

Office of the Inspector General

A Message from the Inspector General

I am pleased to transmit the opinion on the Social Security Administration's (SSA) Financial Statements for Fiscal Year (FY) 1997 and the Inspector General's Report to the Congress for FY 1997. Under the authority provided by the Government Management Reform Act, SSA is consolidating and streamlining its financial management reporting. As last year, in a cooperative effort with the Agency, we are including these reports as part of SSA's annual Accountability Report. We have expanded the scope of our Semiannual Report to the Congress to include an overview of the entire fiscal year of the Office of the Inspector General's (OIG) efforts in addressing financial and programmatic issues and preventing and detecting fraud, waste, and abuse. The information contained in this report satisfies the semiannual reporting requirements set forth in the Inspector General Act of 1978, as amended.



During the past year, SSA and OIG have continued to solidify a relