuracy:	Not Available*
	Underpayment accuracy:	Not Available*

Discussion: As stewards of the Social Security OASDI Trust Funds, SSA must ensure benefit payments are accurate. In addition, through careful management of entitlement factors and reporting requirements, SSA continues to maintain payment accuracy and, in turn, controls the incidence of overpayments and underpayments.

While the improper payment rate in the OASDI program is very low, SSA’s annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments. For more detailed information on specific initiatives the Agency is using to prevent overpayments and underpayments, please refer to the Agency Challenges section of this Performance and Accountability Report. As resources permit, the Agency will continue to implement new initiatives that will help achieve this goal in the future.

Trend:

Fiscal Year	Performance
2001	O/P: 99.8% U/P: 99.8%
2002	O/P: 99.9% U/P: 99.9%
2003	O/P: 99.8% U/P: 99.9%
2004	O/P: 99.5% U/P: 99.8%
2005	O/P: 99.6% U/P: 99.8%
2006	O/P: Not Available* U/P: Not Available*



* Actual data for FY 2006 will not be available until July 2007 and will be reported in the FY 2007 PAR.

Data Definition: OASDI payment accuracy rate is determined by an annual review of a statistically valid sample of the beneficiary rolls. Separate rates are determined for the accuracy of payments with overpayment dollars and the accuracy of payments with underpayment dollars. The rates are computed by dividing these dollars by the total dollars paid for the fiscal year. This percentage is subtracted from 100 percent to attain the accuracy rate.

Data Source: OASDI Stewardship Report

Note: The OASDI Stewardship Report is based on a monthly random sample of Title II cases selected from the Retirement, Survivor, and Disability Insurance (RSDI) payment rolls, consisting of all beneficiaries in current pay status. One thousand RSI and 500 DI cases per year are reviewed for non-medical factors of eligibility, and, in each case, the beneficiary or representative payee is interviewed, collateral contacts are made, as needed, and all factors of eligibility are redeveloped as of the current sample month.

2.1f – Percent of outstanding OASDI debt in a collection arrangement

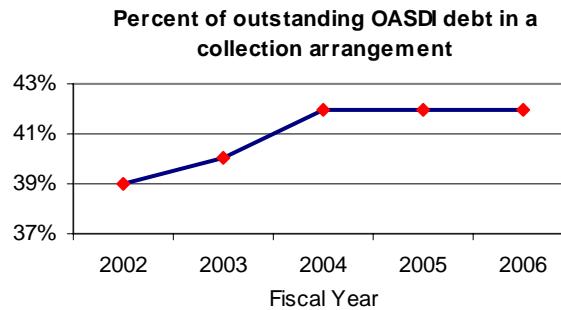
FY 2006 Goal: 43%
 Performance: 42%
 Goal Met: No

Discussion: As with SSI payments, SSA makes every effort to avoid overpaying OASDI beneficiaries. However, in those instances where overpayments are incurred, it is important that the Agency use aggressive debt collection tools to recover benefit overpayments from current and former beneficiaries. Current beneficiaries and the public deserve the assurance that OASDI Trust Fund monies erroneously paid will be recouped to the fullest extent possible.

The percentage of outstanding OASDI debt in a collection arrangement has steadily increased since FY 2002 and eventually stabilized at 42 percent beginning in FY 2004. This can be attributed to the debt collection initiatives used by SSA, which include referring delinquent debts to credit bureaus and the Department of Treasury for recovery under the Treasury Offset Program (by which debts are collected from Federal income tax refunds and other federal payments). SSA also requests employers to offset the wages of delinquent debtors.

Trend: This was a new measure for FY 2002.

Fiscal Year	Performance
2002	39%*
2003	40%*
2004	42%*
2005	42%*
2006	42%*



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

Data Definition: This is the percent of outstanding OASDI debt that is scheduled for collection by benefit withholding or installment payment. The rate is expressed as the average for the year, i.e., the percent is calculated monthly and the annual performance is derived by averaging the results for the most recent 12 months. Outstanding OASDI debt is grouped into four main categories: newly established debt; debt that involves a current due process request such as waiver; debt that is in a collection arrangement; and debt that is not in a collection arrangement. The percent of debt in a collection arrangement is computed by dividing the dollars in that category by the total dollar amount of outstanding debt in all four categories.

Note: Data are shown as a 12-month rolling average.

Data Source: The Recovery of Overpayments, Accounting, and Reporting (ROAR) system

Strategic Objective 2.2: Strengthen the integrity of the Social Security Number (SSN) issuance process to help prevent misuse and fraud of the SSN and card

2.2a – Percent of SSNs issued that are free of critical error

FY 2005 Goal:	99.8%
Performance:	98.9%
Goal Met:	No

Percent of original SSNs issued that are free of critical error

FY 2006 Goal:	98%
Estimated Performance:	98%**
Goal to be Met:	Yes

Note: In SSA's FY 2005 PAR, this measure was termed *Percent of SSNs issued that are free of critical error*. Actual performance for FY 2005 is now being reported based on data that became available in September 2006. Beginning with the FY 2006 Enumeration Process Quality Review (the results of which will be reported in the

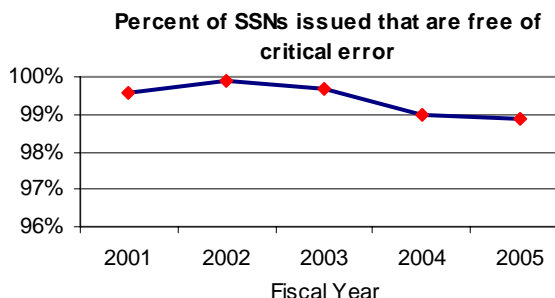
FY 2007 PAR) the universe of SSNs subject to this review and used in the calculation of this performance measure changed. Enumeration-at-Birth and Enumeration-at-Entry SSNs are now included in the FY 2006 review. Also, the universe of cases used to calculate the FY 2006 accuracy rate now only includes requests for original SSNs.

Discussion: The SSN was devised to keep an accurate record of each person’s earnings and monitor benefits paid under the Social Security programs. Despite its intended purpose, the use of the SSN as a general identifier has grown to the point where it is the most commonly used and convenient identifier for many types of record-keeping systems. Because maintaining accurate Social Security records is essential to paying benefits in the correct amount to the correct person, SSA continually seeks to ensure the accuracy of SSN issuances.

The Agency takes this responsibility very seriously as demonstrated by the various systems and the operational and policy initiatives that are directed towards insuring the integrity of the enumeration process. (Enumeration is the term Social Security traditionally used to encompass the SSN assignment and card issuance processes.) For example, SSA now verifies evidentiary documents with U.S. Citizenship and Immigration Services (USCIS) and other Federal Agencies for non-U.S.-born people or with the State Bureaus of Vital Statistics for U.S.-born people age one or older prior to issuing a Social Security card. In addition, the Agency has opened three Social Security Card Centers whose sole purpose is the issuance of Social Security cards. This specialization strengthens the SSN application procedure and ensures that applications are processed with a high degree of integrity, efficiency and expertise. Another good example of an initiative that insures the integrity of the enumeration process is the SS-5 Assistant as discussed on page 44.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	99.6%*
2002	99.9%*
2003	99.7%*
2004	99.0%*
2005	98.9%*



* FY 2002 – FY 2005 performance numbers included the issuance of original and replacement SSNs.

Trend: This represents the new measure for FY 2006.

<u>Fiscal Year</u>	<u>Performance</u>
2006	98.0% Estimated**

**Based on enhancements to strengthen the integrity of the SSN issuance process, SSA expects to meet the FY 2006 performance goal. Actual data for FY 2006 will not be available until September 2007 and will be reported in the FY 2007 PAR.

Data Definition: The rate is based on an annual review of applications for original SSN cards to verify that: 1) the applicant did not receive an SSN that belonged to someone else; 2) if the applicant had more than one SSN, the numbers were cross-referenced; and 3) the applicant was entitled to receive an SSN based on supporting documentation, i.e., the Field Office verified appropriate documentation – U.S. Citizenship and Immigration Services (USCIS) document for foreign born and birth certificate for U.S. born, and made a correct judgment of entitlement to an SSN. SSNs issued through the Enumeration-at-Birth (EaB) and Enumeration-at-Entry (EaE) processes are included in the review, as well as Field Office processed SS-5 transactions.

Data Source: Enumeration Process Quality Review, which is based on a sample of approximately 1,500 SSN transactions that have resulted in the issuance of an original SSN.

2.2b – Number of Social Security Numbers (SSNs) processed

FY 2006 Goal: 18,000,000
 Performance: 17,259,110
 Goal Met: No

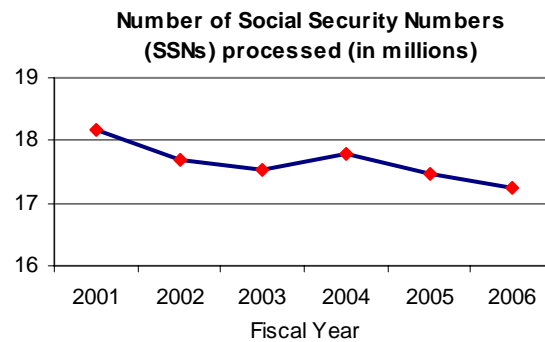
Discussion: The SSN was devised to keep an accurate record of each person’s earnings and monitor benefits paid under the Social Security programs. Despite its intended purpose, the use of the SSN as a general identifier has grown to the point where it is the most commonly used and convenient identifier for many types of record-keeping systems. SSA is ever mindful of the need to properly manage and forecast this workload to ensure the Agency is providing both accurate and timely service.

The volume of SSNs processed was based on the number of persons applying for original numbers and replacement cards. The Agency did not realize the number of receipts expected in FY 2006, which were based on actuarial estimates. Applications received were processed timely.

As a result of legislation, major changes to the Social Security number issuance process have been implemented. These changes have significantly decreased the number of non-work SSNs the Agency assigns to non-citizens. In FY 1995, SSA assigned nearly 550,000 non-work SSNs. By FY 2005, the Agency reduced the number of non-work SSNs assigned to less than 15,000. Also, there are now limits on the number of replacement cards that can be issued yearly and over a lifetime.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	18,179,115
2002	17,679,490
2003	17,523,560
2004	17,791,880
2005	17,455,921*
2006	17,259,110



* Although tracked internally, this was not a Government Performance and Results Act measure in FY 2005.

Data Definition: Includes SSN issuance for duplicate or original numbers processed by Regional Offices (ROs), Field Offices (FOs) and the Office of Central Operations (OCO), plus Enumeration-at-Birth (EAB) activity and the count of fraud investigations not resulting in issuance of an SSN and an EAB.

Data Source: Social Security’s Monthly Tracking Report. Tracking Report sources are: Field Office Social Security Number Enumeration Report (FOSSNER), EAB Year-To-Date processing statistics.

Strategic Objective 2.3: Ensure the accuracy of earnings records so that eligible individuals can receive the proper benefits due them

2.3a – Remove 3 percent of the earnings items that remain in the *Earnings Suspense File* (ESF) for a new tax year and post the earnings to the correct earnings records

FY 2006 Goal: 3%

Performance: 1%

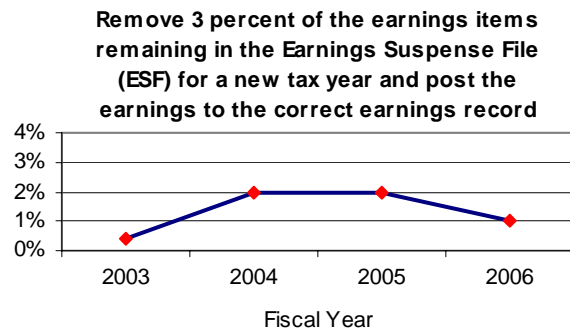
Goal Met: No

Discussion: Earnings are the primary basis used to determine the amount of benefits payable to OASDI beneficiaries. When an earnings report (W-2 or a report of self-employment income) cannot immediately be matched with an individual because of inconsistent identifying data—name or SSN—the reported earnings are placed in what is known as the Earnings Suspense File until the Agency succeeds in properly associating the earnings to the right individual. Removing items from the suspense file and more effectively managing the suspense file are essential features of SSA’s goal for improving earnings record accuracy. SSA has an educational campaign to inform the wage reporting community of various error detection tools available to them.

The Agency continues to develop initiatives to prevent items from being placed in the suspense file and to remove items that are in the suspense file. The development of new matching software to remove items from the Earnings Suspense File this year did not result in the anticipated success rate to meet the goal. The Agency continues its efforts to reduce the size and growth of the suspense file.

Trend: This was a new measure for FY 2003.

<u>Fiscal Year</u>	<u>Performance</u>
2003	0.40%
2004	2%*
2005	2%*
2006	1%*



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

Note: In SSA’s FY 2005 PAR, this measure was termed Increase the percent of incoming earnings items removed from the earnings suspense file for a new tax year.

Data Definition: Items remaining in suspense are wages or self-employment earnings not matched to an earnings record after all routine matching operations are complete. The five percent reduction will be achieved by using new matching routines developed by the Office of Quality Performance (OQP) and Office of Systems. The percentage is determined by comparing the number of items added to suspense for a tax year to the number later removed by the new process.

Data Source: Compare the number of items in the ESF for a new tax year after all processes are completed to the number of items removed by the new process developed by the OQP and Office of Systems.

Note: There is a 4-year lag between the tax year and the year calculated, i.e., for 2005, the tax year is 2001; for 2006, the tax year is 2002; and for 2007, the tax year is 2003.

Strategic Objective 2.4: Manage Agency finances and assets, and effectively link resources to performance outcomes

2.4a – Continue to achieve 2 percent productivity improvement on average

FY 2006 Goal: 2% on average

Performance: 2.49% on average

Goal Met: Yes

Discussion: Consistent with the Agency's Strategic Plan, SSA's Service Delivery Budget includes a commitment to achieve an average annual productivity increase of 2 percent through FY 2008. SSA is very proud of achieving this goal. The public can be assured that SSA maintains its high standards of productivity and can look forward to improvements each year. The Agency believes that, given the array of services SSA provides and the major workload processing initiatives implemented each year, incremental productivity improvements are sustainable.

The total change over the 5 years from FY 2001 (the base year) through FY 2006 is 13.09 percent. This represents an average annual productivity increase of 2.49 percent. This success can be attributed to the hard work of the Agency's employees and ongoing efforts to streamline the business processes and automate workloads.

Trend: SSA met the goal of improving productivity by 2 percent on average for FY 2006.

Note: In SSA's FY 2005 PAR, this measure was termed Increase Agency productivity by 2 percent annually on average.

Data Definition: The percent change in productivity is measured by comparing the total number of SSA and Disability Determination Services (DDS) workyears that would have been expended to process current year SSA-level workloads at the prior year's rates of production to the actual SSA and DDS workyear totals expended.

Data Source: Agency Cost Accounting System

2.4b – Disability Determination Service (DDS) case production per workyear (PPWY)

FY 2006 Goal: 262 cases PPWY

Performance: 241 cases PPWY

Goal Met: No

Discussion: This goal measures the average number of cases processed by everyone on the DDS payroll, including doctors under contract to the DDS, during the fiscal year. This count represents outcomes that are directly linked to overall Agency performance.

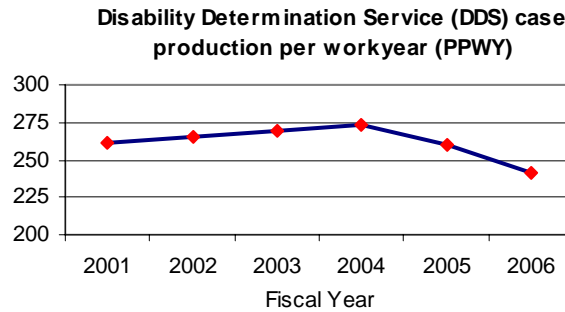
PPWY increased each year from FY 2001 to FY 2004, keeping pace with the record number of initial disability claims received in the DDS offices. PPWY decreased in FYs 2005 and 2006 for several reasons:

- 1) The DDSs are experiencing a retirement wave similar to that of SSA. The DDSs lost almost 2,400 examiners from FY 2004 through FY 2006 with a 4 for 5 replacement rate. Nationally, over 47 percent of examiners have less than five years experience, and over 23 percent have less than two years. Because of the learning curve, new examiners are not able to process the same number of claims as experienced ones;
- 2) During the transition to the new *eDib* process, the DDSs were unable to maintain previous levels of productivity. As the transition is made from the traditional paper process to the fully electronic process and the workforce becomes more proficient, SSA expects to realize benefits from efficiencies gained with full implementation of the *eDib* process; and

- 3) As DDSs lost clerical and administrative staff, they began replacing some of this staff with examiners. This increase in the percentage of examiners has happened to an even greater extent in FY 2006. The short-term affect of the transition is that the training and the experience needed for an examiner is considerably greater than that for clerical and administrative staff. Additional training and mentoring needed for new examiners has had a considerable influence on the DDS PPWY in FY 2006 which will continue in FY 2007.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	262*
2002	265*
2003	270*
2004	273*
2005	260*
2006	241*



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

Note: In SSA’s FY 2005 PAR, this measure was termed *DDS cases processed per workyear*.

Data Definition: This indicator represents the average number of DDS case production per workyear expended for all work. A workyear represents both direct and indirect time, including overhead (time spent on training, travel, leave, holidays, etc.). It is inclusive of everyone on the DDS payroll, including doctors under contract to the DDS.

Data Source: National Disability Determination Services System (NDDSS) and Disability Operational Data Store (DIODS)

2.4c – SSA hearings case production per workyear (PPWY)

FY 2006 Goal: 104
 Performance: 100*
 Goal Met: No

Discussion: SSA hearings case production per workyear in FY 2006 exceeded PPWY in FY 2001 (85) by 17.6 percent (15 cases per workyear). This goal measures the average number of hearings processed by an individual employee during the fiscal year. SSA strives to maximize productivity to ensure that the public receives the best return from the resources that their tax dollars support with careful management of human resources.

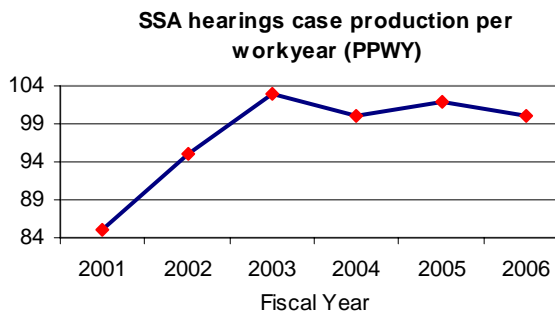
In FY 2006, SSA restructured its organization to improve the management of its appeals process and provide increased accountability. The reorganization created a Deputy Commissioner for the Office of Disability Adjudication and Review who reports directly to the Commissioner. In addition, the hiring of 100 new Administrative Law Judges (ALJ) in February 2005, contributed to the increase in the number of SSA hearings processed. Although not fully experienced, the new ALJs were able to assist in processing pending workloads. Initiatives, such as screening to determine if a decision can be made without a hearing and holding video hearings, have contributed to increased productivity.

In the long term the Agency expects significant improvements due to *eDib*. However, viewing large electronic medical files and simultaneously completing required forms initially slowed down the process. To realize some of these gains more quickly, SSA installed dual monitors, which allow employees to view two electronic files simultaneously while processing cases. More developments are expected that will increase productivity, including

elimination of paper file processing, employees' increasing familiarity with the new systems, and workforce adjustments to compliment the enhanced functionality of *eDib*.

Trend:

Fiscal Year	Performance
2001	85*
2002	95*
2003	103*
2004	100*
2005	102*
2006	100*



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

Note: In SSA's FY 2005 PAR, this measure was termed Number of SSA hearings cases processed per workyear.

Data Definition: This indicator represents the average number of SSA hearings case production per "direct" workyear expended. A direct workyear represents actual time spent processing cases. It does not include time spent on training, Administrative Law Judge (ALJ) travel, leave, holidays, etc.

Data Source: Office of Disability Adjudication and Review (ODAR) Monthly Activity Reports (MAR), the Case Processing Management System (CPMS), Payroll Analysis Recap Report (PARR), Time and Attendance Management Information System, ODAR Bi-weekly Staffing Report, Cost Analysis Report (CAR), Travel Formula (based on the assumption that ALJs will spend an average of 10 percent of time in travel status), and Training Reports (Regional reports on new staff training, ongoing training, and special training).

2.4d – Maintain zero outside infiltrations of SSA's programmatic mainframes

FY 2006 Goal: 0 infiltrations

Performance: 0 infiltrations

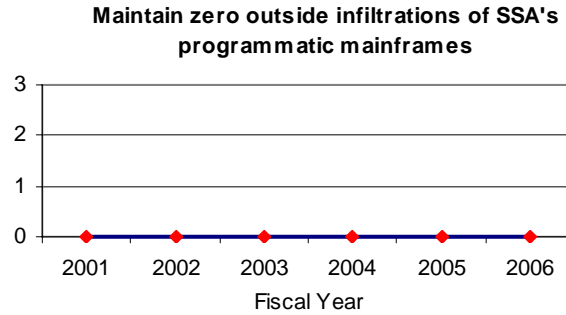
Goal Met: Yes

Discussion: Safeguarding the information the Agency maintains is SSA's highest priority, particularly considering the volume of personal and confidential information housed in its mainframe systems. SSA reviewed and implemented industry "best practices" to ensure that information technology security corresponds to the critical importance and sensitive nature of the information it processes and maintains. SSA ensures a continuous review and monitoring of the development, implementation, and maintenance of the automated systems critical to the Agency's mission.

SSA is proud of the Agency's track record in safeguarding its programmatic mainframes. The Agency employs an Intrusion Protection Team and Agency-wide Security Response Team, as well as routine contact with the Federal Computer Incident Response Center to exchange up-to-date information on threats and countermeasures.

Trend:

<u>Fiscal Year</u>	<u>Performance</u>
2001	0
2002	0
2003	0
2004	0
2005	0
2006	0



Data Definition: An infiltration is an unauthorized access that requires a cleanup or restoration of backup files to a state prior to the infiltration. This measure is a count of the number of times that an infiltration of mainframes is detected.

Data Source: Change Asset and Problem Reporting System

2.4e – Enhance efforts to improve financial performance using *Managerial Cost Accountability System (MCAS)*

FY 2006 Goal: Complete 29% of the MCAS projects

Performance: 29% of MCAS projects completed

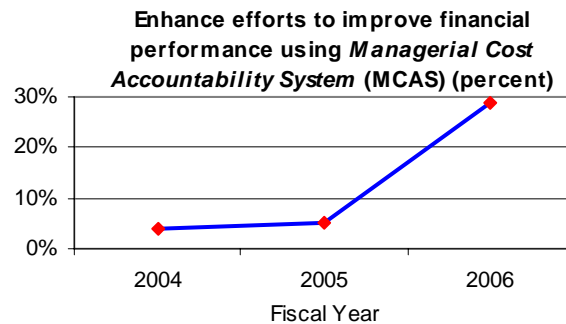
Goal Met: Yes

Discussion: The Managerial Cost Accountability System focuses on critical performance and financial information needed by managers and employees, and promotes performance accountability for Social Security programs. As stewards of the Social Security OASDI Trust Funds, SSA must also model appropriate information management processes to ensure accountability for workloads. The Agency's Managerial Cost Accountability System includes a number of projects designed to update the cost analysis system, reporting systems, workload measurement systems, and system access. The integration of financial and performance management systems will allow the Agency to routinely assess performance and financial information so that local managers can make more timely and efficient day-to-day decisions.

After the inception of the Managerial Cost Accountability System and the closely related Social Security Unified Measurement System effort, the project was expanded to include the Time Allocation System effort. The Time Allocation System will use routine data captured from the Agency's automated workload transaction systems and support functions to measure the work time expended on work activities. This will provide accurate, timely and detailed information on the way that these workloads are handled and the resources they require.

Trend: This was a new measure for FY 2004.

<u>Fiscal Year</u>	<u>Performance</u>
2004	4%
2005	5%
2006	29%



Note: Total completion percentage is cumulative and includes 5 percent of projects completed through FY 2005. The overall initiative includes:

- Renovation of *Cost Accounting System* (CAS) data acquisition processes.
- Replacement of the CAS with a modern MCAS partition for workloads, workyears, and administrative costs.
- Creation of an MCAS partition for program management, performance, and cost information.
- Creation of an MCAS partition for performance and cost information reflecting data in relation to SSA Strategic and Performance Plans.
- Creation of all required MCAS data store.
- Completion percentages to attribute a major cross-cutting project, Time Allocation, to derive an overall MCAS completion percentage.

Data Definition: MCAS provides improved managerial accountability cost accounting and financial management information for SSA, its component organizations, and the programs, as well as workloads that it supports, in separate projects that may have multiple releases. A methodology is used that weights individual projects to create a combined percentage to track the overall completion of this initiative. This formula scores the deliverables within each project.

Data Source: SUMS/MCAS project plan tracking and releases as reported to the SUMS/MCAS Executive Steering Committee

2.4f – Receive an unqualified opinion on SSA’s financial statements from the auditors

FY 2006 Goal: Receive an unqualified opinion

Performance: Received an unqualified opinion

Goal Met: Yes

Discussion: SSA is committed to providing data that are complete and reliable. In accordance with the Chief Financial Officer’s Act of 1990, SSA’s financial statements were independently audited by PricewaterhouseCoopers LLP. The 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. In their audit, PricewaterhouseCoopers LLP found that SSA’s financial statements, as contained in the FY 2006 PAR, were presented fairly in all material respects and were in conformity with accounting principles generally accepted in the United States. The Agency has a strong and continued commitment to sound financial management practices and has received an unqualified audit opinion on the Agency’s financial statements every year since 1994.

Trend: SSA received an unqualified audit opinion every year from FY 1994 – FY 2006.

Data Definition: An unqualified opinion on the financial statements is provided when an independent auditor determines that the financial statements are presented fairly; and, in all material respects, in conformity with accounting principles generally accepted in the United States.

Data Source: Auditors’ work papers

Note: SSA’s Office of Inspector General (OIG) currently has a contract with PricewaterhouseCoopers to audit the Agency’s financial statements.

2.4g – Get to “green” on the *President’s Management Agenda* (PMA) initiatives status scores

FY 2006 Goal: Achieve a status score of “green” on four of five PMA initiatives

Performance: Achieved a status score of “green” on four of five PMA initiatives

Goal Met: Yes

Discussion: The PMA helps guide Federal agencies in establishing strategies to improve management and performance of their respective programs, and assures accountability for Agency activities. Every American and many foreign workers rely on SSA to provide quality, timely service. SSA takes seriously its role in their lives. For this reason, SSA uses the PMA as an important tool to guide process improvements toward results-oriented outcomes.

In the OMB’s role to track agencies’ efforts to implement the PMA initiatives, it uses a scorecard that uses a simple “traffic light” grading system. As good stewards for the people who are contributing to and benefiting from the Social Security and SSI programs, the Agency is committed to this goal to get to “green” on four of the five PMA initiatives.

Note: In SSA’s FY 2005 PAR, this performance measure was titled Get to “green” on four of five President’s Management Agenda (PMA) initiatives.

Trend: The following summarizes SSA’s performance under the PMA for FY 2003 through FY 2006:

SSA’s President’s Management Agenda Scorecard								
	September 2003		September 2004		September 2005		September 2006	
	Status	Progress	Status	Progress	Status	Progress	Status	Progress
Strategic Management of Human Capital	Yellow	Green	Green	Green	Green	Green	Green	Green
Competitive Sourcing	Red	Green	Yellow	Green	Yellow	Green	Green	Green
Improved Financial Performance	Green	Green	Green	Green	Green	Green	Green	Green
Expanded Electronic Government	Yellow	Green	Yellow	Yellow	Yellow	Green	Yellow	Red
Budget and Performance Integration	Yellow	Green	Green	Green	Green	Green	Green	Green

Note: “Status” is based on meeting certain scoring criteria, revised in FY 2005 by OMB. The highest standard is “green”, followed by “yellow”. The lowest score is “red”. OMB Budget Examiners provide a final scorecard on a quarterly basis for each of the PMAs. The scorecard is published on the OMB website: <http://www.results.gov/agenda/index.html>.

Data Definition: Being scored “green” on the PMAs.

Data Source: Office of Management and Budget’s (OMB) PMA initiative scorecard for SSA

Strategic Goal 3: SOLVENCY

To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations

Strategic Objective 3.1: Through education and research efforts, support reforms to ensure sustainable SOLVENCY and more responsive retirement and disability programs

3.1a – Provide support to the Administration and Congress in developing legislative proposals and implementing reforms to achieve sustainable solvency for Social Security

FY 2006 Goal: Conduct analysis for the Administration and Congress on key issues related to implementing Social Security reforms.

Performance: Completed

Goal Met: Yes

Discussion: Although SSA implements Social Security programs and policies, it does not set policy related to solvency. This does not, however, diminish SSA’s role in ensuring the solvency of the OASDI Trust Funds. Solvency is directly tied to SSA’s mission, *To advance the economic security of the Nation’s people...* The Agency has a vested interest in the future of the programs it administers and provides the information necessary for the Administration and Congress to pursue thoughtful debate and examination of how to stabilize the economic base for Old-Age, Survivors and Disability Insurance benefits.

For the past 4 years, SSA has conducted numerous analyses related to Social Security reforms for the Administration and Congress. During FY 2006 SSA officials frequently provided briefing papers, testimony, and responses to questions. SSA will continue to support the Administration and Congress to the extent necessary to support discussions and analyses of Social Security programs.

Trend: SSA met this goal every year from FY 2003 - FY 2006 by conducting analyses related to Social Security reforms.

Data Definition: Completed reports and analysis of present law provisions, as well as proposed and pending legislation and other proposals relating to solvency of the system.

Data Source: Office of Policy records (consists primarily of various micro simulation models, e.g., Modeling Income in the Near Term, Financial Eligibility Model, and SSASIM, as well as surveys, e.g., Survey of Income and Program Participation, Health and Retirement Study).

Note: Dependent on research funding, requests, and legislative proposals and changes.

3.1b – Issue annual SSA-initiated *Social Security Statements* to eligible individuals ages 25 and older

FY 2006 Goal: 100%

Performance: 100%

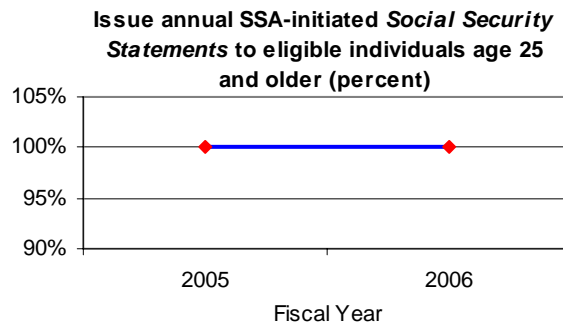
Goal Met: Yes

Discussion: In line with improving the public’s knowledge of Social Security’s programs is the issuance of the *Social Security Statement*. The *Social Security Statement* informs workers of their posted earnings for each year, provides OASDI benefit estimates, and provides valuable information about Social Security programs and services. The *Statement* allows workers to ensure the accuracy of SSA’s information regarding their earnings and to better plan for their financial future.

SSA began issuing the *Statement* in 1999 in an effort to educate workers and help them to begin early planning for retirement earlier in life. The Agency established this as a performance measure as a means to highlight the importance of providing this service. Solvency of the OASDI Trust Funds is of concern to many in the working population. By providing annual estimates of benefits payable, workers will become more informed about the future of Social Security and their stake in the solvency issue and debate.

Trend: This was a new measure for FY 2005.

<u>Fiscal Year</u>	<u>Performance</u>
2005	100%
2006	100%



Data Definition: As required by law, SSA issues annual *Social Security Statements* to all eligible individuals (SSN holders age 25 and older who are not yet in benefit status and for whom we can determine a current mailing address). The *Statement* contains information about Social Security benefit programs, financing facts, and provides personal benefit estimates.

Data Source: Executive and Management Information System (EMIS)

Strategic Goal 4: STAFF

To strategically manage and align STAFF to support SSA's mission

Strategic Objective 4.1: Recruit, develop and retain a high-performing workforce

4.1a – Minimize skill and knowledge gaps in mission-critical positions

FY 2006 Goal: Competency-based entry-level training curriculum will be developed for 100% of the remaining targeted public contact positions - Benefit Authorizers, Claims Authorizers, and Technical Support Technicians

Performance: Completed

Goal Met: Yes

Discussion: SSA's public contact positions are the face of the Agency and its programs. It is critical that staff in these positions reach high levels of competence as quickly as possible and receive adequate and proper training. In order to properly target training and evaluation programs, the Agency needs to first identify the job-specific knowledge, skills, and abilities necessary for successful performance in each of these public contact positions.

A competency-based plan for training shifts the learners from achieving a single instructional objective to focusing on the acquisition of competencies during the training. The instruction, training objectives, and training materials are all centered on the required competencies. The competencies for these technical positions were identified through an extensive data collection effort involving both technicians and management officials.

Note: There are six targeted public contact positions in Field Offices (FOs), Teleservice Centers (TSCs), and Payment Service Centers. They are Claims Representative (CR), Service Representative (SR), Teleservice Representative (TSR), Benefit Authorizer (BA), Claims Authorizer (CA), and Technical Support Technician (TST). In FY 2003, job-specific competencies were developed for CR, SR and TSR positions. In FY 2004, redesigned competency-based training was developed for the CR and SR positions. In FY 2005, the Office of Human Resources identified job specific competencies for BA, CA and TST positions and redesigned competency-based training was developed and implemented for the TSR position. The BAs, CAs, and TSTs provide direct service to the public and are responsible for making critical decisions to determine entitlement and the amount of benefits paid to individuals.

Trend: In FY 2006, SSA met the goal to develop a competency-based entry-level training curriculum for Benefit Authorizers, Claims Authorizers and Technical Support Technicians. This completes SSA's multi-year plan to identify job-specific competencies and develop competency-based entry-level training for the CR, SR, TSR, BA, CA and TST positions.

Data Definition: Job-specific competencies are the knowledge, behaviors, skills, and abilities, attributes, or traits associated with high or superior performance on the job as it exists today. The job-specific competencies are identified by working with SSA components and private sources.

Data Source: Office of Human Resources records which include the following: Data Collection Plan from SI International; Group Interview Plan; Finding & Preliminary Recommendations Report; Job Competencies Report; Claims Authorizer Curriculum Design; Benefit Authorizer Curriculum Design; and Technical Support Technician/Assistant Design.

4.1b – Align employee performance with Agency mission and strategic goals

FY 2005 Goal :

- 1) Implement a results-oriented performance assessment system for employees at the GS-14 and below level and GS-15s who are covered by the Social Security Administration/American Federation of Government Employees (AFGE) National Agreement during the fiscal year in which the new agreement is implemented.
- 2) Develop a communication plan to facilitate implementation of the new performance plan after completion of the union negotiations.

Performance: Delayed implementation (see the note below)

Goal Met: N/A

FY 2006 Goal: Develop a communication and training plan to facilitate implementation of the new performance assessment system for employees at the GS-14 and below level and GS-15s who are covered by the Social Security Administration/American Federation of Government Employees (AFGE) National Agreement

Performance: Completed

Goal Met: Yes

Discussion: To facilitate implementation of the new performance assessment system, SSA has implemented communication and training plans that include management talking points, union notification, Interactive Video Teletraining, coordination of training cadres across the agency, face-to-face training, and ongoing “frequently asked questions” updates. The training addresses technical changes to the performance management process as well as communications skills. The multi-tiered results-oriented system was implemented October 1, 2006.

Note: In FY 2005, SSA and AFGE reached an agreement on a new 4-year *National Agreement*. Because of the complexity of the negotiated changes to the performance management process and related subjects for AFGE covered employees, implementation of the provisions of the *2005 National Agreement* regarding performance assessment, awards, and within-grade increases was delayed to allow the Agency sufficient time to develop the instructions and training needed to properly effectuate the agreement.

Trend: This was a new measure for FY 2006 and was delayed as discussed in the Note above. The timeline and implementation goals were modified accordingly for FY 2006. All FY 2006 milestones were accomplished on time and implementation is on schedule.

Data Definition: Performance assessments are component- and employee-tailored performance appraisal systems that provide for ongoing interaction and communication between supervisor and employee on performance expectations. The new performance appraisal system will help align employee performance elements to Agency strategic goals and objectives and make distinctions between levels of performance.

Data Source: Office of Human Resources. The alignment of employee performance with Agency mission and strategic goals will be measured through a new, multi-level performance appraisal program for all employees below the GS-15 level and GS-15 employees in the bargaining unit. The new program will be based upon the following sources: *5 CFR Chapter 1, Part 430, Performance Management*; the *SSA/AFGE National Agreement, Article 21*; and the *Agency’s Personnel Policy Manual, Chapter 430-1*. The new appraisal program will measure an employee’s contributions to the team effort needed to achieve the Agency’s public service mission and incorporates evaluation of both technical competence in achieving business results and the manner in which the results are achieved. The

data sources to be used to measure an individual's contributions include: 1) *performance plans consisting of elements* (work assignments and responsibilities that are critical to achieving the Agency's mission and goals); 2) *standards* (how employee accomplishments are to be measured in terms of quality, quantity and timeliness); and *alignment statements* (a tool to facilitate communication of the Agency's mission, values, goals and objectives to the employee).

Program Assessment Rating Tool Measures

The Program Assessment Rating Tool (PART) is a diagnostic tool designed by the OMB to examine different aspects of program performance to identify the strengths and weaknesses of a given Federal program. The DI and SSI Aged programs were selected for the initial assessment period and the results were published in the President's FY 2005 budget. In the summer of 2004, the entire SSI program (disabled, blind and aged) was assessed and the results were published in the President's FY 2006 budget. SSA did not have any new programs assessed for the President's FY 2006 Budget.

OMB's finding from the assessments of the DI and SSI programs are consistent with the areas SSA identified as requiring attention. SSA continues to work with the OMB to ensure that plans are developed and implemented to improve program performance and address the following PART findings:

DI Program

- Improve the disability claims process by fully implementing technology to eliminate the need to store, locate and mail millions of paper files and finalize proposals to redesign the disability process.
- Better connect DI beneficiaries with expanding employment opportunities for people with disabilities.
- Better match DI administrative resources with performance benchmarks.

SSI Program

- Speed up and increase the accuracy of the process used to determine whether an applicant for benefits is disabled.
- Better connect SSI recipients with expanding employment opportunities for people with disabilities.
- Address payment accuracy issues by aggressively pursuing strategies outlined in the SSI Corrective Action plan, such as simplifying income reporting requirements.

SSA's *Strategic Plan*, *Annual Performance Plan*, and budget requests all address OMB's findings from the assessments. In addition, the performance measures and targets below were provided by SSA and used by the OMB and SSA to evaluate the effectiveness of the DI and SSI programs. It should be noted that of the nine PART measures, eight are also Government Performance and Results Act (GPRA) measures.

Disability Insurance and Supplemental Security Income - PART Measures	See page for detailed discussion
Average processing time for initial disability claims	77
Average processing time for SSA hearings	78
Disability Determination Service (DDS) net accuracy rate (allowances and denials combined)	79
Number of DI and SSI beneficiaries, with tickets assigned, who work (over CY 2003 baseline of 14,052)	82
Percent of SSI payments free of overpayments	93
Percent of SSI payments free of underpayments	93
Disability Determination Services (DDS) case production per workyear (PPWY)	101
SSA hearings cases production per workyear (PPWY)	102
Percent of Supplemental Security Income (SSI) Aged claims processed by the time the first payment is due or within 14 days of the effective filing date (Note: This is not a GPRA measure)	112

The following describes the non-GPRA PART performance measure:

PART Measure - Percent of Supplemental Security Income (SSI) Aged Claims Processed by the Time the First Payment is Due or within 14 Days of the Effective Filing Date

FY 2006 Goal: 75%

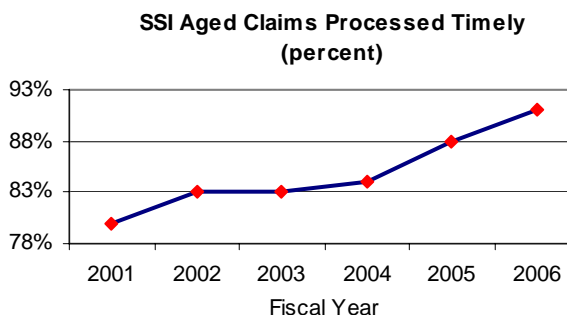
Performance: 91%*

Goal Met: Yes

The goal was increased from 70 percent to 75 percent for FY 2005 because SSA has demonstrated increased performance over the past few years. SSI payments are made to qualified people who have limited income and financial assets. The Agency has provided and will continue to provide sufficient resources through this program to ensure that the needs of this segment of the population are met and that the claims are processed as expeditiously as possible. SSA's performance reflects a national commitment to make timely and accurate payments to SSI Aged recipients.

Trend:

Fiscal Year	Performance
2001	80%*
2002	83%*
2003	83%*
2004	84%*
2005	88%*
2006	91%*



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

Data Definition: This rate reflects the number of SSI Aged applications completed through the SSA operational system (i.e., award or denial notices are triggered) before the first regular continuing payment is due or not more than 14 days from the effective filing date, if later, divided by the total number of SSI Aged applications processed. The first regular continuing payment due date is based on the first day of the month that all eligibility factors are met and payment is due. This definition came into effect beginning FY 2001.

Data Source: The SSI Operational Data Store System.

Program Evaluation

SSA continues to build on its body of program data, research and analyses to identify strengths and weaknesses in its programs and processes, which are used in allocating Agency resources and rendering management decisions. The Agency uses this information to develop strategies that address the major challenges it faces and to improve the day-to-day administration of its programs. SSA evaluates the potential effects of proposals for change and the actual effects of change after implementation.

Many of SSA's evaluations are completed on an annual basis, while others are one-time efforts. The purpose of this section is to highlight some of the internal major program evaluations and how the results of these evaluations were used to assist management in decision-making.

The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the Federal Government can achieve better results. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs have been evaluated using the PART. However, in agreement with OMB, SSA did not have any new programs assessed for the President's FY 2006 Budget. More information on Federal programs can be found on the OMB website: www.expectmore.gov.

Following are brief summaries of selected evaluations completed during FY 2006, arrayed by the strategic goals in SSA's Strategic Plan. Copies of the complete results can be obtained by writing to:

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

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

Ticket to Work Evaluation

As discussed in the *Agency Challenges* section (page 24), an independent 5-year evaluation of the *Ticket to Work* program, now in its third year, has provided SSA with ongoing feedback on the program's effectiveness and potential. SSA used the findings from the annual evaluation reports to make regulatory changes, which will strengthen the program.

The evaluation relies on extensive analysis of three basic data sources: administrative data on SSA beneficiaries with disabilities; a new 4-year survey of SSA beneficiaries with disabilities, with a special focus on *Ticket* participants; and field interviews with service providers, the *Ticket* program manager, SSA staff, and others with a stake in the *Ticket* program. Early analysis found beneficiaries' interest in the program encouraging, but the levels of participation by potential service providers, called Employment Networks, was disappointing. In response to these findings, SSA and the independent contractor refined evaluation activities to better understand the business constraints and needs of potential Employment Networks.

Five key evaluation findings have given SSA crucial guidance in developing changes to *Ticket to Work* regulations:

- Many beneficiaries are interested in employment and working their way off disability benefits;
- Beneficiaries who work their way off SSA benefit rolls tend to remain off for significant periods of time;
- A broad array of potential service providers are interested in joining the *Ticket* program if financial incentives improve;
- Original *Ticket* program payment options are insufficient to cover the cost of services provided by Employment Networks; and
- Despite these constraints, evidence suggests that the *Ticket* program has led to modest reductions in disability benefits and modest increases in beneficiary earnings.

The net implication of these findings is that the *Ticket* program has significant potential but improvements to Employment Network incentives, such as increasing payments and reducing Employment Network financial risks, must be made. The regulations, which will be published by the end of calendar year 2006, will address these needs by increasing overall payment levels while providing a larger share of those payments early on as a means of reducing the financial risks faced by Employment Networks.

The *Ticket to Work* evaluation has provided valuable feedback in its first years. Additional work is expected to help SSA refine and improve the program as longer term data on program outcomes become available. The fourth and fifth reports are scheduled to be released in 2007 and 2008.

Enumeration Review

The Office of Quality Performance conducts an Enumeration Process Quality Review to measure the quality of SSN card issuances. Data from this review are used to determine whether the Agency's meets the annual performance goal for assigning SSNs that are free of critical error. In addition to the more stringent definition a critical error that was incorporated last year, the definition now includes SSN card issuances from the Enumeration at Birth and Enumeration at Entry processes, and is limited to the issuance of original SSN cards (i.e., SSN replacement cards are excluded). FY 2006 performance will be reported in the FY 2007 Performance and Accountability Report.

Service Satisfaction Surveys

The Office of Quality Performance conducts annual satisfaction surveys of 800-Number callers, Field Office callers and visitors, and Hearing Office visitors, to support results for the Agency's overall service satisfaction performance measure. Results of the separate surveys are combined to produce a single measure. The FY 2006 combined overall satisfaction rate was 82 percent – decline from last year's rate of 84.9 percent, but quite remarkable in light of the challenges SSA faced in FY 2006, including the implementation of Medicare Part D subsidy and the more stringent enumeration processes (discussed in the Enumeration review).

Given the importance of good public service, reception area procedures were reviewed and a new reception area tool called Visitor Intake Process was implemented. This tool allows for the electronic entry of visitor information and automatically notifies the responsible interviewer that a visitor is waiting. The Visitor Intake Process functionality was expanded to allow Field Office visitors to key in the reason for their visit using a monitor or keypad located in the lobby, further reducing waiting time and eliminating a step in the manual process.

The latest enhancement to the Visitor Intake Process, which was released in September 2006, will allow for the posting and control of all appointment claims interviews, including teleclaim appointments. This ensures that there are sufficient interviewers available to handle walk-in visitors.

Anecdotal feedback on the Visitor Intake Process has been positive; and in a survey of visitors to Visitor Intake Process offices, "office privacy" was rated 4% higher than for non-Visitor Intake Process offices.

Note: As stated in the narrative, FY 2005 data are the only data the Agency has so far and FY 2006 data may not be received until mid FY 2007.

Telephone Services Satisfaction Surveys

In addition to the annual satisfaction surveys of 800-number and Field Office callers, ad hoc surveys are conducted to obtain feedback on the public's perceptions of new services and initiatives SSA has undertaken to improve the Agency's telephone service. These surveys include tailored questions about caller experiences to provide insight about their levels of satisfaction and service preferences. For example, SSA is conducting a survey related to implementing a new voice recognition system on the 800-number. This survey explores issues such as callers' reactions to interacting through voice recognition, ease of using the system to reach the type of service needed and success in using automated services. Analysis will compare perceptions of callers who reached the new voice recognition system with those who reached the traditional touchtone menu. Results will aid in refining the system to improve the caller experience. One previously conducted survey related to improvements in SSA's telephone service was the *Voice Over Internet Protocol Pilot* for Field Offices. This survey obtained callers' impressions of the quality of telephone service in a group of pilot Field Offices with Voice Over Internet Protocol equipment in advance of SSA proceeding with the *Telephone Service Replacement Project*.

800-Number Expanded Hours Survey

The survey was conducted with callers who contacted SSA's 800-number after regular hours of operation with live service being offered as part of a pilot that ran from June 2002 through FY 2006. The survey was completed by telephone with 1,814 non-business callers who reached an 800-number representative during expanded hours of service. Overall, survey respondents were very pleased with the expanded hours for service; however, the Agency continues to receive the majority of calls during normal business hours.

800-Number Internet Message Survey

This survey explored callers' reactions to an 800-number automated message with an extensive listing of SSA's Internet services. Survey findings revealed that the message did not have the desired effect of encouraging callers to use Internet services and actually contributed to the decline in caller satisfaction with the 800-number service. As a result, SSA removed the lengthy message from the 800-number menu and replaced it with a short reference to the Internet site.

Internet Services Satisfaction Surveys

SSA runs several *American Customer Satisfaction Index (ACSI)* surveys on the Agency's website, collecting data on informational pages as well as on-line applications. ACSI surveys are widely used in both the Federal and private sectors to measure public satisfaction with features of web sites. The surveys provide agencies with standard, statistical measurements of public satisfaction that are directly comparable to other ACSI users. Among the important elements measured by ACSI surveys are:

- Overall Satisfaction
- Content
- Functionality
- Look and Feel
- Navigation
- Search
- Future Behaviors (i.e., Likely to Return, Likely to Recommend to Others)

Overall, SSA's ACSI scores show the Agency's informational web site to be higher than the average for other Federal site satisfaction scores in the content and look and feel elements. This allows SSA to focus attention on other elements of the site. For example, informational site survey scores on the Main Site were somewhat lower in search and navigation elements. As a result of the search score, SSA implemented new search engine technology. The new technology allowed for the incorporation of information on public search patterns into web site improvements. Additionally, SSA also implemented new search functionality in its Frequently Asked Questions on-line application, resulting in improved search functionality. To improve the navigation score on the Main Site, SSA began incorporating better and more consistent navigation across the site.

In Quarter 3 of calendar year 2006, SSA took four of the top five spots in the ACSI's eCommerce category. In fact, SSA's Internet Social Security Benefit Application and Help with Medicare Prescription Drug Costs (i1020) scored highest among all Federal ACSI sites, with very high scores in tasks and transactions. These scores allow SSA to focus attention on other elements of the site. For example, management information showed lower participation in Internet Social Security Benefit Application among disability benefit applicants as compared to retirement benefit applicants, and disability benefit applicants rated the site lower in satisfaction. SSA was able to determine that focusing on overall improvement to the usability of the application was the most effective use of resources. After the revisions, SSA saw much increased public satisfaction with the application, among all categories of applicants, and increased use by disability benefit applicants. The Internet Social Security Benefit Application is now one of the most highly rated on-line applications in the Federal Government and ranks well with the most popular on-line applications of the private sector.

In addition to the ACSI to measure public satisfaction with online services, SSA conducts surveys to better understand public preferences for conducting business with the Agency and to obtain insight for marketing electronic services. In FY 2006, the Agency completed analysis of a survey of retirement benefit applicants that measured satisfaction with the entire claims filing process, from the first contact to adjudication of the claim. The sample included applicants who successfully completed a retirement claim online, those who began the process online, but completed it via traditional filing methods i.e., the telephone or in person, and those who used only the traditional filing methods.

Survey results revealed the challenge facing SSA in expanding the use of the online process. Factors contributing to this challenge include very high levels of satisfaction with the traditional methods of filing a claim, only half of

traditional applicants consider themselves Internet users, and traditional filers' strong preference for personal contact.

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

Retirement, Survivors, Disability Insurance Stewardship Review

The Title II Retirement and Survivors Insurance (RSI) and Disability Insurance (DI) review is based on an annual review of about 1,000 RSI cases and 500 DI cases. The beneficiary or representative payee is interviewed, collateral contacts are made as needed, and all non-medical factors of eligibility are redeveloped. Accuracy rates (percent of dollars paid that are free of overpayments and the percent of dollars paid that are free of underpayments) are reported for an overall retirement, survivors, and disability rating, as well as separate accuracy rates for RSI, and DI cases. Stewardship review findings provide the basis for reports to Congress and other monitoring authorities.

In FY 2005, the Title II overpayment accuracy rate was 99.6 percent and the underpayment accuracy rate was 99.8 percent. This is slightly better than the FY 2004 overpayment accuracy rate of 99.5% and the same as the FY 2004 underpayment accuracy rate.

Because of the small sample size, RSI and DI error data are viewed over a period of years to aid in identifying trends. The RSI and DI Stewardship data have been used to assist management decision-making regarding the:

- Application of Workers' Compensation offset provisions to ensure that benefit amounts are correctly calculated based on receipt or termination of workers' compensation benefits;
- Resolution of earnings record discrepancies through the implementation of the Earnings Alert Project, which will automate the earnings review for Internet claims and extend the automation of review criteria to all initial claims; and
- Identification of substantial gainful work activity through the implementation of a new tool – e-Work. e-Work is an automated tool for monitoring the Continuing Disability Review workload to ensure these cases are prioritized for timely processing. e-Work allows SSA staff to process and record work activity in a single national web-based database; and it is synchronized with SSA's national database of work and earnings determinations.

Supplemental Security Income (SSI) Payment Accuracy Stewardship Review

The SSI payment accuracy review is based on a random, non-medical review of approximately 4,000 SSI cases. The review involves an examination of documents in SSA's records and verification of payment accuracy through contact with recipients, their representatives, and collateral sources such as employers and financial institutions. Information in the stewardship report is used by the Agency in reporting to Congress and other monitoring authorities on the accuracy of SSI payments.

SSI payment accuracy is influenced by the volume and mix and effectiveness of the redeterminations conducted by the Agency. Compared to FY 2004, in FY 2005, administrative budget limitations resulted in a one-third reduction in the resources the Agency could afford to invest in conducting redeterminations. Despite the decision to process fewer of the more costly full redeterminations in favor of processing more limited issue redeterminations, there was only a 10 percent drop in the overpayment dollars recovered and underpayment dollars paid (\$3.7 billion in FY 2004 vs. \$3.4 billion) in FY 2005.

The FY 2005 SSI overpayment accuracy rate was 93.6 percent and the underpayment accuracy rate was 98.6 percent. The overpayment rate is the same as FY 2004 and the underpayment rate is slightly lower than, but not statistically significant from, the FY 2004 underpayment accuracy rate of 98.7 percent.

Annual Report of the Supplemental Security Income (SSI) Program

The 2006 report, published by SSA's Office of the Chief Actuary, provides a 25-year forecast spanning the years 2006 to 2030. Significant projections are:

- By 2030, the end of the 25-year projection period, the Federal SSI recipient population is estimated to reach 8.8 million. The projected growth in the SSI program over the 25-year period is largely due to the overall growth in the U.S. population. The rate of participation is projected to vary somewhat by age group, with the overall participation of the 65 or older age groups projected to decline and the participation of the under 65 age group projected to increase slightly.
- Expressed as a percentage of the total U.S. population, the number of Federal SSI recipients increased slightly to 2.25 percent in 2005, and is projected to increase gradually to 2.45 percent of the population by 2030.
- Federal expenditures for SSI payments in calendar year 2006 are estimated to increase by \$2.1 billion to \$38.1 billion in 2030, an increase of 5.8 percent from 2005 levels.
- In constant 2006 dollars, Federal expenditures for SSI payments are projected to increase to \$48.5 billion in 2030, a real increase of 1.1 percent per year.
- When compared to the Gross Domestic Product (GDP), Federal SSI expenditures are projected to decline over time, from the current level of 0.29 percent of GDP in 2005 to 0.24 percent of GDP by 2030.

The Chief Actuary uses these projections to provide Congress and other interested parties information on the future of the SSI Program.

Strategic Goal 3: SOLVENCY

To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations

Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance (OASI), and Disability Insurance (DI) Trust Funds

The Old Age, Survivors, and Disability (OASDI) program provides protection against the loss of earnings due to retirement, death, or disability. The OASDI program consists of two separate parts, OASI and DI, which pay monthly benefits to workers and their families. The Social Security Act requires that the Board of Trustees report annually to Congress on the financial and actuarial status of the OASI and DI Trust Funds under present law. Based on the actuarial status projected by the Trustees, Congress modifies the Social Security Act as needed to assure solvency of the OASDI Trust Funds in the future. The Trustees and the Congress agree that future legislative modifications should be designed to achieve sustainable solvency for Social Security.

Strategic Goal 4: STAFF

To strategically manage and align STAFF to support the mission of the Agency

Human Capital Plan

SSA's comprehensive human capital strategy was publicly documented in 2004 when SSA issued the Agency's first Human Capital Plan. The plan laid out how SSA would use human capital to meet the Agency's mission and goals and ensure that the Agency has employees in place with the skills necessary to continue SSA's tradition of excellent service. Employees across the Agency worked together to accomplish these initiatives and, as a result, SSA was rewarded with the President's Management Agenda score of "green" for the Strategic Management of Human Capital in June 2004. To date SSA has maintained green status by successfully completing planned activities, continuing with initiatives underway, and adding new ones that will further improve the management of human capital.

The Human Capital Plan, which is updated annually, demonstrates how SSA will use human capital to meet the Agency's mission and goals. The plan contains "Elements for Success" that align with and support the Agency Strategic Plan. These elements are Strategic Alignment; Workforce Planning; Workforce Development and Knowledge Management; Performance Culture; Leadership; and Accountability/Measures. Each element contains results-oriented goals that are measured and tracked.

Retirement Wave

The Retirement Wave report was established to assist Agency leaders in assessing workforce needs and to foster workforce planning by providing objective information to support the Agency's human capital initiatives. This report provides each SSA component and region a snapshot of their current workforce and a projection of probable retirement losses. Because it is an early alert for the Agency's leaders and managers, they have a tool that guides them in establishing new initiatives that will be successful in addressing potential leadership and knowledge management deficiencies.

As SSA approaches the estimated peak retirement period, it remains an important empirical foundation for and evaluation of the Agency's efforts toward the strategic management of human capital. To address SSA's future workforce challenges, several initiatives were born from the retirement wave analysis, including strategic use of the Voluntary Early Retirement Authority, recruitment and retention initiatives, developmental programs, and various workforce planning frameworks and accountability systems, such as the Human Capital Plan and Future Workforce Transition Plan.

As a result of the Agency's conscientious efforts to prepare for the potential drain on institutional knowledge and expertise, the Agency has seen significant positive changes in SSA's workforce. These changes include an increase in the total number of employees on board, a decrease in the average years of service, and a decrease in the average of SSA's workforce overall as well as the Agency's new hires. This places SSA in a favorable position to maintain a consistent and stable workforce that is adequately prepared to continue to address the needs of the American people.

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FINANCIAL SECTION



A Message from the Chief Financial Officer

The Social Security Administration (SSA) had many successes in Fiscal Year 2006 and we are proud to be given this opportunity to share our accomplishments in the area of financial management. For the 13th consecutive year, Social Security received an unqualified opinion from the independent auditors on our consolidated financial statements, including the Statement of Social Insurance which was subject to audit for the first time this year. The unqualified (clean) opinion attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the American taxpayers' dollars. We were also the proud recipient of our 8th Association of Government Accountant's Certificate of Excellence in Accountability Reporting for our FY 2005 Performance and Accountability Report, clearly portraying our high standards in demonstrating accountability and communicating results. Social Security is the only Agency to have received this prestigious award each year since its inception.



SSA also received an unqualified opinion concerning SSA's assertion about the effectiveness of the Agency's systems of accounting and internal control with no material weaknesses or reportable conditions reported by the auditors. Throughout FY 2006, SSA worked diligently across all components to ensure compliance with the requirements found in OMB A-123 Appendix A, *Management's Responsibility for Internal Controls*. For each financial reporting process, we identified and extensively documented the key controls and through testing ascertained if the key controls were operating effectively and were designed to mitigate risk. We are proud that we were successful in our endeavors to meet the stringent deadlines of this new requirement and that our SSA management assurance statement could state with reasonable assurance that internal control over financial reporting was operating effectively as of year end.

In FY 2003, SSA implemented SSOARS, a federally certified accounting system. During FY 2006, a user-friendly "front end" for accessing the Agency's financial accounting system data and integrating budget allocations with expenditure data was developed. This functionality makes financial data easily available to all managers throughout the Agency.

I am proud that the Agency continues to meet all the standards for obtaining a "green" score in both status and progress for the President's Management Agenda Improved Financial Performance initiative. The Agency has initiatives to "Get Beyond Green" through the implementation and use of a modernized cost accounting system that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources.

This Agency is strongly committed to excellence in financial reporting and to responsibly managing the assets, resources, and programs entrusted to us. In the coming year, our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.

A handwritten signature in black ink that reads "Dale W. Sopper".

Dale W. Sopper
Chief Financial Officer
November 7, 2006

Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2006 and 2005 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2006 and 2005, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2006 and 2005. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2006 and 2005. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2006 and 2005. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.
- The **Consolidated Statements of Financing** reconcile the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2006 and 2005. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.
- The **Statement of Social Insurance** presents the actuarial present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period, in order to provide an indication of the program's financial status.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated and an interpretive analysis of trends revealed by the data.

Consolidated Balance Sheets as of September 30, 2006 and September 30, 2005

Assets	(Dollars in Millions)	
	2006	2005
Intragovernmental:		
Fund Balance with Treasury (Note 4)	\$ 4,778	\$ 5,370
Investments (Note 5)	1,995,307	1,809,422
Interest Receivable, Net (Note 6)	25,631	23,472
Accounts Receivable, Net (Note 6)	536	307
Total Intragovernmental	2,026,252	1,838,571
Accounts Receivable, Net (Notes 3 and 6)	7,654	6,982
Property, Plant and Equipment, Net (Note 7)	1,641	1,419
Other	5	9
Total Assets	\$ 2,035,552	\$ 1,846,981
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,754	\$ 3,642
Accounts Payable	8,033	8,309
Other	93	108
Total Intragovernmental	11,880	12,059
Benefits Due and Payable	66,104	61,272
Accounts Payable	264	394
Other	873	894
Total Liabilities	79,121	74,619
Net Position		
Unexpended Appropriations		1,446
Unexpended Appropriations-Earmarked Funds (Note 9)	57	
Unexpended Appropriations-Other Funds	1,614	
Cumulative Results		1,770,916
Cumulative Results of Operations-Earmarked Funds (Note 9)	1,954,921	
Cumulative Results of Operations-Other Funds	(161)	
Total Net Position	1,956,431	1,772,362
Total Liabilities and Net Position	\$ 2,035,552	\$ 1,846,981

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

Consolidated Statements of Net Cost for the Years Ended
September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
	2006	2005
OASI Program		
Benefit Payments	\$ 451,516	\$ 432,438
Operating Expenses (Note 10)	3,083	2,970
Total Cost of OASI Program	454,599	435,408
Less: Exchange Revenues (Notes 11 and 12)	8	22
Net Cost of OASI Program	454,591	435,386
DI Program		
Benefit Payments	90,944	89,731
Operating Expenses (Note 10)	2,574	2,419
Total Cost of DI Program	93,518	92,150
Less: Exchange Revenues (Notes 11 and 12)	9	20
Net Cost of DI Program	93,509	92,130
SSI Program		
Benefit Payments	35,237	36,224
Operating Expenses (Note 10)	3,147	3,083
Total Cost of SSI Program	38,384	39,307
Less: Exchange Revenues (Notes 11 and 12)	268	303
Net Cost of SSI Program	38,116	39,004
Other		
Benefit Payments	15	16
Operating Expenses (Note 10)	1,753	1,729
Total Cost of Other Program	1,768	1,745
Less: Exchange Revenues (Notes 11 and 12)	11	17
Net Cost of Other	1,757	1,728
Total Net Cost		
Benefit Payments	577,712	558,409
Operating Expenses (Note 10)	10,557	10,201
Total Cost	588,269	568,610
Less: Exchange Revenues (Notes 11 and 12)	296	362
Total Net Cost	\$ 587,973	\$ 568,248

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

Consolidated Statements of Changes in Net Position for the Years Ended
September 30, 2006 and September 30, 2005

	(Dollars in Millions)			
	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances			\$ 1,605,203	\$ 1,489
Earmarked Funds	\$ 1,770,660	\$ 53		
All Other Funds	256	1,393		
Total All Funds	\$ 1,770,916	\$ 1,446	\$ 1,605,203	\$ 1,489
Budgetary Financing Sources				
Appropriations Received				57,874
Earmarked Funds		16,378		
All Other Funds		40,454		
Appropriations Transferred In/Out				0
Earmarked Funds		38		
Other Adjustments			0	(13)
Earmarked Funds	0	(6)		
Appropriations Used			57,904	(57,904)
Earmarked Funds	16,406	(16,406)		
All Other Funds	40,233	(40,233)		
Tax Revenues (Note 13)			588,416	
Earmarked Funds	620,007			
Interest Revenues			92,994	
Earmarked Funds	99,880			
Transfers In/Out Without Reimbursement			784	
Earmarked Funds	(4,868)			
All Other Funds	6,538			
Railroad Retirement Interchange			(3,846)	
Earmarked Funds	(3,959)			
Net Transfers In/Out			(3,062)	
Earmarked Funds	(8,827)			
All Other Funds	6,538			
Other Budgetary Financing Sources-			63	
Earmarked Funds	(50)			
Other Financing Sources (Non-Exchange)				
Transfers In/Out			(2,818)	
All Other Funds	(2,907)			
Imputed Financing Sources (Note 14)			464	
All Other Funds	537			
Total Financing Sources			733,961	(43)
Earmarked Funds	727,416	4		
All Other Funds	44,401	221		
Net Cost of Operations			568,248	
Earmarked Funds	543,155			
All Other Funds	44,818			
Net Change			165,713	
Earmarked Funds	184,261			
All Other Funds	(417)			
Ending Balances			1,770,916	1,446
Earmarked Funds	1,954,921	57		
All Other Funds	(161)	1,614		
Total All Funds	\$ 1,954,760	\$ 1,671	\$ 1,770,916	\$ 1,446

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

Combined Statements of Budgetary Resources for the Years Ended
September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
	2006	2005
Budgetary Resources (Note 15)		
Unobligated Balances, Brought Forward, October 1	\$ 1,832	\$ 2,118
Recoveries of Prior Year Unpaid Obligations	539	337
Budget Authority		
Appropriation	796,683	754,724
Spending Authority from Offsetting Collections		
Earned		
Collected	4,224	4,596
Change in Receivable	(16)	9
Change in Unfilled Customer Orders		
Advance Received	1	0
Expenditure Transfers from Trust Funds	9,204	8,779
Subtotal	810,096	768,108
Nonexpenditure Transfers Net	122	0
Temporarily Not Available Pursuant to Public Law	(181,621)	(165,150)
Permanently Not Available	(40)	(7)
Total Budgetary Resources	\$ 630,928	\$ 605,406
Status of Budgetary Resources (Note 15)		
Obligations Incurred		
Direct	\$ 624,951	\$ 599,028
Reimbursable	4,186	4,546
Subtotal	629,137	603,574
Unobligated Balances		
Apportioned	1,475	1,566
Unobligated Balances - Not Available		
	316	266
Total Status of Budgetary Resources	\$ 630,928	\$ 605,406
Change in Obligated Balances		
Obligated Balances, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 69,215	\$ 60,455
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(2,091)	(2,191)
Total Unpaid Obligated Balance	67,124	58,264
Obligations Incurred, Net		
	629,137	603,574
Less: Gross Outlays		
	(624,755)	(594,477)
Less: Recoveries of Prior Year Unpaid Obligations		
	(539)	(337)
Change in Uncollected Payments from Federal Sources		
	22	100
Obligated Balance - End of Period		
Unpaid Obligations	73,058	69,215
Less: Uncollected Payments from Federal Sources	(2,069)	(2,091)
Total Unpaid Obligated Balance, End of Period	70,989	67,124
Net Outlays		
Gross Outlays	624,755	594,477
Less: Offsetting Collections	(13,434)	(13,484)
Less: Offsetting Receipts	(25,809)	(19,653)
Net Outlays	\$ 585,512	\$ 561,340

The accompanying notes are integral part of these financial statements.

Consolidated Statements of Financing for the Years Ended September 30, 2006 and September 30, 2005

	(Dollars in Millions)	
	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 629,137	\$ 603,574
Less: Offsetting Collections and Recoveries	(13,952)	(13,721)
Obligations Net of Offsetting Collections	615,185	589,853
Less: Offsetting Receipts	(25,809)	(19,653)
Net Obligations	589,376	570,200
Imputed Financing	537	464
Other	(253)	(276)
Net Other Resources Used to Finance Activities	284	188
Total Resources Used to Finance Activities	589,660	570,388
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	(16)	(4)
Resources that Fund Expenses Recognized in Prior Periods	(10)	(714)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	20,158	19,653
Resources that Fund Capitalized Costs	(458)	(399)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(21,633)	(21,900)
Total Resources Not Part of the Net Cost of Operations	(1,959)	(3,364)
Total Resources Used to Finance the Net Cost of Operations	587,701	567,024
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 16)		
Increase in Annual Leave	3	6
Other	361	1,019
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	364	1,025
Components Not Requiring or Generating Resources		
Depreciation and Amortization	234	211
Other	(326)	(12)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(92)	199
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	272	1,224
Net Cost of Operations	\$ 587,973	\$ 568,248

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

**Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
as of January 1, 2006**

(In billions)

	<u>2006</u>	Estimates from Prior Years			
		<u>2005</u> unaudited	<u>2004</u> unaudited	<u>2003</u> unaudited	<u>2002</u> unaudited
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$16,568	\$15,290	\$14,388	\$13,576	\$13,048
Have attained retirement eligibility age (Age 62 and over)	533	464	411	359	348
Those expected to become participants (Under age 15)	15,006	13,696	12,900	12,213	11,893
All current and future participants	32,107	29,450	27,699	26,147	25,289
<i>Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	26,211	23,942	22,418	21,015	20,210
Have attained retirement eligibility age (Age 62 and over)	5,866	5,395	4,933	4,662	4,402
Those expected to become participants (Under age 15)	6,480	5,816	5,578	5,398	5,240
All current and future participants	38,557	35,154	32,928	31,075	29,851
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)</i>	-\$6,449	-\$5,704	-\$5,229	-\$4,927	-\$4,562

Additional Information

<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost (Note 17)</i>	-\$6,449	-\$5,704	-\$5,229	-\$4,927	-\$4,562
<i>Combined OASI and DI Trust Fund assets at start of period</i>	1,859	1,687	1,531	1,378	1,213
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) and combined OASI and DI Trust Fund assets at start of period over cost (Note 17)</i>	-\$4,591	-\$4,017	-\$3,699	-\$3,550	-\$3,350

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

Notes to the Basic Financial Statements

For the Years Ended September 30, 2006 and 2005

(Presented in Millions)

1. *Summary of Significant Accounting Policies*

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources and the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular A-136 *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by OMB in Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds and four general fund appropriations. LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

Fund Balance with Treasury

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 4, Fund Balance with Treasury.

Investments

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issue bonds. Special issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed

semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets.

Property, Plant and Equipment

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is \$100,000. Automated Data Processing and Telecommunications Site Preparation, buildings and other structures are capitalized with no threshold.

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

Benefits Due and Payable

Liabilities are accrued for OASI and DI benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 8, Liabilities.

Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

Administrative Expenses and Obligations

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

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

Recognition of Financing Sources

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit

payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

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

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 13, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Refer to Note 11, Exchange Revenues. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

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

Earmarked Funds

In fiscal year 2006, SSA adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, which requires separate presentation and disclosure of earmarked funds balances in the financial statements. The standard is effective beginning October 1, 2005. Restatement of prior periods is not permitted. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA's earmarked funds are the OASI and DI Trust Funds, PTF and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 9, Earmarked Funds, for additional information.

Reclassifications

Certain FY 2005 balances have been reclassified to conform to FY 2006 financial statement presentations, the effect of which is immaterial. The primary change occurs in the Combined Statement of Budgetary Resources. This change was made in compliance with the revisions required by OMB Circular A-136.

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. However, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

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

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

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

SSA contributions to CSRS were \$115 and \$121 million for the years ended September 30, 2006 and 2005. SSA contributions to the basic FERS plan were \$247 and \$226 million for the years ended September 30, 2006 and 2005. 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 the FERS savings plan were \$89 and \$79 million for the years ended September 30, 2006 and 2005. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

3. *Non-Entity Assets*

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are \$6,331 and \$6,122 million as of September 30, 2006 and 2005. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable, (2) SSI overpayments collected, (3) fees collected to administer SSI State Supplementation and (4) Attorney fees that are returned to the Department of the Treasury General Fund. In FY 2005, the SSI Federal overpayments collected were inadvertently omitted from the total Non-Entity assets amount reported; in addition, the SSI receivable amount was understated in this note disclosure. Adjustments to total Non-Entity Assets and SSI receivable have been included in the FY 2005 figures as reported.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are \$3,285 and \$3,025 million as of September 30, 2006 and 2005. The SSI accounts receivable, net has been reduced by \$1,955 and \$2,433 million for FY 2006 and 2005 respectively as intra-agency elimination. SSI Federal overpayment collections included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheets are \$2,905 and \$2,821 million as of September 30, 2006 and 2005. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the Department of the Treasury General Fund. These funds, upon deposit, are assets of the Department of the Treasury General Fund and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the States to SSA.

The Fund Balance with Treasury includes fees collected to administer SSI State Supplementation in the amount of \$141 and \$276 million for the years ended September 30, 2006 and 2005. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative fees.

4. Fund Balance with Treasury

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI and DI Trust Fund budgetary accounts are not used in chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the combined SBR.

Chart 4a - Fund Balances as of September 30: (\$ in millions)			Chart 4b - Status of Fund Balances as of September 30: (\$ in millions)		
	2006	2005		2006	2005
Trust Funds*			Unobligated Balance		
OASI	\$ (795)	\$ (384)	Available	\$ 1,226	\$ 1,160
DI	(348)	(73)	Unavailable	64	134
LAE	71	32	Obligated Balance Not Yet		
Appropriated Funds			Disbursed	1,495	1,391
SSI	2,880	2,915	OASI, DI and LAE	(1,072)	(425)
Other	2,970	2,880	Deposit & Receipt Accounts	3,065	3,110
Total	\$ 4,778	\$ 5,370	Total	\$ 4,778	\$ 5,370

*The phrase "Trust Funds" is being used as the fund type as defined by OMB.

The negative fund balances reported for the OASI and DI Trust Funds as of September 30, 2006 and 2005 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

5. Investments

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 7 3/8 percent and are payable on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the present to the year 2021. SSA's investments in Special Issue U.S. Treasury Securities are \$1,995,307 and \$1,809,422 million as of September 30, 2006 and 2005 respectively.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the U.S. Treasury. Because the OASI and DI Trust Funds and the U.S. Treasury are both part of the Government, these assets and liabilities are eliminated for consolidation purposes in the U.S. Government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Government-wide financial statements.

The U.S. Treasury does not set aside assets to pay future expenditures associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the U.S. Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

6. *Interest and Accounts Receivable*

Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury. Interest amounts are \$25,631 and \$23,472 million as of September 30, 2006 and 2005.

Accounts Receivable

Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets in the amounts of \$536 and \$307 million as of September 30, 2006 and 2005 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The LAE gross accounts receivable has been reduced by \$1,538 and \$1,775 million as of September 30, 2006 and 2005 as an intra-agency elimination. This elimination is to offset SSA's LAE receivable to be paid from the appropriate fund with corresponding payables set up for anticipated LAE disbursements.

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

With the Public

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

Chart 6 - Accounts Receivable with the Public by Major Program as of September 30:
(\$ in millions)

	2006			2005		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,238	\$ (126)	\$ 2,112	\$ 2,077	\$ (112)	\$ 1,965
DI	4,378	(1,492)	2,886	3,771	(1,291)	2,480
SSI*	7,032	(1,722)	5,310	7,307	(1,777)	5,530
LAE	15	0	15	159	0	159
Subtotal	13,663	(3,340)	10,323	13,314	(3,180)	10,134
Less:						
Eliminations**	(2,669)	0	(2,669)	(3,152)	0	(3,152)
Total	\$ 10,994	\$ (3,340)	\$ 7,654	\$ 10,162	\$ (3,180)	\$ 6,982

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

Chart 6 shows that in FY 2006 and 2005, gross accounts receivable was reduced by \$2,669 and \$3,152 million as an intra-agency elimination. This intra-agency activity results primarily from Special Disability Workloads (SDW) cases. In a prior period, SSA determined that a group of 228,000 SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. At that time, the agency recognized and established receivables from both the OASI and SSI programs with an offsetting payable in the DI program.

SSA continues to identify and settle SDW cases and current estimates indicate that there are about 95,000 SDW cases remaining. OASI SDW receivables are \$714 and \$719 million as of September 30, 2006 and 2005. DI SDW receivables are less than \$1 million as of September 30, 2006 and 2005. SSI SDW net receivables are \$1,688 and \$2,138 million as of September 30, 2006 and 2005.

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

7. Property, Plant and Equipment

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

Chart 7 - Property, Plant and Equipment as of September 30:
(\$ in millions)

Major Classes:	2006			2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 4	\$ 0	\$ 4	\$ 5	\$ 0	\$ 5
Buildings	388	(200)	188	381	(195)	186
Equipment (incl. ADP Hardware)	433	(356)	77	378	(314)	64
Internal Use Software	1,951	(590)	1,361	1,561	(408)	1,153
Leasehold Improvements	189	(178)	11	189	(178)	11
Total	\$ 2,965	\$ (1,324)	\$ 1,641	\$ 2,514	\$ (1,095)	\$ 1,419

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	3-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

8. *Liabilities*

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

Chart 8a - Liabilities as of September 30:
(\$ in millions)

	2006			2005		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	\$ 3,754	\$ 0	\$ 3,754	\$ 3,642	\$ 0	\$ 3,642
Accounts Payable	1	8,032	8,033	1	8,308	8,309
Other	39	54	93	55	53	108
Total Intragovernmental	3,794	8,086	11,880	3,698	8,361	12,059
Benefits Due and Payable	63,475	2,629	66,104	59,003	2,269	61,272
Accounts Payable	(62)	326	264	94	300	394
Other	278	595	873	291	603	894
Total	\$ 67,485	\$ 11,636	\$ 79,121	\$ 63,086	\$ 11,533	\$ 74,619

Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been

covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to the Department of the Treasury General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets for a description of the SSI receivables established for the repayment of SSI benefit overpayments. Also included in the Not Covered Intragovernmental Accounts Payable amount are \$141 and \$276 million as of September 30, 2006 and 2005 for SSI State Fees payable to the Department of the Treasury General Fund. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees.

Intragovernmental Other Liabilities

Intragovernmental Other Liabilities Covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is \$54 and \$53 million as of September 30, 2006 and 2005. See Note 3, Non-Entity Assets and Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2006 and 2005. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

	2006	2005
OASI	\$ 41,677	\$ 39,213
DI	23,611	22,375
SSI	3,485	2,836
Subtotal	68,773	64,424
Less: Intra-agency eliminations	(2,669)	(3,152)
Total	\$ 66,104	\$ 61,272

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b also includes estimated payables related to SDW. Refer to Note 6, Interest and Accounts Receivable. OASI payables are \$329 and \$331 million as of September 30, 2006 and 2005. DI payables are \$3,500 and \$4,139 million as of September 30, 2006 and 2005. In FY 2006, the DI payables have decreased due to SDW cases decreasing by the amount of the discharged liabilities for cases that have been adjudicated. In addition, estimates have decreased as a result of enhancements to the models and sample data used in the estimates.

Chart 8b also shows that as of FY 2006 and 2005, gross Benefits Due and Payable was reduced by \$2,669 and \$3,152 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Interest and Accounts Receivable. Since retroactive payment of the OASI and DI benefits results in an

overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2006 and 2005.

Chart 8c - Net SDW Liability as of September 30: (\$ in millions)		
	2006	2005
Net DI Liability	\$ 3,500	\$ 4,139
Net OASI Receivable	(385)	(388)
Net SSI Receivable	(1,688)	(2,138)
Net Liability Due to the Public	\$ 1,427	\$ 1,613

Accounts Payable

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to States and the SSI windfall amounts. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. SSI windfall amounts are generated when a SSI recipient is found to be eligible for OASI or DI benefits. Any overlapping payments to the beneficiary made by OASI or DI are paid back to the SSI program, creating the windfall amount. This windfall amount, like the state overpayment is set up as an accounts payable until payment is made to the states.

Other Liabilities

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of \$275 and \$285 million as of September 30, 2006 and 2005 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

Contingent Liabilities

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

9. Earmarked Funds

The OASI and DI Trust Funds, PTF and SSI State Administrative Fees are classified as earmarked funds. These funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a lesser extent, offsetting collections.

OASI and DI Trust Funds

The OASI Trust Fund provides assistance and protection against loss of earnings due to retirement or death and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to these funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 6, Interest and Accounts Receivable for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments for a discussion on Treasury securities.

PTF

PTF consist of transfers authorized by law between the Department of Treasury General Fund and the OASI and DI Trust Funds. PTF activity includes Income tax on Social Security Benefits, Reimbursable Union Activity, Coal Industry Retiree Health Benefits, Pension Reform, Special Age 72 Benefits, Income Tax Credit Reimbursement and Unnegotiated Check Reimbursement. PTF funds are warranted from the general fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, PTF is considered earmarked from the point that it is transferred into SSA and reported as Appropriations Received on the Statement of Changes in Net Position.

SSI State Administrative Fees

Administrative Fees collected from state SSI are also classified as earmarked funds. Section 1616.42 U.S.C authorizes the Commissioner of Social Security to assess each state an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the state for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See chart 9a for balances of earmarked funds as reported in the Consolidated Financial Statements for the year ended September 30, 2006.

Chart 9a - Earmarked Funds as of September 30: Consolidating Schedule (\$ in millions)					
	2006				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	\$ (795)	\$ (348)	\$ 66	\$ 0	\$ (1,077)
Investments	1,793,129	202,178	0	0	1,995,307
Interest Receivable	23,004	2,627	0	0	25,631
Accounts Receivables	2,114	2,887	0	(714)	4,287
Total Assets	\$ 1,817,452	\$ 207,344	\$ 66	\$ (714)	\$ 2,024,148
LIABILITIES and NET POSITION					
Liabilities	\$ 45,544	\$ 24,337	\$ 3	\$ (714)	\$ 69,170
Total Liabilities	45,544	24,337	3	(714)	69,170
Unexpended Appropriations	0	0	57	0	57
Cumulative Results of Operations	1,771,908	183,007	6	0	1,954,921
Total Liabilities and Net Position	\$ 1,817,452	\$ 207,344	\$ 66	\$ (714)	\$ 2,024,148
Statement of Net Cost					
Program Costs	\$ 452,144	\$ 91,128	\$ 0	\$ 0	\$ 543,272
Less Earned Revenue	0	0	117	0	117
Net Cost of Operations	\$ 452,144	\$ 91,128	\$ (117)	\$ 0	\$ 543,155
Statement of Changes in Net Position					
Net Position Beginning of Period	\$ 1,595,523	\$ 175,137	\$ 53	\$ 0	\$ 1,770,713
Non-Exchange Revenue	9,138	(1,498)	(107)	0	7,533
Net Cost of Operations	(452,144)	(91,128)	117	0	(543,155)
Taxes and Interest Revenue	619,391	100,496	0	0	719,887
Change in Net Position	176,385	7,870	10	0	184,265
Net Position End of Period	\$ 1,771,908	\$ 183,007	\$ 63	\$ 0	\$ 1,954,978

Chart 9a includes eliminations between SSA's earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, \$2,792 million of liabilities in the earmarked funds for the year ended September 30, 2006 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in chart 9a.

Near the close of FY 2005, SSA determined that the DI Trust Fund had not been reimbursed for certain expenses initially incurred by the DI Trust Fund on behalf of the OASI Trust Fund. SSA's General Counsel and Counsel from the Department of the Treasury are working to determine if current law supports the reimbursement of principal and interest from the OASI Trust Fund to the DI Trust Fund. Concurrently, SSA continues to develop its methodology to estimate the reimbursement amount. The ultimate reimbursement, if any, will not impact the basic consolidated financial statements.

Chart 9b presents the Statement of Changes in Net Position in columnar format. Eliminations have no effect on columnar totals presented.

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: Consolidated Schedule (\$ in millions)			
	2006		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 1,770,660	\$ 256	\$ 1,770,916
Budgetary Financing Sources			
Appropriations Used	16,406	40,233	56,639
Tax Revenues (Note 13)	620,007	0	620,007
Interest Revenues	99,880	0	99,880
Transfers In/Out Without Reimbursement	(4,868)	6,538	1,670
Railroad Retirement Interchange	(3,959)	0	(3,959)
Net Transfers In/Out	(8,827)	6,538	(2,289)
Other Budgetary Financing Sources	(50)	0	(50)
Other Financing Sources (Non-Exchange)			
Transfers-In/Out	0	(2,907)	(2,907)
Imputed Financing Sources (Note 14)	0	537	537
Total Financing Sources	727,416	44,401	771,817
Net Cost of Operations	543,155	44,818	587,973
Net Change	184,261	(417)	183,844
Cumulative Results of Operations	\$ 1,954,921	\$ (161)	\$ 1,954,760

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2006		
	Unexpended Appropriations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 53	\$ 1,393	\$ 1,446
Budgetary Financing Sources			
Appropriations Received	16,378	40,454	56,832
Appropriations Transferred In/Out	38	0	38
Other Adjustments	(6)	0	(6)
Appropriations Used	(16,406)	(40,233)	(56,639)
Total Budgetary Financing Sources	4	221	225
Total Unexpended Appropriations	57	1,614	1,671
Net Position	\$ 1,954,978	\$ 1,453	\$ 1,956,431

10. Operating Expenses

Classification of Operating Expenses by Major Program

Chart 10a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds' shares of SSA's operating expenses, which include the Medicare Prescription Drug Program, are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statements of Net Cost. OASI and DI Trust Fund Operations include expenses of the Department of the Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 10a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
		2006				
		LAE	OASI and DI		Vocational	Total
		SSA	OIG	Trust Fund Operations	Rehabilitation	
OASI	\$	2,420	\$ 35	\$ 628	\$ 0	\$ 3,083
DI		2,356	34	176	8	2,574
SSI		3,044	0	0	103	3,147
Other		1,730	23	0	0	1,753
	\$	9,550	\$ 92	\$ 804	\$ 111	\$ 10,557

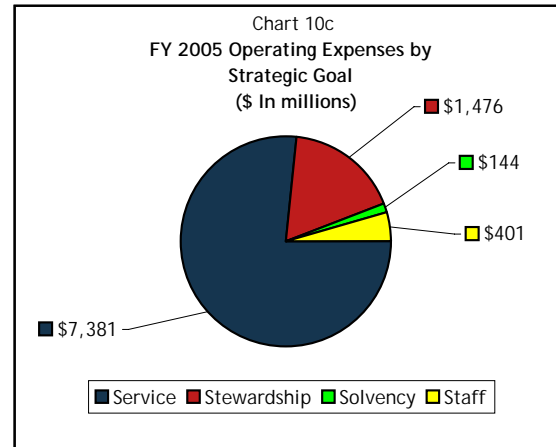
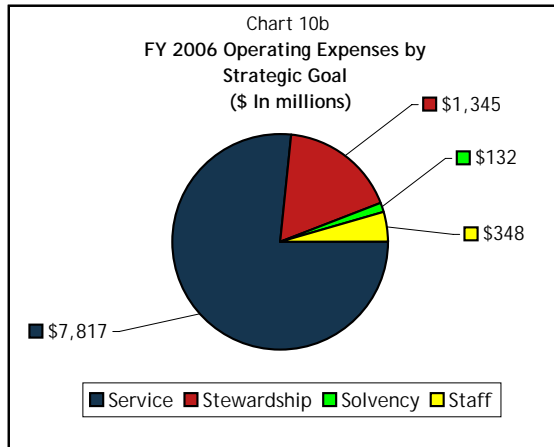
Chart 10a - SSA's Operating Expenses by Major Program as of September 30:						
		2005				
		LAE	OASI and DI		Vocational	Total
		SSA	OIG	Trust Fund Operations	Rehabilitation	
OASI	\$	2,368	\$ 34	\$ 568	\$ 0	\$ 2,970
DI		2,239	33	99	48	2,419
SSI		2,999	0	0	84	3,083
Other		1,703	26	0	0	1,729
	\$	9,309	\$ 93	\$ 667	\$ 132	\$ 10,201

Classification of Operating Expenses by Strategic Goal

SSA's Annual Performance Plan (APP) is characterized by broad-based strategic goals that are supported by the entire Agency. The four goals are:

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

Charts 10b and 10c exhibit distribution of FY 2006 and 2005 SSA and OIG LAE operating expenses to the four APP Strategic goals which agree to the Agency's LAE budget appropriation. OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see chart 10a) are not included in LAE by strategic goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.



11. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the Agency's cost. Total exchange revenues are \$296 and \$362 million for the years ended September 30, 2006 and 2005. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 States and the District of Columbia to administer some or all, of the States' supplement to Federal SSI benefits. SSA earned administrative fee revenue in the amount of \$253 and \$276 million for the years ended September 30, 2006 and 2005.

A portion of the administrative fees earned by SSA are non-entity assets, which are included within Fund Balance with Treasury in the amount of \$141 and \$276 million for the years ended September 30, 2006 and 2005. The fees are deposited directly to the Department of the Treasury General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to the Department of the Treasury General Fund is presented so that net position is not affected by this activity. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of \$117 and \$123 million for the years ended September 30, 2006 and 2005 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned \$43 and \$86 million for the years ended September 30, 2006 and 2005 in other exchange revenue.

12. Costs and Exchange Revenue Classifications

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks, employee benefits and imputed financing costs. Refer to Note 14, Imputed Financing for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, and payroll and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided which includes reimbursements from the United States Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided which includes fees for administering the states portion of SSI

payments. The Other program, primarily reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 12- Costs and Exchange Revenue Classifications as of September 30:
(\$ in millions)

	2006			2005		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	\$ 1,309	\$ (3)	\$ 1,306	\$ 1,220	\$ (18)	\$ 1,202
Public	453,290	(5)	453,285	434,188	(4)	434,184
OASI Subtotal	454,599	(8)	454,591	435,408	(22)	435,386
DI Program						
Intragovernmental	776	(4)	772	718	(17)	701
Public	92,742	(5)	92,737	91,432	(3)	91,429
DI Subtotal	93,518	(9)	93,509	92,150	(20)	92,130
SSI Program						
Intragovernmental	856	(8)	848	821	(24)	797
Public	37,528	(260)	37,268	38,486	(279)	38,207
SSI Subtotal	38,384	(268)	38,116	39,307	(303)	39,004
Other Program						
Intragovernmental	459	(2)	457	374	(10)	364
Public	1,309	(9)	1,300	1,371	(7)	1,364
Other Subtotal	1,768	(11)	1,757	1,745	(17)	1,728
Total	\$ 588,269	\$ (296)	\$ 587,973	\$ 568,610	\$ (362)	\$ 568,248

13. 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 OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service (IRS) or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of \$620,007 and \$588,416 million for the years ended September 30, 2006 and 2005.

14. Imputed Financing

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of \$937 and \$829 million for the years ended September 30, 2006 and 2005 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of \$537 and \$464 million for the years ended September 30, 2006 and 2005 that represents annual service cost not paid by SSA.

15. Budgetary Resources

Appropriations Received

The Combined Statements of Budgetary Resources discloses Appropriations Received of \$796,683 and \$754,724 million for the years ended September 30, 2006 and 2005. Appropriations Received on the Consolidated Statements of Changes in Net Position are \$56,832 and \$57,874 million for the same years. The primary differences of \$739,851 and \$696,850 million represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the general fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Public Debt where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Since OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's directive to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects or a combination of these categories are classified as Category B. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment. The addition of Category A consists of Medicare Reform and Medicare Appeals distributed quarterly in the FY 2005 Budget. The variance between FY 2006 and FY 2005 concerning Category B and Exempt from Apportionment is due to a reclassification of certain activities. During FY 2006, it was determined that certain activities, consisting primarily of the OASI and DI Trust Fund transfer accounts and the Taxation of Social Security Benefits, should be classified as Exempt from Apportionment since these activities do not receive an apportionment from OMB.

Chart 15a - Apportionment Categories of Obligations Incurred as of September 30:
(\$ in millions)

	2006			2005		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	\$ 0	\$ 0	\$ 0	\$ 427	\$ 0	\$ 427
Category B	50,227	4,181	54,408	589,611	4,546	594,157
Exempt	574,724	5	574,729	8,990	0	8,990
Total	\$ 624,951	\$ 4,186	\$ 629,137	\$ 599,028	\$ 4,546	\$ 603,574

Permanent Indefinite Appropriation

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides monetary assistance and protection against the loss of earnings due to retirement or death. The DI Trust Fund provides monetary assistance and protection against the loss of earnings due to a wage earner's disability. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, Foster Care Independence Act of 1999. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of PL 106-169, their SSI benefits would terminate the month after the veterans leave the U.S. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

Legal Arrangements Affecting Use of Unobligated Balances

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

	2006	2005
Beginning Balance	\$ 1,743,299	\$ 1,578,149
Receipts	739,961	696,858
Less Obligations	558,340	531,708
Excess of Receipts Over Obligations	181,621	165,150
Ending Balance	\$ 1,924,920	\$ 1,743,299

Undelivered Orders at the End of the Period

Undelivered orders consist of unpaid orders of goods and/or services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are \$1,373 and \$1,352 million for the years ended September 30, 2006 and 2005.

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

A reconciliation of budgetary resources, obligations incurred and outlays as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2005 has been conducted. There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

A reconciliation has not been presented for the year ended September 30, 2006 since this report is published in November 2006 but the actual budget data for FY 2006 will not be available until December 2006 by the Department of Treasury.

16. Statement of Financing Disclosures

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

Liabilities Not Covered by Budgetary Resources of \$11,636 and \$11,533 million as of September 30, 2006 and 2005, represent SSI receivables and collections owed to Treasury, non-current portion of FECA liability to DOL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Consolidated Statements of Financing, as Total Components of Net Cost of Operations, that will Require or Generate Resources in Future Periods of \$364 and \$1,025 million for the years ended September 30, 2006 and 2005, represent the change in SSA expenses for adjudicated and unadjudicated SSI benefits due and payable and leave earned but not taken and FECA.

17. Social Insurance Disclosures

Effective for FY 2006, SSA adopted SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, which require that the Statement of Social Insurance be presented as an integral part of SSA's basic financial statements. This statement discloses the actuarial present value for the 75-year projection period of the estimated future income (excluding interest), estimated future cost, and the excess of income over cost for the "open group" of participants. The "open group" of participants includes all current and future participants (including births during the projection period) who are or who will eventually participate in the OASI and or DI Social Insurance programs.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions specified in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) and over the 75-year projection period beginning January 1 of that year. Similar estimates are shown in the statement based on the prior four Trustees Reports.

Estimated future income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

In addition to the actuarial present value of estimated future excess of income over cost, shown in the basic statement, for the open group of participants, it is possible to make an analogous calculation for the "closed group" of participants. The "closed group" of participants consists of those who, in the starting year of the projection period, have attained retirement eligibility age or have attained age 15 through 61. In order to calculate the actuarial net present value of the excess of future income over future costs for the closed group, one could subtract the actuarial present value of estimated future costs for or on behalf of current participants from the actuarial present value of future income (excluding interest) for current participants.

Also included on the face of the statement as "additional information" for the open group are (1) the actuarial present value of the excess of estimated future income over the estimated future cost, (2) the combined OASI and DI Trust Fund assets at the start of each period, and (3) the actuarial present value of estimated future excess of income over future cost plus the combined OASI and DI Trust Fund assets, over future cost. While this additional

information is not required by the applicable accounting standards, SSA believes the inclusion enhances evaluation of the financial status of the program.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2006 totaled \$1,859 billion and were comprised almost entirely of investment securities which are backed by the full faith and credit of the Federal government.

The actuarial present value, for a 75-year projection period, of estimated future excess of income, and combined OASI and DI Trust Fund assets at the start of the period, over cost is shown as a negative value which represents the magnitude of what is commonly referred to as the “open group unfunded obligation” of the program over the 75-year projection period. This value is included in the corresponding Trustees Report and is also shown in the report as percentages of taxable payroll and gross domestic product over the period.

Assumptions Used for the Statement of Social Insurance

The estimates used in this presentation for the current year (2006) are based on the assumption that the programs will continue as specified under current law. They are also based on various economic and demographic assumptions, including those in the following table:

Table 1: Assumptions Used for the Statement of Social Insurance 2006

	Total Fertility Rate ¹	Age-Sex-Adjusted Death Rate ² (per 100,000)	Period Life Expectancy At Birth ³		Net Annual Immigration (persons per year) ⁴	Real-Wage Differential ⁵ (percentage points)	Average Annual Percentage Change In:				Average Annual Interest Rate ¹⁰
			Male	Female			Average Annual Wage in Covered Employment ⁶	CPI ⁷	Total Employment ⁸	Real GDP ⁹	
2006	2.03	848.9	75.0	79.7	1,075,000	1.2	4.1	2.9	1.7	3.4	4.9%
2010	2.03	829.2	75.5	79.9	1,000,000	1.5	4.3	2.8	0.7	2.6	5.9%
2020	2.01	767.1	76.6	80.7	950,000	0.9	3.7	2.8	0.4	2.1	5.7%
2030	2.00	707.4	77.6	81.6	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2040	2.00	654.5	78.5	82.4	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2050	2.00	608.0	79.4	83.1	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2060	2.00	566.9	80.3	83.9	900,000	1.1	3.9	2.8	0.3	1.9	5.7%
2070	2.00	530.3	81.0	84.5	900,000	1.1	3.9	2.8	0.3	2.0	5.7%
2080	2.00	497.6	81.8	85.1	900,000	1.1	3.9	2.8	0.3	1.9	5.7%

1. The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2030. For the 2006 estimates, the ultimate total fertility rate was increased from 1.95 to 2.00.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.

5. The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI).
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment represents total of civilian and military employment in the U.S. economy.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. For the 2006 estimates, the ultimate average annual interest rate was reduced from 5.8% to 5.7% due to a 0.1% decline in the underlying real interest rate assumption.

These assumptions and the other values on which these displays are based reflect the intermediate assumptions of the 2006 Trustees Report. Estimates made in prior years differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on Social Insurance is contained in the *Required Supplementary Information: Social Insurance* of this report.

18. Recovery of Medicare Premiums

SSA identified a systemic and recurring error in the process for recovering certain transfers to the Centers for Medicare and Medicaid Services (CMS) of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premiums transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, had not generally had procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately \$800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002, for periods after the death of a beneficiary. SSA and HHS are currently conducting research to determine the most appropriate legal resolution to this issue.

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Other Accompanying Information: Balance Sheet by Major Program
as of September 30, 2006

Assets	Dollars in Millions						
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	\$ (795)	\$ (348)	\$ 2,880	\$ 2,970	\$ 71	\$ 0	\$ 4,778
Investments	1,793,129	202,178	0	0	0	0	1,995,307
Interest Receivable, Net	23,004	2,627	0	0	0	0	25,631
Accounts Receivable, Net	2	1	0	0	2,071	(1,538)	536
Total Intragovernmental	1,815,340	204,458	2,880	2,970	2,142	(1,538)	2,026,252
Accounts Receivable, Net	2,112	2,886	5,310	0	15	(2,669)	7,654
Property, Plant and Equipment, Net	0	0	0	0	1,641	0	1,641
Other	0	0	0	0	5	0	5
Total Assets	\$ 1,817,452	\$ 207,344	\$ 8,190	\$ 2,970	\$ 3,803	\$ (4,207)	\$ 2,035,552
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	\$ 3,411	\$ 343	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,754
Accounts Payable	456	377	5,828	2,909	1	(1,538)	8,033
Other	0	0	0	0	93	0	93
Total Intragovernmental	3,867	720	5,828	2,909	94	(1,538)	11,880
Benefits Due and Payable	41,677	23,611	3,485	0	0	(2,669)	66,104
Accounts Payable	0	6	183	1	74	0	264
Other	0	0	10	3	860	0	873
Total Liabilities	45,544	24,337	9,506	2,913	1,028	(4,207)	79,121
Net Position							
Unexpended Appropriations							
Unexpended Appropriations-Earmarked Funds	0	0	0	57	0	0	57
Unexpended Appropriations-Other Funds	0	0	1,596	0	18	0	1,614
Cumulative Results							
Cumulative Results of Operations-Earmarked Funds	1,771,908	183,007	6	0	0	0	1,954,921
Cumulative Results of Operations-Other Funds	0	0	(2,918)	0	2,757	0	(161)
Total Net Position	1,771,908	183,007	(1,316)	57	2,775	0	1,956,431
Total Liabilities and Net Position	\$ 1,817,452	\$ 207,344	\$ 8,190	\$ 2,970	\$ 3,803	\$ (4,207)	\$ 2,035,552

Other Accompanying Information: Schedule of Net Cost for the Year Ended September 30, 2006

	Program	LAE	Total
OASI Program			
Benefit Payments	\$ 451,516	\$ 0	\$ 451,516
Operating Expenses	628	2,455	3,083
Total Cost of OASI Program	452,144	2,455	454,599
Less: Exchange Revenues	0	8	8
Net Cost of OASI Program	452,144	2,447	454,591
DI Program			
Benefit Payments	90,944	0	90,944
Operating Expenses	184	2,390	2,574
Total Cost of DI Program	91,128	2,390	93,518
Less: Exchange Revenues	0	9	9
Net Cost of DI Program	91,128	2,381	93,509
SSI Program			
Benefit Payments	35,237	0	35,237
Operating Expenses	103	3,044	3,147
Total Cost of SSI Program	35,340	3,044	38,384
Less: Exchange Revenues	257	11	268
Net Cost of SSI Program	35,083	3,033	38,116
Other			
Benefit Payments	15	0	15
Operating Expenses	0	1,753	1,753
Total Cost of Other	15	1,753	1,768
Less: Exchange Revenues	5	6	11
Net Cost of Other	10	1,747	1,757
Total Net Cost			
Benefit Payments	577,712	0	577,712
Operating Expenses	915	9,642	10,557
Total Cost	578,627	9,642	588,269
Less: Exchange Revenues	262	34	296
Total Net Cost	\$ 578,365	\$ 9,608	\$ 587,973

Other Accompanying Information: Schedule of Changes in Net Position for the

	(Dollars in Millions)			
	OASI	DI	SSI	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances				
Earmarked Funds	\$ 1,595,523	\$ 175,137	\$ 0	\$ 0
All Other Funds	0	0	(2,345)	1,376
Total All Funds	1,595,523	175,137	(2,345)	1,376
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	0	40,418
Appropriations Transferred In/Out				
Earmarked Funds	0	0		0
Other Adjustments				
Earmarked Funds	0	0	0	0
Appropriations Used				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	40,198	(40,198)
Tax Revenues				
Earmarked Funds	530,006	90,001	0	
Interest Revenues				
Earmarked Funds	89,385	10,495	0	
Transfers In/Out Without Reimbursement				
Earmarked Funds	12,648	(1,110)	0	
All Other Funds	0	0	(5,571)	
Railroad Retirement Interchange				
Earmarked Funds	(3,521)	(438)	0	
Net Transfers In/Out				
Earmarked Funds	9,127	(1,548)		
All Other Funds			(5,571)	
Other Budgetary Financing Sources				
Earmarked Funds	11	50	(111)	
Other Financing Sources (Non-Exchange)				
Transfers In/Out				
All Other Funds	0	0	0	
Imputed Financing Sources				
All Other Funds	0	0	0	
Total Financing Sources				
Earmarked Funds	628,529	98,998	(111)	0
All Other Funds	0	0	34,627	220
Net Cost of Operations				
Earmarked Funds	452,144	91,128	(117)	
All Other Funds	0	0	35,200	
Net Change				
Earmarked Funds	176,385	7,870	6	
All Other Funds	0	0	(573)	
Ending Balances				
Earmarked Funds	1,771,908	183,007	6	0
All Other Funds	0	0	(2,918)	1,596
Total All Funds	\$ 1,771,908	\$ 183,007	\$ (2,912)	\$ 1,596

Year Ended September 30, 2006

Other		LAE		Consolidated	
Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
\$ 0	\$ 53	\$ 0	\$ 0	\$ 1,770,660	\$ 53
0	0	2,601	17	256	1,393
0	53	2,601	17	1,770,916	1,446
0	16,378	0	0	0	16,378
0	10	0	26	0	40,454
	38		0		38
0	(6)	0	0	0	(6)
16,406	(16,406)	0	0	16,406	(16,406)
10	(10)	25	(25)	40,233	(40,233)
0		0		620,007	0
0		0		99,880	0
(16,406)		0		(4,868)	
2,905		9,204		6,538	
0		0		(3,959)	
(16,406)				(8,827)	
2,905		9,204		6,538	
0		0		(50)	
(2,905)		(2)		(2,907)	
0		537		537	
0	4	0	0	727,416	4
10	0	9,764	1	44,401	221
0		0		543,155	
10		9,608		44,818	
0		0		184,261	
0		156		(417)	
0	57	0	0	1,954,921	57
0	0	2,757	18	(161)	1,614
\$ 0	\$ 57	\$ 2,757	\$ 18	\$ 1,954,760	\$ 1,671

Other Accompanying Information: Schedule of Financing for the Year Ended September 30, 2006

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Consolidated
Resources Used to Finance Activities:						
Budgetary Resources Obligated						
Obligations Incurred	\$ 463,475	\$ 94,865	\$ 44,868	\$ 16,422	\$ 9,507	\$ 629,137
Less: Offsetting Collections and Recoveries	(59)	(2)	(4,443)	(5)	(9,443)	(13,952)
Obligations Net of Offsetting Collections	463,416	94,863	40,425	16,417	64	615,185
Less: Offsetting Receipts	(20,769)	(1,877)	(257)	(2,906)	0	(25,809)
Net Obligations	442,647	92,986	40,168	13,511	64	589,376
Other Resources						
Imputed Financing	0	0	0	0	537	537
Other	0	0	(257)	0	4	(253)
Net Other Resources Used to Finance Activities	0	0	(257)	0	541	284
Total Resources Used to Finance Activities	442,647	92,986	39,911	13,511	605	589,660
Resources Not Part of the Net Cost of Operations:						
Change in Budgetary Resources Obligated, Not Yet Provided	0	(25)	(15)	0	24	(16)
Resources that Fund Expenses Recognized in Prior Periods	0	0	0	0	(10)	(10)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	15,706	1,289	257	2,906	0	20,158
Resources that Fund Capitalized Costs	0	0	0	0	(458)	(458)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(6,062)	(2,715)	(5,654)	(16,407)	9,205	(21,633)
Total Resources Not Part of the Net Cost of Operations	9,644	(1,451)	(5,412)	(13,501)	8,761	(1,959)
Total Resources Used to Finance the Net Cost of Operations	452,291	91,535	34,499	10	9,366	587,701
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:						
Components Requiring or Generating Resources in Future Periods						
Increase in Annual Leave	0	0	0	0	3	3
Other	0	0	360	0	1	361
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	0	0	360	0	4	364
Components Not Requiring or Generating Resources						
Depreciation and Amortization	0	0	0	0	234	234
Other	(147)	(407)	224	0	4	(326)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(147)	(407)	224	0	238	(92)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in Current Period	(147)	(407)	584	0	242	272
Net Cost of Operations	\$ 452,144	\$ 91,128	\$ 35,083	\$ 10	\$ 9,608	\$ 587,973

Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2006

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources Made Available						
Unobligated Balances, Brought Forward, October 1	\$ 0	\$ 0	\$ 1,243	\$ 53	\$ 536	\$ 1,832
Recoveries of Prior Year Unpaid Obligations	59	2	287	0	191	539
Budget Authority						
Appropriations Received	637,613	102,238	40,418	16,388	26	796,683
Spending Authority from Offsetting Collections Earned						
Collected	0	0	4,177	5	42	4,224
Change in Receivable	0	0	(21)	0	5	(16)
Change in Unfilled Customer Orders						
Advance Received	0	0	0	0	1	1
Expenditure Transfers from Trust Funds	0	0	0	0	9,204	9,204
Subtotal	637,613	102,238	44,574	16,393	9,278	810,096
Nonexpenditure Transfers	(17)	101	0	38	0	122
Temporary Not Available Pursuant to Public Law	(174,139)	(7,482)	0	0	0	(181,621)
Permanently Not Available	(41)	6	0	(5)	0	(40)
Total Budgetary Resources	\$ 463,475	\$ 94,865	\$ 46,104	\$ 16,479	\$ 10,005	\$ 630,928
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 463,475	\$ 94,865	\$ 40,724	\$ 16,417	\$ 9,470	\$ 624,951
Reimbursable	0	0	4,144	5	37	4,186
Subtotal	463,475	94,865	44,868	16,422	9,507	629,137
Unobligated Balances						
Apportioned	0	0	1,205	23	247	1,475
Unobligated Balances - Not Available	0	0	31	34	251	316
Total Status of Budgetary Resources	\$ 463,475	\$ 94,865	\$ 46,104	\$ 16,479	\$ 10,005	\$ 630,928
Change in Obligated Balances						
Obligated Balances, Net						
Unpaid Obligations, Brought Forward, October 1	\$ 43,153	\$ 23,084	\$ 1,400	\$ 3	\$ 1,575	\$ 69,215
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	(12)	0	(2,079)	(2,091)
Total Unpaid Obligated Balance	43,153	23,084	1,388	3	(504)	67,124
Obligations Incurred, Net	463,475	94,865	44,868	16,422	9,507	629,137
Less: Gross Outlays	(461,025)	(93,572)	(44,498)	(16,421)	(9,239)	(624,755)
Less: Recoveries of Prior Year Unpaid Obligations	(59)	(2)	(287)	0	(191)	(539)
Change in Uncollected Payments from Federal Sources	0	0	21	0	1	22
Obligated Balance - End of Period						
Unpaid Obligations	45,544	24,375	1,483	4	1,652	73,058
Less: Uncollected Payments from Federal Sources	0	0	9	0	(2,078)	(2,069)
Total Unpaid Obligated Balance, End of Period	45,544	24,375	1,492	4	(426)	70,989
Net Outlays						
Gross Outlays	461,025	93,572	44,498	16,421	9,239	624,755
Less: Offsetting Collections	0	0	(4,177)	(5)	(9,252)	(13,434)
Less: Offsetting Receipts	(20,769)	(1,877)	(257)	(2,906)	0	(25,809)
Net Outlays	\$ 440,256	\$ 91,695	\$ 40,064	\$ 13,510	\$ (13)	\$ 585,512

Program Description

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2005, OASDI benefits were paid to more than 48 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

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

Program Finances and Sustainability

As discussed in Note 8 to the consolidated financial statements, a liability of \$63 billion as of September 30, 2006 is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date (\$58 billion as of September 30, 2005). Virtually all of this amount was paid in October 2006. Also, an asset of \$1,995 billion is recognized for the “investments in Treasury securities” as of September 30, 2006 (\$1,809 billion as of September 30, 2005). These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investment Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2006. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

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

- **income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the OASI and DI Trust Funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;

- **present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the payments as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2006 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current Social Security Act, including future changes previously enacted. This information includes:

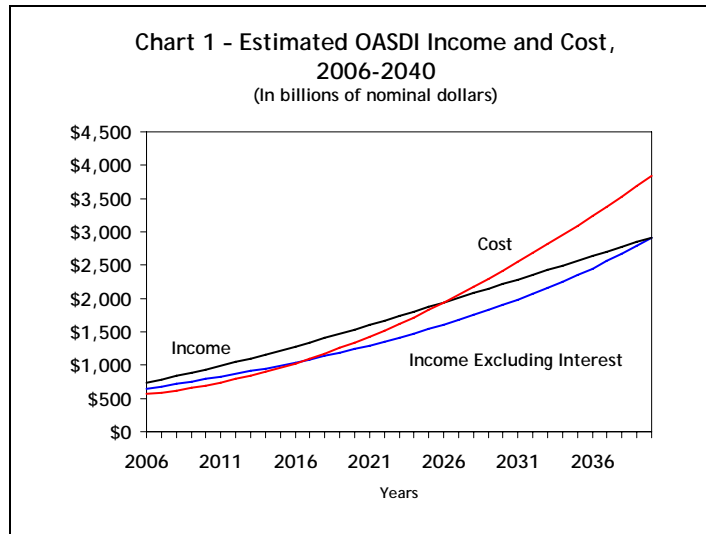
- (1) actuarial present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income (excluding interest) and cost in nominal dollars and as percentages of taxable payroll and GDP;
- (3) the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

Sustainable Solvency - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

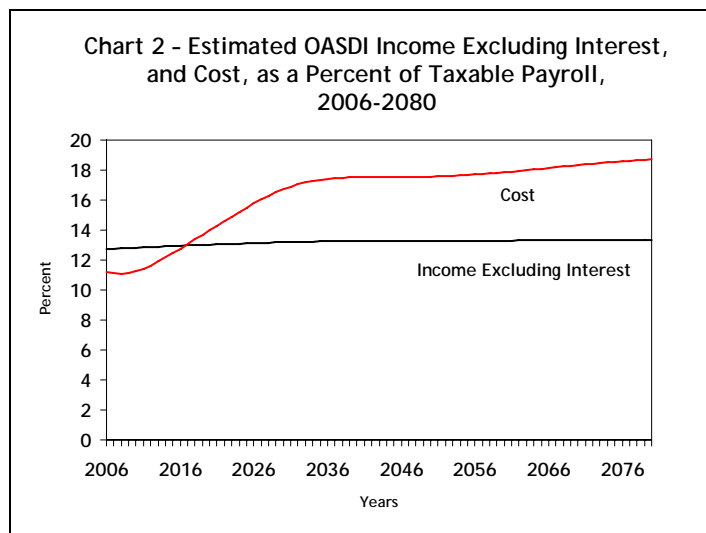
Cashflow Projections - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2006-2040 in nominal dollars. These estimates are only displayed through 2040, the year that the combined OASI and DI Trust Funds are projected to become exhausted. At the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this chart, which is intended to illustrate the source of revenue needed to meet the cost of the program, beyond the point of combined OASI and DI Trust Fund exhaustion, would be inappropriate.

The estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost on behalf of such workers during that period.

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2027. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated cost starts to exceed income excluding interest even earlier, in 2017. At that time, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds would begin to redeem Treasury securities. To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.



Percentage of Taxable Payroll - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 70 percent of the estimated cost.

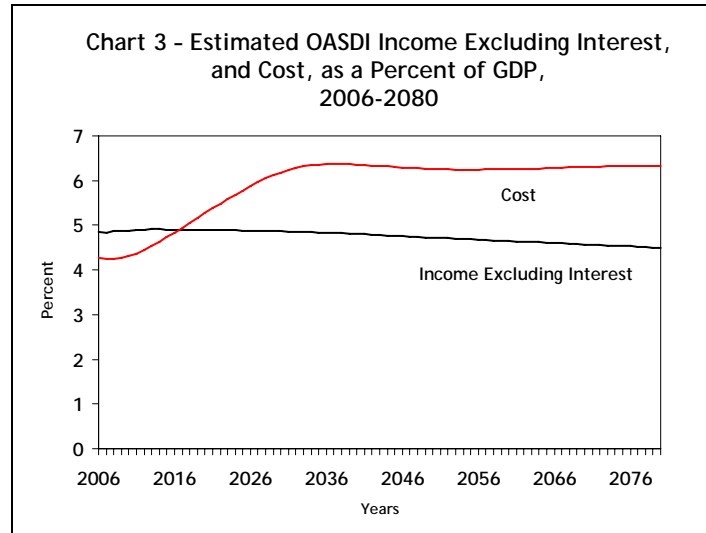


Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$6,449 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2006), it is -\$4,591 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.02 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level by the end of the period.

One interpretation of this negative actuarial balance (-2.02 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain

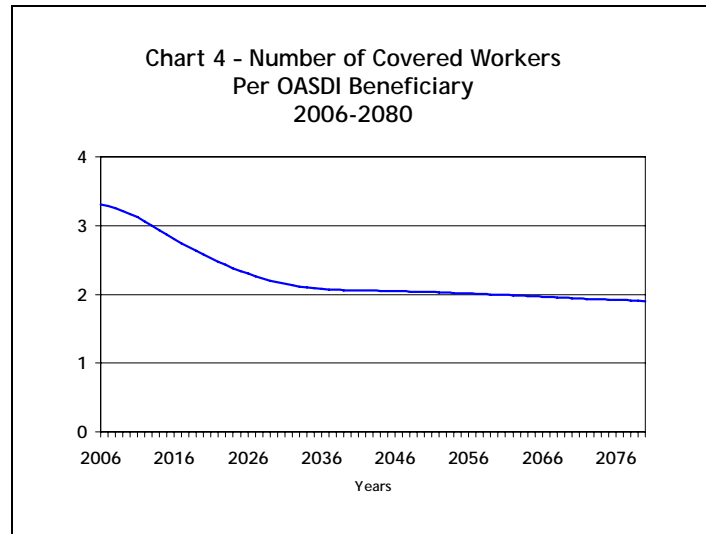
at that level. An increase of 2.02 percentage points in this rate in each year of the 75-year projection period (1.01 percentage points for employees and employers each, resulting in a total rate of 14.42 percent or a rate of 7.21 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all current and future benefits could be reduced by about 13.3 percent (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

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



In 2005, OASDI cost was about \$530 billion, which was about 4.3 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.2 percent of GDP in 2030 and then gradually increases to 6.3 percent of GDP in 2080. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

Ratio of Workers to Beneficiaries - Chart 4 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2005 to 1.9 in 2080.



Sensitivity Analysis

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2006 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2006 and are based on estimates of income and cost during the 75-year projection period 2006-2080. In this section, for brevity, “income” means “income excluding interest.”

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

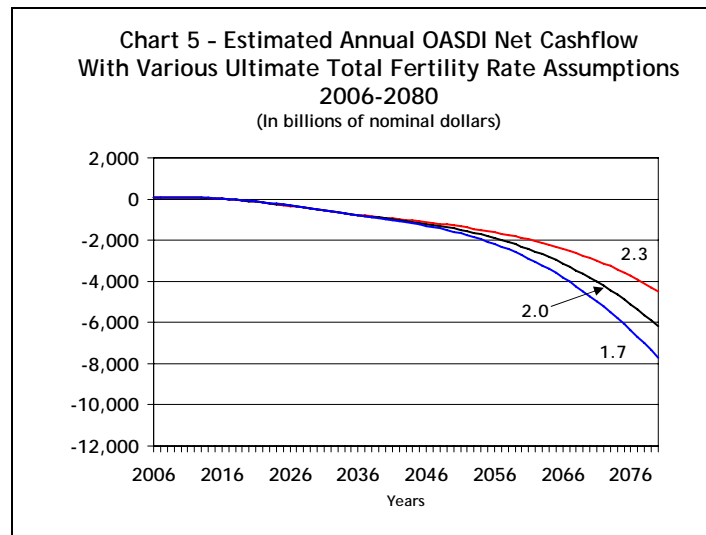
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Reports present high-cost and low-cost alternative assumption sets which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees have also recently added to their Annual Report an additional way of analyzing variability in assumptions and cost based on a stochastic model developed by the Office of the Chief Actuary.

Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0 and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2006 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2030.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,189 billion, from \$6,449 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to \$5,699 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2006-2080			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-\$7,189	-\$6,449	-\$5,699

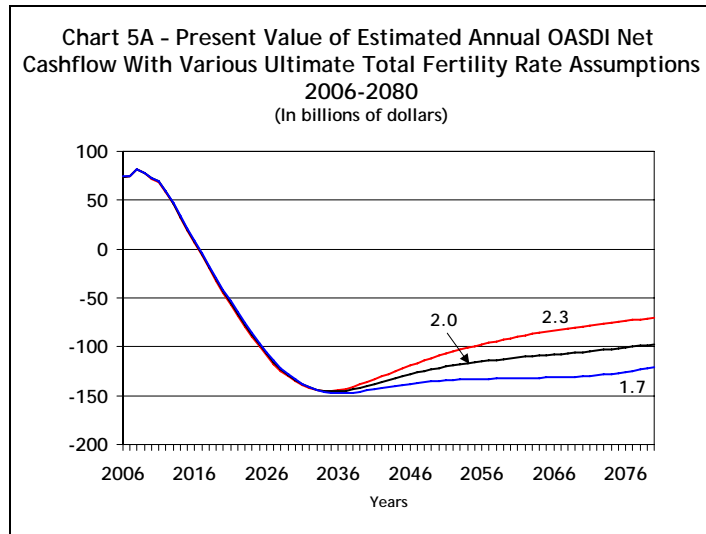
Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 1. Chart 5 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing slightly in the first two years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 and are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 34 years before the combined OASI and DI Trust Funds are projected to become depleted under each of these fertility assumptions.

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

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



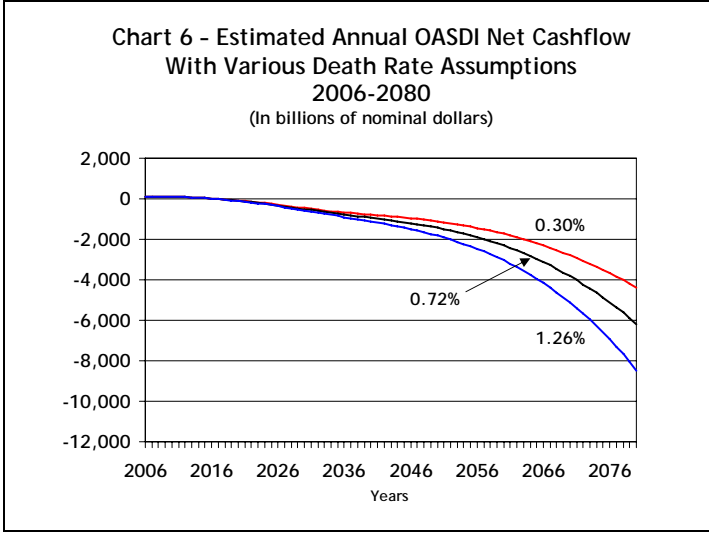
The three patterns of the present values shown in Chart 5A are similar. After increasing for 2 years, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2035 for a total fertility rate of 2.3, 2036 for a total fertility rate of 2.0, and 2038 for a total fertility rate of 1.7). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2038 than it would to cover the annual deficit in 2037.

Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2005-2080 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.72 and 1.26 percent per year, where 0.72 percent is the intermediate assumption in the 2006 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 42 and 61 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.2 in 2005 to 80.2, 83.4, and 87.6 in 2080 for average annual reductions in the age-sex-adjusted death rate of 0.30, 0.72 and 1.26 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.72 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$5,000 billion, from \$6,449 billion; if the annual reduction were changed to 1.26 percent, meaning that people live longer, the shortfall would increase to \$8,195 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions			
Valuation Period: 2006-2080			
Average Annual Reduction in Death Rates (from 2005 to 2080)	0.30 Percent	0.72 Percent	1.26 Percent
Present Value of Estimated Excess (In billions)	-\$5,000	-\$6,449	-\$8,195

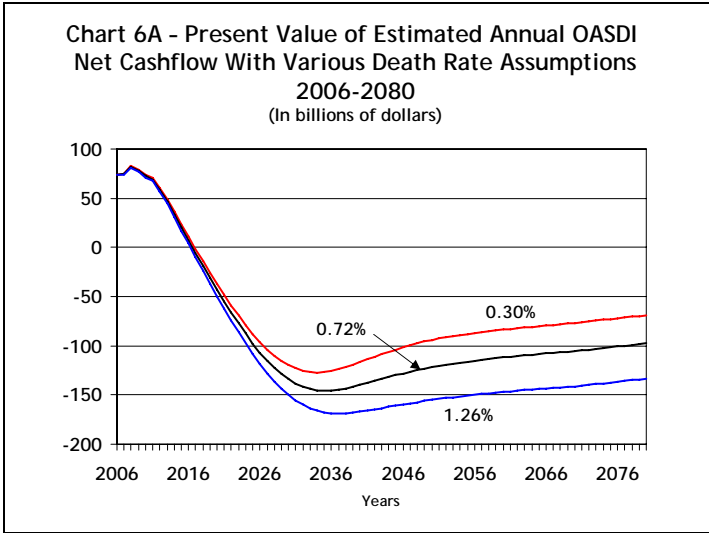
Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing slightly in the first several years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 for all three assumptions, after which the annual net cashflow estimates are negative. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). At young ages, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

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



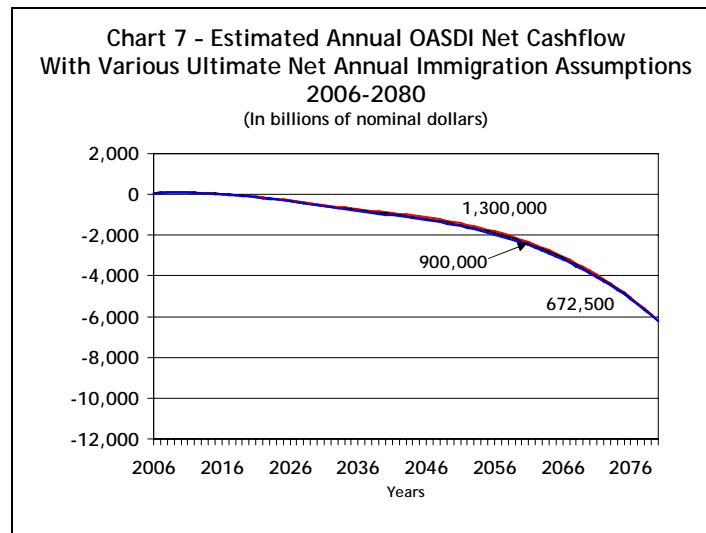
The three patterns of the present values shown in Chart 6A are similar. After increasing for 2 years, the present values decrease rapidly until around 2030. They remain positive through 2016 under all three assumptions, after which the present values are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2038 for assumptions of reductions of 0.30, 0.72 and 1.26 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of net annual immigration. These assumptions are that the ultimate net annual immigration (legal and other) will be 672,500 persons, 900,000 persons and 1,300,000 persons, where 900,000 persons is the intermediate assumption in the 2006 Trustees Report.

Table 3 demonstrates that, if net annual immigration is changed from 900,000 persons, the Trustees' intermediate ultimate assumption, to 672,500 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,782 billion, from \$6,449 billion. If the ultimate net annual immigration assumption were changed to 1,300,000 persons, the present value of the shortfall would decrease to \$5,982 billion.

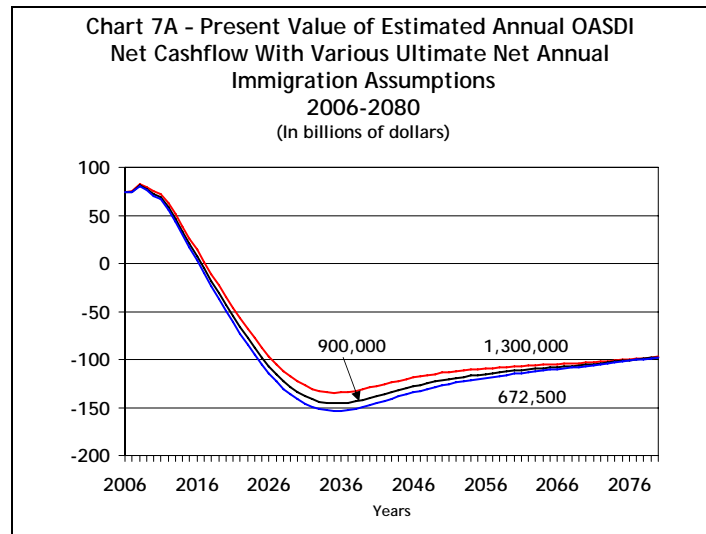
Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Net Annual Immigration Assumptions Valuation Period: 2006-2080			
Ultimate Net Annual Immigration	672,500 Persons	900,000 Persons	1,300,000 Persons
Present Value of Estimated Excess (In billions)	-\$6,782	-\$6,449	-\$5,982

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



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing slightly in the first several years, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 for the annual ultimate net immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons. Very little difference is discernible among the estimates of net cashflow based on the three assumptions about net annual immigration.

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



The three patterns of the present values shown in Chart 7A are similar. After generally increasing for a few years, the present values decrease rapidly until around 2030. They remain positive through 2016 for the assumed ultimate net annual immigration of 672,500 and 900,000 persons and through 2017 for an ultimate net annual immigration assumption of 1,300,000 persons, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in 2036 for all three assumptions.

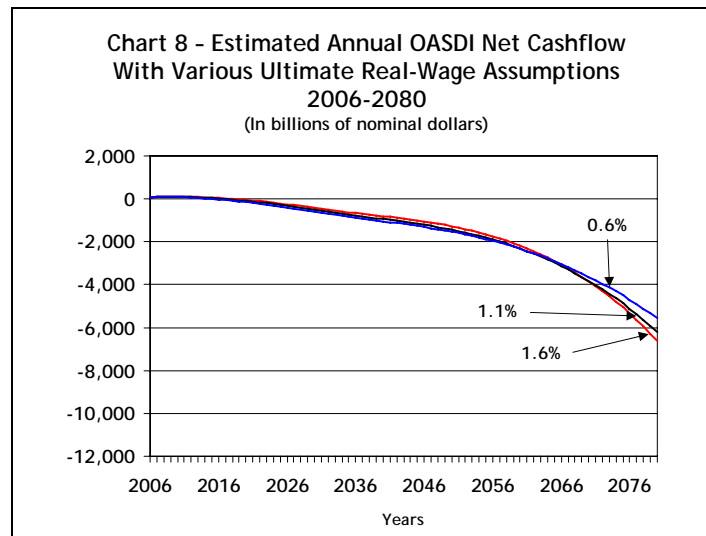
Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three assumptions about net annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more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

Real-Wage Differential - The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1 and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2006 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9 and 4.4 percent, respectively.

Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,091 billion from \$6,449 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to \$5,542 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2006-2080			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	3.4% , 2.8%; 0.6%	3.9% , 2.8%; 1.1%	4.4% , 2.8%; 1.6%
Present Value of Estimated Excess (In billions)	-\$7,091	-\$6,449	-\$5,542

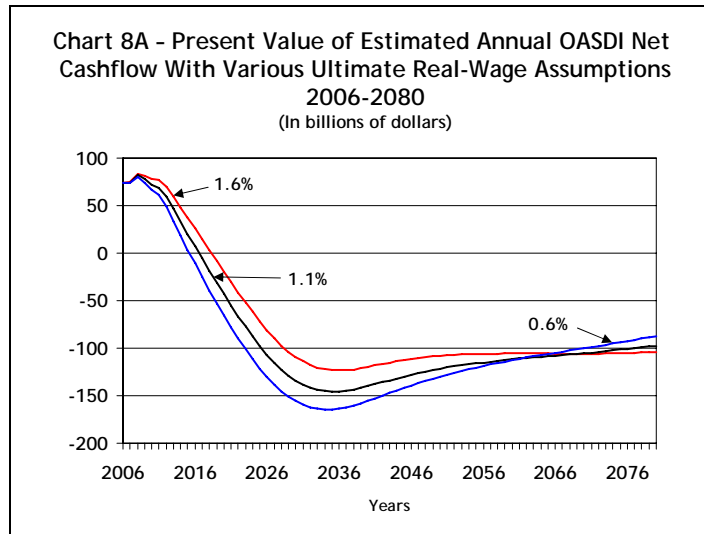
Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4. Chart 8 shows the estimated annual OASDI net cashflow.



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 generally increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and is negative thereafter.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, around 2070, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

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



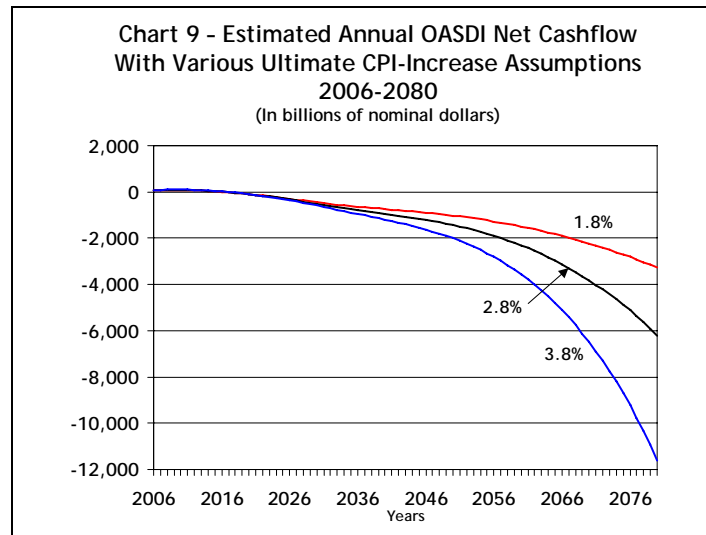
The three patterns of the present values shown in Chart 8A generally increase for the first few years, and then, decrease rapidly until around 2030. They remain positive through 2015, 2016 and 2018 for assumed ultimate real-wage differentials of 0.6, 1.1 and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2035, 2036 and 2037 for an assumed ultimate real-wage differential of 0.6, 1.1 and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2062 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8 and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2006 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9 and 4.9 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,876 billion, from \$6,449 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to \$6,015 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2006-2080			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	2.9% , 1.8% ; 1.1%	3.9% , 2.8% ; 1.1%	4.9% , 3.8% ; 1.1%
Present Value of Estimated Excess (In billions)	-\$6,876	-\$6,449	-\$6,015

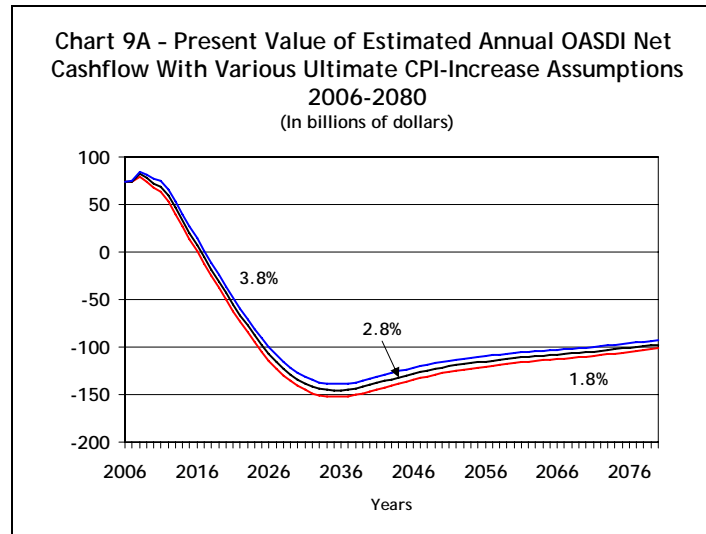
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2080. Annual net cashflow remains positive through 2016 for assumed ultimate annual increases in the CPI of 1.8 percent and 2.8 percent; and through 2017 for an assumed ultimate annual increase in the CPI of 3.8 percent. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher benefits based on these higher wages. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost in nominal dollars.

Larger increases in the CPI cause earnings and income to increase sooner, and thus by more in each year, than benefits and cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Initially (through 2021) the larger percentage increase in CPI results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2021, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because program income begins to fall well below program cost, and thus the larger percentage increases in CPI eventually produce smaller nominal-dollar increases in income than in program cost.

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



The three patterns of the present values shown in Chart 9A are similar. After generally increasing for a few years, present values decrease rapidly until around 2030 before beginning to increase once again. They remain positive through 2016 (2017 for an assumed ultimate annual increase in the CPI of 3.8 percent) and are negative thereafter. Present values begin to increase (become less negative) in 2036 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

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

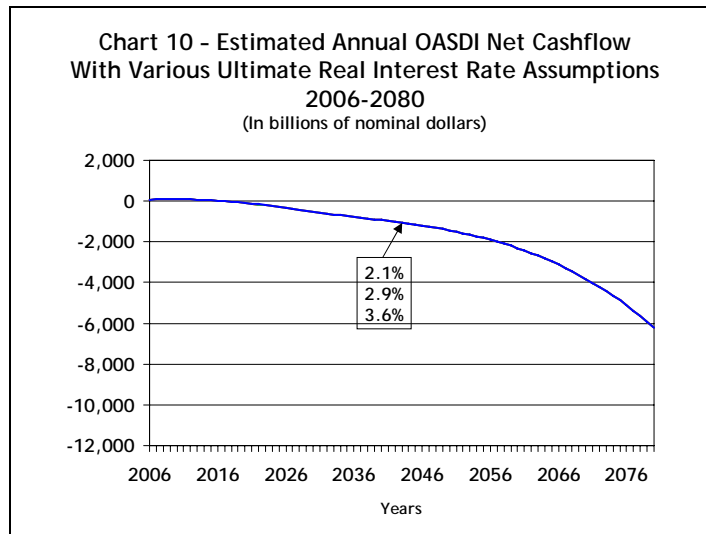
Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9 and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2006 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$9,034 billion, from \$6,449 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to \$4,850 billion.

**Table 6: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Real-Interest Assumptions
Valuation Period: 2006-2080**

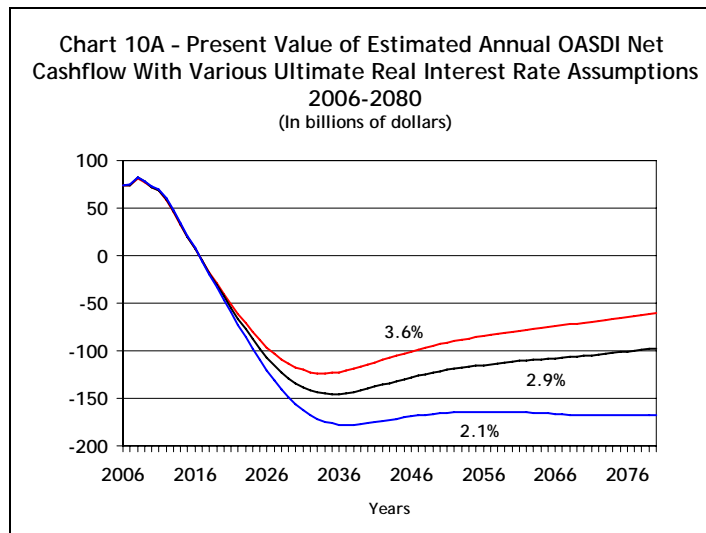
Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-\$9,034	-\$6,449	-\$4,850

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



The three patterns of estimated annual OASDI net cashflow (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2008, the net cashflow estimates decrease steadily through 2080. They remain positive through 2016 and are negative thereafter.

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



The three patterns of the present values shown in Chart 10A are similar. After increasing for 2 years, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2038, 2036 and 2035 for assumed ultimate real interest rates of 2.1, 2.9 and 3.6 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.1 percent, the present values continue increasing temporarily, through 2055, then decrease through 2073, and increase thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Chart 10A shows a crossover in the patterns of the present values of the net cashflow. The crossover occurs at the time the net cashflow changes from positive to negative, which happens in 2017. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.

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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.



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

NOV - 6 2006

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.

Other Statutory Information

Anti-Fraud Activities

SSA is committed to improving financial management by preventing fraudulent and improper payments (see the Agency Challenges section and the Improper Payments Information Act of 2002 Detailed Report in the Appendix 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 Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) and Supplemental Security Income (SSI) benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

Entitlement Reviews

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

Disability Quality Assurance Reviews

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

Quality Assurance Review					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
% of accurate decisions to allow or continue benefits by State DDSs	96.3%	96.2%	96.4%	96.3%	96.3%
No. of cases reviewed	39,188	39,066	40,323	37,101	35,433
No. of cases returned to DDS due to error or inadequate documentation	1,455	1,499	1,454	1,389	1,326

SSA also performs preeffectuation reviews of favorable DDS initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. SSA also reviews a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The table on the following page shows that 96 percent of the decisions made on preeffectuation reviews are accurate.

Preeffectuation Reviews					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
% of State DDS decisions not returned to DDS due to error or inadequate documentation	96.3%	96.2%	96.3%	95.9%	96.0%
No. of cases reviewed	310,683	318,505	334,774	328,189	305,226
No. of cases returned to DDS due to error or inadequate documentation	11,186	12,090	12,498	13,338	12,153

Continuing Disability Reviews (CDRs)

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

CDR Performance Accuracy					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Overall Average	95.2%	94.2%	94.7%	94.9%	93.5%
Continuances	95.5%	94.4%	95.0%	95.3%	93.8%
Cessations	93.5%	93.5%	93.0%	93.3%	92.4%

OASI and SSI Quality Assurance Reviews

One of SSA's four Government Performance and Results Act strategic goals is 'to ensure superior stewardship of Social Security programs and resources'. One of the ways in which SSA ensures this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the Performance Section of this report on pages 93-94 and 95-96.

SSI Redeterminations

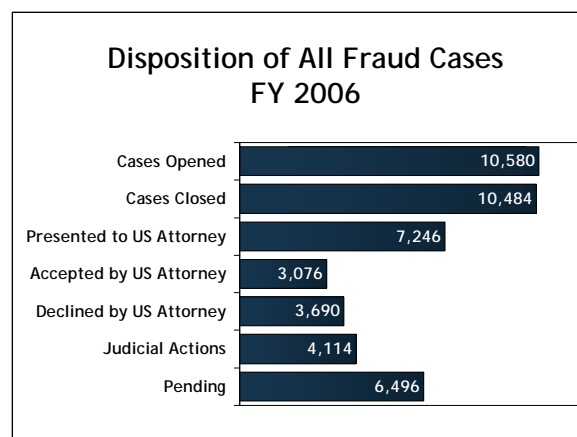
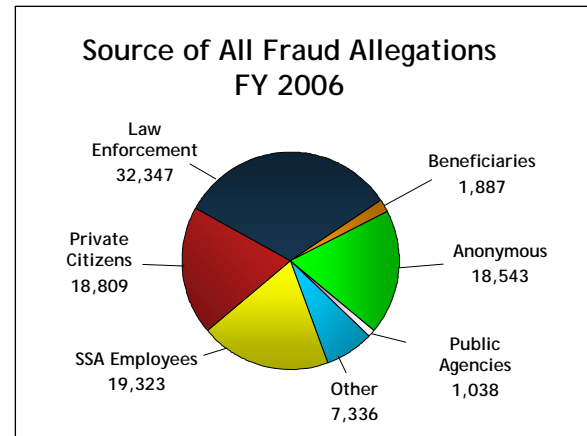
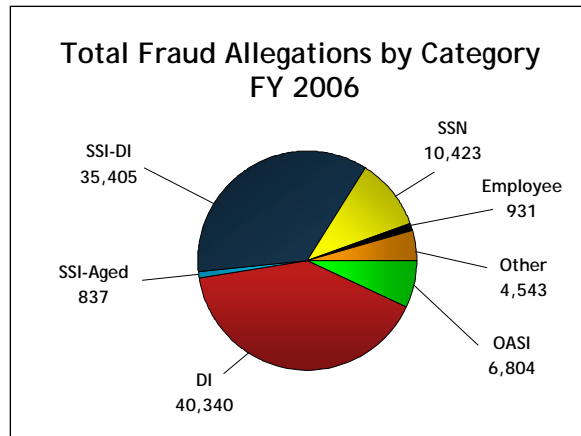
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. SSA set a goal for the number of SSI redeterminations to be processed in FY 2006. Detailed discussion on SSI redetermination performance can be found in the Performance Section of this report on page 91.

Payment Safeguards Activities

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, SSA invested over \$1.1 billion in processing nearly 9.6 million alerts in FY 2005. Current estimates indicate that these payment safeguard activities provided benefits to the trust funds of over \$7.9 billion in overpayments detected and/or prevented. The FY 2006 results of these payment safeguard activities will be available in 2007.

The Office of the Inspector General's (OIG) Anti-Fraud Activities

In FY 2006, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG's involvement in fraud activities throughout the FY.



Biennial Review of User Fee Charges

Summary of Fees

User fee revenues of \$305 and \$290 million in FY 2005 and FY 2006, respectively, accounted for less than 1 percent of SSA's total financing sources. Over 87 percent of user fee revenues are derived from agreements with 23 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2006, SSA charged a fee of \$9.29 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$9.69 for FY 2007. The user fee will be adjusted annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. SSA charges full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

Biennial Review

The Chief Financial Officers Act of 1990 requires biennial reviews by Federal Agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law and periodically adjust these fees to reflect current costs or market value. SSA's review of fees during FY 2006 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. SSA is planning to perform a review of these fees during FY 2008.

Debt Management

During FY 2006, SSA continued its comprehensive debt collection program. SSA employs its own internal debt collection methods, as well as other authorized, aggressive methods which in some cases make use of external entities. SSA's internal debt collection methods include benefit withholding to collect overpayments from monthly benefits when the person is still on the rolls. In FY 2006, SSA collected \$2.3 billion in overpayments by this method. When the person is no longer on the rolls, SSA uses its own billing and follow-up system to collect overpayments. Using that system, SSA sends a series of progressively stronger notices requesting repayment and makes telephone calls to negotiate repayment. The Agency collects several hundred million dollars a year by this method. In addition, SSA used the following aggressive debt collection tools authorized for the Agency:

- Tax Refund Offset which is the collection of a delinquent debt from a Federal tax refund.
- Administrative Offset which is the collection of a delinquent debt from a Federal payment other than a tax refund.
- Mandatory Cross-Program Recovery which is the collection of a former SSI recipient's debt from any Old-Age, Survivors and Disability Insurance (OASDI) benefits due that person.
- Credit Bureau Reporting which acts as an incentive for individuals to repay their delinquent debts, or face the consequences of a bad credit report.
- Administrative Wage Garnishment which is the collection of delinquent debts from the wages of overpaid individuals.
- Non-Entitled Debtors which collects overpayments made to representative payees after the death of the beneficiary.

These tools continue to demonstrate their significance in the collection of delinquent program debt. In FY 2006, SSA surpassed cumulative collections of \$1.1 billion as a result of the use of tax refund offset and administrative offset since 1992. In FY 2006 alone, SSA collected over \$118 million as a result of the Treasury Offset Program. Since implementation of mandatory cross program recovery in February 2002, SSA has collected over \$274 million by that method.

In FY 2006, SSA also expanded the administrative wage garnishment (AWG) initiative. AWG is a process that provides for collection of delinquent OASDI and SSI debts from wages of people working in the private sector. The initial implementation of AWG in FY 2005 targeted only newly delinquent debtors. The expanded AWG initiative includes existing debtors not previously notified of wage garnishment. This collection technique promises to be a significant addition to SSA's debt collection program. We estimate that AWG will yield \$105 million in debt collections over a 5-year period.

Federal Salary Offset (FSO) was also implemented in FY 2006. FSO is a delinquent debt collection tool that is authorized by the Debt Collection Improvement Act of 1996 for OASDI debts and the Foster Care Independence

Act of 1999 for SSI debts. It will be used to collect delinquent overpayments owed by Federal employees, including employees who work for SSA. FSO is estimated to provide approximately \$2.5 million in savings from 2006 - 2010.

SSA implemented Non-Entitled Debtors (NED) in FY 2006. NED is a system that manages overpayments and other debts owed by individuals who are not entitled to OASDI benefits or SSI payments. The NED initiative is being developed in a series of releases, each targeting a different group of debts. The initial phase of the NED system, implemented in November 2005, controls prospective overpayments made to representative payees after the death of Title II beneficiaries.

Future plans include further expansion of the NED program as well as an assessment of the feasibility of utilizing additional debt collection tools such as administrative fees, interest charging/penalties and private collection agencies.

In addition, SSA continues to use the system developed in FY 2002 to analyze and monitor its debt portfolio. The system is instrumental in creating and tracking a performance measure for debt collection. This measure is the percent of outstanding OASDI and SSI debt that is scheduled for collection by benefit withholding or installment payment. SSA recognizes that these performance indicators can be improved by focusing overpayment recovery efforts on those overpayments most likely to result in collections. SSA has underway a series of initiatives that will prioritize the overpayments that are not in a collection arrangement based on their potential for collection. This is expected to lead to an increase in the rate of collection and more efficient use of available resources.

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

SSA Debt Management Activities					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total debt outstanding end of FY (millions)	\$12,531.0	\$13,418.4	\$12,260.2	\$13,154.8	\$13,662.3
% of outstanding debt					
- Delinquent	16.5%	18.9%	20.3%	21.8%	23.9%
- Estimated to be uncollectible	18.9%	21.1%	24.6%	24.2%	24.4%
New debt as a % of benefit outlays	0.9%	0.8%	0.8%	0.8%	0.9%
% of debt collected	18.5%	17.2%	18.3%	18.5%	20.2%
Cost to collect \$1	\$0.11	\$0.10	\$0.09	\$0.09	\$0.08
% change in collections from prior FY	1.5%	(0.3%)	(2.5%)	9.5%	13.4%
% change in delinquencies from prior FY	94.4% ¹	22.4%	(2.1%)	15.3%	13.9%
Collections & write-offs as a % of Total Debt	21.0%	19.4%	18.0%	19.3%	21.2%
Collections as a % of clearances	70.8%	71.5%	71.6%	74.3%	71.1%
Total write-offs of debt (in millions)	\$954.0	\$918.7	\$892.7	\$841.8	\$1,123.6
Average number of months to clear receivables:					
- OASI	14	18	22	20	18
- DI	34	33	38	30	29
- SSI	26	52	47	42	43

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

FY 2006 Quarterly Debt Management Activities (In Millions)

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Total receivables (cumulative)	\$13,747.9	\$13,479.7	13,641.9	\$13,662.3
Total collections (cumulative)	(649.4)	(1,300.4)	(2,011.2)	(2,817.2)
Total write-offs (cumulative)	(205.2)	(462.6)	(732.3)	(1,123.6)
TOP collections (cumulative)	(2.1)	(46.4)	(73.9)	(73.7)
Aging schedule of delinquent debts:				
- 180 days or less	839.0	948.6	992.0	1,018.7
- 181 days to 10 years	1,865.2	2,099.0	2,029.0	2,181.1
- Over 10 years	<u>39.8</u>	<u>49.4</u>	<u>52.0</u>	<u>63.1</u>
- Total delinquent debt	\$2,744.0	\$3,097.0	\$3,073.0	\$3,262.9

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APPENDIX



Improper Payments Information Act of 2002 Detailed Report

Background

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

Statistical Sampling

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

Risk-Susceptible Program

The SSI program has been identified as susceptible to significant improper payments; i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million. (See Table 1.) SSI's estimated improper payments are expressed separately in terms of overpayments and underpayments. For FY 2005, improper payments resulting in overpayments totaled \$2.5 billion or 6.4 percent of outlays. Improper payments resulting in underpayments totaled \$528 million representing 1.4 percent of total outlays. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements to those programs and activities listed in the former Section 57 of OMB Circular A-11.

Since the OMB guidance on IPIA requires the evaluation of all payment outlays; e.g., beyond the OASI, DI and SSI programs that SSA administers, for the third consecutive year SSA performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments.

Improper Payment Rates and Target Goals

The improper payment rates for the OASI, DI and SSI programs for fiscal years (FYs) FY 2003, 2004 and 2005 are presented in Table 1. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid. Target goals for FYs 2006, 2007, 2008 and 2009 for the OASDI and SSI programs are presented in Table 2. Estimated improper payment rates for FY 2006 will be available in June 2007. In the SSI program, SSA established an ambitious 5-year goal to achieve

96 percent overpayment accuracy by FY 2008 and to maintain that rate in FY 2009. In the OASDI program, SSA's goal is to maintain overpayment accuracy at 99.8 percent for both overpayments and underpayments.

**Table 1: Improper Payments Experience FY 2003 - FY 2005
(\$ in millions)**

	FY 2003		FY 2004		FY 2005	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Payments	\$396,700	100%	\$415,100	100%	\$430,400	100%
Underpayments	\$203	0.05%	\$535	0.13%	\$507	0.11%
Overpayments	\$173	0.04%	\$1,286	0.33%	\$210	0.05%
DI						
Total Payments	\$69,800	100%	\$78,200	100%	\$83,800	100%
Underpayments	\$280	0.40%	\$564	0.72%	\$473	0.56%
Overpayments	\$1,051	1.51%	\$1,296	1.70%	\$2,100	2.50%
OASDI						
Total Payments	\$466,500	100%	\$493,300	100%	\$514,200	100%
Underpayments	\$483	0.10%	\$1,099	0.21%	\$980	0.19%
Overpayments	\$1,224	0.24%	\$2,582	0.53%	\$2,300	0.45%
SSI						
Total Payments	\$35,706	100%	\$37,470	100%	\$39,068	100%
Underpayments	\$444	1.2%	\$504	1.3%	\$528	1.4%
Overpayments	\$2,195	6.1%	\$2,406	6.4%	\$2,500	6.4%

Notes:

1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2003, +0.04% and -0.02% for underpayments and +0.04% and -0.12% for overpayments; for FY 2004, ±0.11% for underpayments and +0.32% and -0.34% for overpayments and for FY 2005, +0.13% and -0.11% for underpayments and +0.06% and -0.04% for overpayments.
3. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2003, +0.39% and -0.51% for underpayments and +1.50% and -2.39% for overpayments; for FY 2004, +0.68% and -0.69% for underpayments and +1.53% and -1.54% for overpayments and for FY 2005, +0.64% and -0.56% for underpayments and +1.81% and -1.82% for overpayments.
4. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2003, ±0.3% for underpayments and ±1.0% for overpayments; for FY 2004, ±0.3% for underpayments and ±0.7% for overpayments and for FY 2005, ± 0.3% for underpayments and ± 0.9% for overpayments.

**Table 2: Improper Payments Reduction Outlook FY 2006 - FY 2009
(\$ in millions)**

	2006 target		2007 target		2008 target		2009 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI								
Total Payments	\$544,511	100%	\$575,933	100%	\$605,759	100%	\$638,499	100%
Underpayments	\$1,089	0.2%	\$1,152	0.2%	\$1,212	0.2%	\$1,277	0.2%
Overpayments	\$1,089	0.2%	\$1,152	0.2%	\$1,212	0.2%	\$1,277	0.2%
SSI								
Total Payments	\$41,773	100%	\$44,925	100%	\$46,691	100%	\$48,585	100%
Underpayments	\$501	1.2%	\$539	1.2%	\$560	1.2%	\$583	1.2%
Overpayments	\$1,921	4.6%	\$1,932	4.3%	\$1,868	4.0%	\$1,943	4.0%

Notes:

1. SSA does not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2006 data will not be available until June 2007; therefore, the rates shown are targets (goals).
3. The FYs 2006, 2008 and 2009 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2007 Budget. The projections for FY 2007 are adjusted (from those presented in the Mid-Session Review) for the fact that there are only 11 payment days in that year, yet the quality review is not affected by payment days, but rather by entitlement months.

Improper Payments in the OASI program

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years (FYs 2001-2005), a total of over \$1.9 trillion was paid to OASI beneficiaries. Of that total, \$2.2 billion was overpaid, representing 0.1 percent of outlays. Underpayments during this same period totaled \$2.1 billion, the equivalent of 0.1 percent of outlays.

Improper Payments in the DI program

Over the last 5 years, (FY's 2001-2005), a total of over \$354.2 billion was paid to DI beneficiaries. Of that total, \$5.2 billion was overpaid, representing 1.5 percent of outlays. Underpayments during this same period totaled \$1.7 billion, the equivalent of 0.5 percent of outlays.

Major Causes of OASDI Improper Payments

Major causes of improper overpayments in the OASDI program over this 5-year period are listed below (followed by a detailed description under the Corrective Actions section) and account for nearly 80 percent of the improper overpayments identified.

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

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

- Computations
- Age/Date of Birth
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, SSA's annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments.

Corrective Actions

SGA: Errors attributed to SGA accounted for almost 57 percent of all OASDI overpayment deficiency dollars for the last 5 FYs (2001-2005). The process for making SGA determinations has inherent delays that contribute to the magnitude of the overpayments. Almost three quarters of the deficiency dollars associated with SGA are due to the beneficiary's failure to report that he/she is working. The remaining one-quarter of the deficiency dollars is associated with cases where SSA receives notice of work activity but fails to take appropriate action to adjust payment.

The Continuing Disability Review Enforcement Operation (CDREO) process is designed to alert Title II and concurrent Title II/Title XVI claims with potentially uninvestigated substantial earnings after disability onset. However, these alerts are dependent upon the earnings posting operation, which lags well behind when wages are actually earned. In addition, some alerts are generated which result in no change to the worker's benefits because the work is determined not to be SGA due to special work accommodations or other factors. These alerts receive the same priority as those with a higher likelihood of resulting in an SGA and attention to these alerts delay timely action on alerts that do require adjudicative action.

SSA has developed software that tracks the disposition of overpayments over time beginning with when they are detected. This software separates overpayments by dollar ranges and can be used to isolate debts based on a variety of other factors, such as the age of the beneficiary or type of disability. To better understand the problems with processing SGA cases, SSA has analyzed several hundred recently established overpayments. One objective is to develop a method which differentiates overpayments that reflect significant problems from those that appear to be less problematic. We anticipate that SSA's review of the CDREO alert process will produce a comprehensive picture of how SGA affects benefits and include recommendations for prioritization of alerts and/or the elimination of certain types of alerts that are no longer needed.

SSA has also implemented a new tool that should help improve timeliness and accuracy in processing DI work-related Continuing Disability Review (CDR) cases. eWork, which was implemented in FY 2005, provides managers with an automated tool for monitoring the CDR workload which aides in ensuring that these cases are prioritized for timely processing. Previously, problems with work CDR determinations were enhanced due to the use of multiple local area network-based systems to manage the work CDR process. In addition to being a tool for managers, eWork allows SSA staff to process and record work activity in a single national web-based database.

In addition, the Office of Child Support and Enforcement (OCSE) database of new hires should be useful to SSA in identifying unreported work that affects DI benefits. The identification of unreported wages from a match with the OCSE database would be timelier than the current annual earnings reporting/processing operation. SSA concluded a computer matching agreement with OCSE in December 2005 that permits a matching operation. SSA is in the process of finalizing a pilot study methodology, and a pilot study is expected to be underway during the first quarter of FY 2007.

Death Notification: Timely and accurate death data enables SSA to better effectively administer programs and increase prevention of incorrect payments. SSA is working with State governments and other jurisdictions to improve the current death registration process. The most efficient manner to improve timeliness and accuracy of State data is by using an Electronic Death Registration (EDR) system; a web-based automation of the death registration process. EDR electronically links the participants in death registration and contains an online real-time Social Security Number (SSN) verification process. SSA's goal is to receive verified death report within 5 days of death and within 24 hours of the report's receipt in the State repository. EDR helps improve the accuracy of the death master file that we share with other Federal agencies. SSA currently receives death data via EDR from 14 States, New York City, and the District of Columbia. Fifteen States are in the process of implementing EDR. The Agency has awarded funding to nine additional States in FY 2006.

Computations: In past years, SSA implemented a series of initiatives to correct computation errors in benefit payments that had accumulated. They were related to the improper handling of additional earnings by entitled beneficiaries and the failure to convert recipients to higher benefits timely. To prevent continued occurrences of these errors, SSA is in the process of developing automated capabilities that will prevent, identify and correct these situations.

Relationship/Dependency: In the relationship/dependency area, SSA has redesigned its student verification process. Starting in March 2001 for students born June 2, 1983 or later, SSA verifies a student's school attendance information by obtaining a school official's certification before awarding benefits. The student must leave a reporting form with the school, and then SSA requests the school, as well as the student, to advise SSA of changes in the student's school attendance that could affect the student's entitlement to benefits.

Wages/SEI: Wages or self-employment errors result when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. SSA added language to the improved Social Security Statement to remind the public to inform SSA of incorrect earnings postings. Beginning in FY 2000, all workers age 25 or over began receiving their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits. SSA has also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled SSA to receive over 181 million (74 percent) W-2s electronically for tax year 2005, exceeding its expectations of 70 percent. For tax year 2006, SSA's goal is to receive 80 percent of all W-2s electronically.

Earnings that remain in suspense after the annual posting cycle are wage or self-employment earnings that are not matched to an earnings record after all routine matching operations are complete. SSA is working to develop highly automated processes and system prototypes to:

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

SSA has initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. These new processes have removed about 11 million wage items from the earnings suspense file. SSA also expects this re-examination process will produce information that will help the Agency to better manage the suspense file.

To further improve posting of earnings records, in June 2005 SSA implemented the Social Security Number Verification Service (SSNVS). SSNVS allows registered employers or their third party representatives to verify the names and SSN's of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSN's per screen with immediate results or upload a file with up to 250,000 names and SSN's with

the results available the next business day. Since its implementation, 3,600 businesses have used SSNVS to verify 46.9 million SSNs.

The first phase of the Earnings Alert Project, which addresses the earnings problems prospectively, was implemented in July 2006. This phase is designed to automate the earnings review of Internet claims and extend the automation of the review criteria to all initial claims. Past analysis has shown that the Internet review criteria is effective in identifying earnings record inaccuracies and will effectively identify the source of the inconsistency. In addition, the revisions will eliminate an estimated 50 percent of the nonproductive alert reviews.

The new Earnings Alert System also includes several new military service alerts. Prior SSA reviews have shown that the highest proportion of military service reporting errors occurs because of failure to develop for all periods of military service and/or resolve conflicting military service information. This usually involves military service for the 1957 through 1967 period. Errors often occur because the adjudicator fails to develop for active duty training for reserve service.

WC: SSA is giving high priority to correcting workers' compensation (WC) errors. Some people who receive Social Security disability benefits also receive Federal or State workers' compensation payments. When a person is eligible to receive both types of payments, State law may impose a limit on the total amount the person can receive each month. When that occurs, SSA withholds a portion of the person's Social Security disability payments. Since there is no automated verification of WC payments, SSA relies mainly on individual disclosure of WC payments and changes. Since these reports are typically not timely, if given at all, some of these individuals have been paid incorrect amounts of Social Security disability benefits while others had been underpaid since their WC had stopped and their SSA benefit amount had not been increased accordingly. Errors related to improper imposition of WC offset provisions is the second leading causes of OASDI underpayment errors for the last five fiscal years.

SSA's Operations staff reworked more than 112,000 cases in FY 2002 where the beneficiary was in WC offset at the time the processing problems with WC were identified. In FY 2003, the cleanup effort was expanded to include reworking more than 200,000 WC cases where WC offset was removed to ensure correct handling of these cases. These cases were to be worked over a 5-year period starting in FY 2003 and ending in FY 2007. However, in FY 2005, SSA placed a hold on the reworking of the cases where there is no longer an offset being imposed and instead is reviewing 14,000 of the original cases reworked in FY 2002 to use new interactive computation facilities. This review is to ensure these cases were computed correctly and documented properly. Information from this review will be used to establish any prospective development and processing changes. We are also continuing to pursue possible data exchange agreements with entities that have WC data available, such as the Centers for Medicare and Medicaid Services and other organizations that work with private and State insurance companies.

A recent OIG audit concluded that SSA's modernized claims software provided a number of enhancements to streamline the processing of Workers' Compensation claims by SSA staff. Release 3 of the modernized software accurately computed and processed the beneficiaries' offset amounts for each case tested. Our goal is to automate as much of the WC workload process as possible.

Dual Entitlement: SSA has also improved its process for ensuring SSI recipients file for benefits in the OASDI program. One of the conditions for SSI eligibility is that individuals file for any other benefits that they may be eligible to receive. SSA has identified nearly a half-million SSI disability recipients, current and former, who are potentially eligible for OASDI payments after earning sufficient work credits to qualify for the Disability Insurance program while receiving SSI benefits. To keep this from happening in the future, we have rewritten computer programs and retrained technical employees to identify eligibility as it occurs. Enhancements will be implemented in November 2006 and throughout FY 2007.

Improper Payments in the SSI program

To better track the causes of improper payments in the SSI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years, (FY's 2001-2005), a total of over \$179 billion was paid to SSI recipients. Of that total, \$11.5 billion was overpaid,

representing 6.5 percent of outlays. Underpayments during this same period totaled \$2.3 billion, the equivalent of 1.3 percent of outlays.

Major Causes of SSI Improper Payments

For the 5-year period, FY 2001-2005, the major causes of improper overpayments in the SSI program (a more detailed description is below under the Corrective Actions section) were:

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

Each of these causes individually exceeded the sum of the next three overpayment categories.

The major causes of underpayments in the SSI program for the same period (followed by a detailed description under the Corrective Actions section) were:

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

Corrective Actions

For the entire 5-year period, 75 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim or redetermination.

Financial Accounts: For the 5-year period, financial accounts were the leading cause of overpayment improper payments, accounting for about 19 percent of the total. For FY 2005, financial account overpayment deficiencies project to \$503 million.

Financial account deficiencies occur when financial accounts owned by the recipient or deemor (parent or spouse of an eligible individual) exceed the resource limit and the recipient becomes ineligible for SSI payments. For each year in the 5-year period, the primary cause of these errors was the failure of the recipient or representative payee to advise the Agency of the existence of a financial account or an increase in the amount of an account.

Each year, the majority of improper payments in this category were attributed to changes that occurred subsequent to an initial claim or after completion of the last redetermination. That is, these improper payments developed after the Agency had been in contact with the recipient. Over the 5-year period, 80 percent of the improper payments in this category fit this description.

The Foster Care Independence Act of 1999 gives the Commissioner the authority to require SSI applicants and recipients to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that exercised the Commissioner's authority to require the authorization that will set the stage to allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination.

In February 2005, Social Security initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering of this study concluded in FY 2005. A report of findings from the Access to Financial Institutions pilot study is expected to be released by November 2006. Using the findings from a sample of initial claims and redeterminations processed by New York and New Jersey field offices, the report presents an estimate of the potential benefits and costs associated with a full national roll out of the Accuity's automated financial account verification system. This study has established the value of verifying accounts with financial

institutions. However, in the current budget climate the needed resources are not available to support the work that would flow from a national rollout. The report will recommend development of an extended test in another geographic location on a portion of the SSI workload. This extended test would need to be designed to be achievable within expected budgetary levels.

Wages: Wages have been the leading deficiency type for overpayment improper payments in 3 of the last 5 years and the second leading deficiency type over the last 5 combined years. They accounted for about 17 percent of total overpayment improper payments during the 5-year period. The major factor (89 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate timely report of new or increased wages for the recipient or deemor.

In 2006, SSA formed a national workgroup to develop a comprehensive strategy to maximize SSI wage reporting nationwide, while minimizing the resource impact through automation and policy efficiencies. Components of the strategy are expected to include policy changes to support expansion of a dedicated 800 number to report wages, creation of a national resource website for wage reporting, and other innovations.

In a related effort to achieve more timely and accurate reporting of wages, SSA has completed a test to determine the feasibility of implementing large scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, SSA has tested whether SSI recipients (or their representatives, parents or spouses, where deemed wages affect benefit payments) would report wages, monthly, using this new technique. The key issues were the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period. The results of this test were evaluated and SSA decided to conduct a second pilot to test a more user-friendly knowledge-based authentication process rather than the PIN/password process used in the first pilot. Reporters had difficulty navigating the PIN/password process. Results of the second pilot will determine whether to proceed with implementing wage reporting using touch-tone and voice recognition telephone technology. Timely and accurate reporting on this issue offers the opportunity to prevent substantial amounts of SSI wage overpayments, which accounted for \$416 million in overpayment deficiencies in FY 2005.

Effective January 2001, SSA began using online queries to access the Office of Child Support Enforcement's (OCSE) quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. But even these data are at least 4 months old when accessed. In an effort to learn more quickly about unreported work, SSA undertook a pilot match study that explored the feasibility and usefulness of a quarterly match with the "new hires" file from OCSE. The study began in August 2005 and the data collection phase of the study has concluded. A report of findings is expected by November 2006.

Wages have been the leading cause of underpayment improper payments in 4 of the last 5 years, accounting for about 27 percent of total underpayment improper payments during the 5-year period. The major factor (77 percent) in wage underpayment improper payments was the failure of recipients/representative payees to report a decrease or termination in wages for the recipient or deemor.

Over the 5-year period, wages earned by deemors accounted for 61 percent of underpayment improper payments and wages earned by recipients accounted for 39 percent of underpayment improper payments.

For the 5-year reporting period, wage fluctuations accounted for 81 percent of underpayment wage improper payments. The remaining improper payments resulted because recipients/representative payees failed to report a reduction or termination of wages, or because of miscellaneous reasons; e.g., wages were deemed that should not have been deemed.

For the entire 5-year reporting period, 83 percent of the wage underpayment improper payments were caused by a change that occurred after the last redetermination (70 percent) or after an initial claim (13 percent).

Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

Living Arrangements: Living arrangements were the second leading cause of underpayment improper payments for 4 of the last 5 years, and the leading category in FY 2002. It refers to people who should have been paid based on “living in own household”; e.g., home ownership, rental liability, paying pro rata share of household expenses, but were paid based on another living arrangements. Over the 5 years, this deficiency primarily occurred (78 percent) when the recipient/representative payee failed to provide an accurate timely report showing that the value of the one-third reduction (the reduction factor when a recipient is not paying his or her full share of the household expenses) no longer applied. Overall, recipients and representatives were responsible for the vast majority of underpaid dollars (80 percent) in this category because they initially provided an incomplete or inaccurate report or failed to report a change. For each year in the 5-year period, over one-half of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination. Only 5 percent of the total underpayment improper payments resulted when the recipient changed a contribution after receipt of the first SSI payment.

In-kind Support and Maintenance (ISM): ISM deficiencies were the third leading cause of underpayment error dollars over the last 5 years. The primary cause of ISM underpayment improper payments for the 5-year period was when the recipient was no longer receiving ISM yet it continued to be figured into the payment calculation (82 percent). This occurred because recipients/representative payees failed to report changes or made an incomplete/inaccurate report (73 percent) and because field offices inaccurately processed cases (19 percent). The remainder occurred because of administrative tolerances or mail-in redeterminations that did not solicit information to identify the change in ISM. For the 5-year period, over one-half of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination.

On February 7, 2005, SSA issued regulations to simplify the SSI exclusions for automobiles and household goods and personal effects, and to simplify the counting of ISM by eliminating clothing from consideration. These changes simplify several SSI rules and make them less cumbersome to administer and easier for the public to understand.

The redetermination process is one of the most powerful tools available to SSA for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when the Agency is not in contact with the individual. Clearly, more frequent redeterminations will result in reductions in the level of improper payments.

Medical Aspects of the DI and SSI programs

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

The actual allowance and denial accuracy rates for FYs 2004 and 2005 are presented in Table 3. These rates are determined by SSA's quality assurance review of initial claims. In compliance with Section 221(a) of the Social Security Act, SSA reviews samples from each State to determine whether the DDS is in compliance with Federal policy and procedural requirements. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, SSA established a combined allowance and denial goal for net accuracy. The goal for FY 2006 is 97 percent. FY 2006 data will be available in January 2007.

Table 3: DDS Initial Claim Net Accuracy

Initial Claim Net Accuracy	FY 2004	FY 2005
Allowance	98.2%	98.0%
Denial	95.4%	95.3%
Combined	96.4%	96.3%

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

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected. For FY 2005, the Actuary has produced estimates that PER saved \$720 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 14:1.

SSA’s budget now includes an extension of the PER review of favorable adult disability decisions to the SSI program. This initiative supports the President’s management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this initiative.

Improper Payments for Administrative Outlays

An evaluation was conducted of SSA’s FY 2005 administrative payments and they were determined not to be susceptible to significant improper payments. In FY 2005, SSA outlaid \$10,201 million to administer the OASI, DI and SSI programs. These costs largely consisted of payroll and benefits but also included payments to State agencies for the DDS.

Risk Assessment

To better facilitate the risk assessment process, SSA segmented administrative payments into several categories. These categories were used to analyze and determine SSA’s vulnerability to improper payments.

**Table 4: FY 2005 Administrative Expenses
(\$ in millions)**

Payroll and Benefits	\$5,138
State DDS	\$1,776
Other Administrative Expenses*	\$3,287
Total Administrative Payments	\$10,201
Notes:	
*Other Administrative Payments includes Travel, Transportation, Rents, Communications & Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land & Structure, Grants, Subsidies, & Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.	

Using OMB guidelines, SSA conducted a risk assessment on each of the categories listed in Table 4 above. The payment categories were reviewed and any identified improper payments were assessed versus the entire payment category. The result of this analysis showed that SSA’s administrative payments were not susceptible to significant improper payments.

Also considered as part of the risk assessment were:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive edits inherent in SSA's administrative payment systems; and
- The strong internal control structure SSA has in place to prevent, detect, and recover improper administrative payments.

Based on the results of the overall risk assessment, the Agency determined that SSA's administrative payments do not meet the criteria for further reporting to Congress or OMB based on the OMB-issued guidance.

Recovery Audit Program

Section 831 of the Defense Authorization Act for FY 2002 added a subchapter to the U.S. Code (31 USC 3561-3567) that requires agencies that enter into contracts with a total value in excess of \$500 million in a FY to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

OMB guidance states that Agencies shall have a cost effective program of internal control to prevent, detect, and recover overpayments to contractors resulting from payment errors. To comply with this guidance and support the evaluation that administrative payments are not susceptible to significant improper payments, SSA has established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer assisted auditing techniques are utilized to identify possible duplicate payments. SSA has a program in place to review utility bills to ensure that we are being charged the proper negotiated energy rates and that the Agency is not being improperly taxed. SSA also has a plan in place to identify, limit and recover improper billings by telecommunication vendors to ensure that we are being billed for the proper number of lines, proper contract rates, proper taxation and accurately billed for long distance service. SSA's in-house recovery audit program employs an automated query system to identify payments made to the same vendor, with the same invoice date and for the same amount to help identify payments which represent a higher risk of being double payments. Results from our in-house recovery audit program and quality review process continue to confirm that Administrative Payments are well below the threshold established for reporting improper payments. These results further validate SSA's existing controls for the prevention, detection, and collection of improper payments. Results from the recovery audit program continue to reinforce our internal control structure, thus demonstrating our commitment to the President's Management Agenda.

Program Scope

The recovery audit program scope included a review of administrative contractor payments for FY 2005 totaling \$1.4 billion. Of that amount, about .01 percent or \$178,199 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments.

The Agency has elected to exclude the following classes of contracts from the scope of the recovery audit:

- Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and condition of the contract.
- Cost-type contracts that were completed, subjected to final contract audit and, prior to final payment of the contractor's final voucher, all prior interim payments made under the contract were accounted for and reconciled.

**Table 5: FY 2005 Recovery Auditing Results
(\$ in millions)**

Agency Component	Amount subject to Review for FY 2006 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amounts Identified/Actual Amount Reviewed	Amounts recovered Current Year	Amounts recovered Prior Year(s)
Administrative Expenses	\$1,360	\$96	\$.178	.19%	\$.178	\$.018

Accountability for Improper Payments

In June 2002, SSA released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased overpayment detection and prevention, new measurement strategies, potential changes in SSI policies and Agency accountability. We are extremely pleased that the Government Accountability Office (GAO) removed the SSI program from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA's progress to improve the management of the program. We are continuing our efforts to improve our management of the SSI program across three fronts – improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To achieve these goals, SSA executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. Progress is monitored at regular meetings with SSA executives.

Agency Information Systems to Reduce Improper Payments

Background

In the SSI Corrective Action Plan discussed above, the Agency has identified a number of information technology (IT) initiatives to meet the 5-year goal to achieve 96 percent overpayment accuracy by FY 2008. The goal for FY 2009 will remain 96 percent. SSA has a formal process to plan and execute IT projects and the IT budget. The Information Technology Advisory Board (ITAB) is an executive body offering advice to the Agency's Chief Information Officer (CIO) on areas of Capital Planning and Investment Capital (CPIC). The ITAB is comprised of the CIO, Deputy Commissioner for SSA, all Deputy Commissioners and other executive staff.

As part of the CPIC environment, IT plans outlining Office of Systems IT initiatives are reviewed and approved by the ITAB prior to the beginning of the fiscal year. These IT plans become the blueprint for the developmental and maintenance activity within the Office of Systems.

On a quarterly basis, the ITAB reviews the progress of each IT plan and the agreed capital investments. Major investments are assessed at key decision points to ensure they are well founded, are achieved within the approved cost and schedule, and provide expected benefits. They may be redirected or terminated when necessary. These activities are key to SSA's capital investment and control process.

IT Strategy

Starting in FY 2005, the "clusters" of IT projects were replaced with Strategic Objective (SO) Portfolios. These SO Portfolios are based on SSA's nine Strategic Objectives as defined in the Agency Strategic Plan. There are also two additional portfolios not corresponding to an Agency Strategic Objective: one for Infrastructure and one for Legislation. The majority of improper payment IT initiatives fall within two SO portfolios: 1) Improper payments; and 2) Manage finances.

Provided the Agency develops the IT initiatives identified to improve preventing, detecting and collecting improper payments and is given the resources to do so, SSA will be in a better position to achieve its goal to have 96 percent SSI payment accuracy by FY 2008. The President's FY 2007 budget for SSA is \$9,496 billion for Limitation on Administrative Expenses (LAE), an increase of \$387 million in discretionary budget authority over SSA's FY 2006

appropriation. With the President's FY 2007 budget, SSA will continue to improve the disability program through automation and process improvements; maintain service in the face of growing workloads; increase SSA's overall productivity; and improve administration of the nation's retirement, survivors, and disability programs. The budget supports SSA's efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include investments in continuing disability reviews and SSI non-disability redeterminations, as well as the use of computer matches to identify and prevent overpayments. Through these activities, SSA can ensure the ongoing stewardship of our programs."

Statutory and Regulatory Barriers to Reducing Improper Payments

SSA continuously develops legislative proposals to improve administration of the OASI, DI and SSI programs. For example, SSA will be asking Congress to consider amendments to the OASI, DI and SSI programs in support of the President's FY 2007 budget. One of the proposals would simplify administration of the DI program by modifying the rules for computing the reduction under the workers' compensation (WC) offset provision. (Receipt of workers' compensation payments often results in a reduction in the benefits payable to a disabled worker and the worker's entitled family members.)

WC Offset Simplification Proposal: Simplifying the DI program reduces improper payments. One of the proposals in the President's budget would change the amount of the offset to equal a flat percentage (37 percent) of the Social Security DI benefits payable to the disabled worker and the worker's family. In addition, the offset period would be limited to no longer than 5 years from the worker's first month of entitlement to disability benefits.

The current law WC offset provision is a complex aspect of the Social Security DI program, is difficult to administer, and is error-prone in terms of payment accuracy. The provision requires SSA to 1) base the initial offset on an amount equal to 80 percent of the worker's predisability earnings, 2) continually monitor the amount of the ongoing WC payment, 3) apply special rules when adding annual COLAs to the benefit payable and 4) redetermine every three years the amount of the predisability earnings used in the offset. Due to the complexity of the provision, SSA has devoted substantial staff time to reworking cases in which errors were made. This proposal would simplify the administration of the WC offset provision, thus allowing the Social Security Administration to improve its use of administrative resources. These resources could be applied to other pressing workloads at SSA—e.g., the backlog for disability hearings.

Agency Efforts to Collect Overpayments in the OASI, DI and SSI Programs

In FY 2006, SSA collected \$2.3 billion in program debt. The Agency's debt collections are achieved in a variety of ways that have been developed over the years. Collection techniques include SSA's internal methods such as benefit withholding and billing and follow-up. In addition, the Agency uses external collection techniques authorized by the Debt Collection Improvement Act (DCIA) of 1996 for OASDI debts and the Foster Care Independence Act (FCIA) of 1999 for SSI debts. These debt collection tools include the Treasury Offset Program (TOP), credit bureau reporting and administrative wage garnishment (AWG).

SSA's strategy for improving its debt collection program is to focus on the techniques that provide direct collections from revenue sources or that can be easily integrated into existing systems. In keeping with this strategy, SSA has worked steadily over the years to build the strong debt collection program it now employs. Although the Agency has a history of striving for maximum stewardship of the OASI and DI Trust Funds and the General Fund, it launched an expansion of debt collection tools in the early 1990's that continues today. Taking advantage of the legal authorities granted to it in the Omnibus Budget Reconciliation Act of 1990 (for OASDI debts), and the Deficit Reduction Act of 1984 (for SSI debts), SSA began its expansion with the implementation of tax refund offset (TRO) in 1992. The Agency enhanced its TRO program twice in the 1990's and then merged it with TOP in 1998. To date, SSA has collected over \$1.1 billion in delinquent debt via TRO/TOP.

In 1998, SSA began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, the Agency also began reporting those delinquent debts to the credit repositories. Since 1998, the negative consequences of credit bureau reporting have contributed to the voluntary repayment of over \$348 million in delinquent overpayments by people who do not want to submit to the reporting or to other aggressive collection tools such as TOP and AWG.

After receiving the authority to use mandatory cross program recovery, or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, SSA developed and implemented this internal collection method. Since the year 2002, the Agency has collected over \$274.3 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

SSA received additional authority for cross-program recovery in the Social Security Protection Act of 2004. SSA is now able to use mandatory cross-program recovery in situations where cross-program recovery was not previously permitted. SSA started using this new authority in January 2005 to collect SSI overpayments from large OASDI underpayments, even when the individual remains eligible for SSI monthly payments. SSA intends to expand the cross-program recovery program to other situations in the future.

SSA also implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each pay day from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. The first garnishment orders were issued in April 2005 to the employers of OASI, DI and SSI debtors who became delinquent in 2005. SSA expanded its AWG program to all existing delinquent debtors in August 2006.

In November 2005, the Agency also implemented a new system called the Non-Entitled Debtors program, also authorized by the FCIA. This automated system will enable SSA to collect debts owed by people who do not have a master record with the Agency. Debtors such as representative payees who receive overpayments after the death of the beneficiary will be controlled by this system. Work is continuing on the expansion of this system, which will eventually include all types of debtors who are not entitled to benefits.

Federal Salary Offset (FSO), authorized by the DCIA for OASDI debts and the FCIA for SSI debts, was also implemented in FY 2006. FSO is a delinquent debt collection tool that is. It will be used to collect delinquent overpayments owed by Federal employees in most agencies, including employees who work for SSA.

In addition to the preceding improvements, SSA implemented other debt collection techniques of major import. One such improvement is called “Netting,” an automated process implemented in September 2002 to automatically net SSI overpayments against SSI underpayments. Since implementing automatic netting, SSA has prevented over \$378 million in overpayments computed and underpayments paid through September 2006.

SSA also helped other Federal agencies with debt collection by collaborating with Treasury’s Financial Management Service and Internal Revenue Service to develop two collection programs for collecting delinquent non-tax and tax debt: (1) The Benefit Payment Offset program, authorized by the DCIA, collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program, authorized by the Taxpayer Relief Act of 1997, collects delinquent tax debts from Social Security benefits.

Continued improvement in the Agency’s debt collection program is also underway. The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and administrative fees, interest-charging, or indexing a debt to reflect its current value. For additional information, please refer to the Debt Management narrative in the *Other Statutory Information* section of the report.

Glossary of Acronyms

A

ACAPS	Appeals Council Automated Processing System
ACSI	American Customer Satisfaction Index
ADA	Agency Decisional Accuracy
AFGE	American Federation of Government Employees
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
APP	Annual Performance Plan
ASA	Average Speed of Answer
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

B

BA	Benefit Authorizer
BPAO	Benefits Planning, Assistance and Outreach

C

CA	Claims Authorizer
CAR	Cost Analysis Report
CAS	Cost Analysis System
CDI	Cooperative Disability Investigations
CDR	Continuing Disability Review
CDREO	Continuing Disability Review Enforcement Operation
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMS	Centers for Medicare and Medicaid Services
COTS	Commercial Off-The-Shelf
CPI	Consumer Price Index
CPIC	Capital Planning and Investment Capital
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CPMS	Case Processing Management System
CR	Claims Representative
CSRS	Civil Service Retirement System
CY	Calendar Year

D

DCF	Disability Control File
DCIA	Debt Collection Improvement Act
DDS	Disability Determination Services
DDSO	Division of Direct Service Operations
DHHS	Department of Health and Human Services
DHS	Department of Homeland Security
DI	Disability Insurance
DIODS	Disability Operational Data Store
DMS	Debt Management System
DOL	Department of Labor
DOS	Department of State
DOWR	District Office Workload Report
DQB	Disability Quality Branch
DRB	Decision Review Board
DSI	Disability Service Improvement

E

EAB	Enumeration-at-Birth
EaE	Enumeration-at-Entry
eDIB	Electronic Disability
EDR	Electronic Death Registration
EDR	Electronic Death Reporting
EIC	Executive Internal Control
EMIS	Executive and Management Information System
EMODS	Earnings Management Information Operational Data Store
e-RZ	Electronic Redetermination
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
ETS	E-Gov Travel Service
EVS	Employee Verification System

F

FASAB	Federal Accounting Standards Advisory Board
FCIA	Foster Care Independence Act
FECA	Federal Employees' Compensation Act
FedRO	Federal Reviewing Official
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contributions Act
FICA/SECA	Federal Insurance Contributions/Self Employment Contributions Act
FISMA	Federal Information Security Management Act

FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Systems
FO	Field Office
FOSSNER	Field Office Social Security Number Enumeration Report
FSO	Federal Salary Offset
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act of 1993
GS	General Schedule
GSA	General Services Administration

H

HHS	Department of Health and Human Services
HI/SMI	Health Insurance/Supplemental Medical Insurance
HIV/SMI	Human Immunodeficiency Virus/Auto Immune Disorders

I

iCDD	Internet Change of Direct Deposit
ICTU	Immediate Claims Taking Unit
IDA	Independence Day Assessment
iMRC	Internet Medicare Replacement Card
IPIA	Improper Payments Information Act of 2002
IRIB	Internet Retirement Insurance Benefits
IRS	Internal Revenue Service
IRTPA	Intelligence Reform and Terrorism Prevention Act
ISM	In-Kind Support and Maintenance
IT	Information Technology
ITAB	Information Technology Advisory Board
ITOA	Information Technology Operations Assurance
IWMS	Integrated Work Measurement System
IWMS/DOWR	Integrated Work Measurement System/District Office Workload Report

K

KPI	Key Performance Indicator
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L

LAE	Limitation on Administrative Expenses
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M

MAMPSC	Mid-America Program Service Center
MAR	Monthly Activity Reports
MCAS	Managerial Cost Accountability System
MD&A	Management's Discussion and Analysis
MIICR	Management Information Initial Claims Record

N

NDDSS	National Disability Determination Services System
NED	Non-Entitled Debtors

O

OASDI	Old-Age, Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCO	Office of Central Operations
OCSE	Office of Child Support Enforcement
ODAR	Office of Disability Adjudication and Review
OIG	Office of the Inspector General
OIO	Office of International Operations
OMB	Office of Management and Budget
OMVE	Office of Medical and Vocational Expertise
O/P	Overpayment
OQP	Office of Quality Performance
OTR	On-The-Record

P

PABSS	Protection and Advocacy for Beneficiaries of Social Security
PAR	Performance and Accountability Report
PARR	Payroll Analysis and Recap Report
PART	Program Assessment Rating Tool
PE	Post-Eligibility
PER	Pre-Effectuation Review
PMA	President's Management Agenda
PP&E	Property, Plant and Equipment
PPWY	Production Per Workyear
PSC	Program Service Center
PTF	Payments to the Social Security Trust Funds
Pub. L. No.	Public Law Number
PwC	PricewaterhouseCoopers LLP

Q

QA	Quality Assurance
QDD	Quick Disability Determination

R

RC	Regional Commissioner
RO	Regional Office
ROAR	Recovery of Overpayments, Accounting and Reporting System
RRB	Railroad Retirement Board
RRI	Railroad Retirement Interchange
RSDI	Retirement, Survivors and Disability Insurance
RSI	Retirement and Survivors Insurance
RSI	Required Supplementary Information
RZ SDO	Redeterminations Service Delivery Objective

S

SAS 70	Statement of Auditing Standards 70
SBR	Statement of Budgetary Resources
SDW	Special Disability Workload
SECA	Self Employment Contributions Act
SEI	Self Employment Income
SF-133	Budget Execution Reports
SFFAS	Statement of Federal Financial Accounting Standards
SGA	Substantial Gainful Activity
SO	Strategic Objective
SOSI	Statement of Social Insurance
SR	Service Representative
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
SSNVS	Social Security Number Verification Service
SSOARS	Social Security Online Accounting and Reporting System
SSPA	Social Security Protection Act
SSPP	Standardized Security Profile Project
SSR	Supplemental Security Record
ST&E	Security Testing and Control
SUMS	Social Security Unified Measurement System

T

Title II	Social Security
Title XVI	Supplemental Security Income
TOP	Treasury Offset Program

TRO	Tax Refund Offset
TRO/TOP	Tax Refund Offset/Treasury Offset Program
TSC	Teleservice Center
TSR	Teleservice Representative
TST	Technical Support Technician
TY	Tax Year
U	
U/P	Underpayment
USC	United States Code
USCIS	United States Citizenship and Immigration Services
V	
VERN	Verify Update Earnings Screen
VTC	Video Teleconference
W	
W-2s	Wage and Tax Statements
WC	Workers' Compensation
WIPA	Work Incentives Planning Assistance

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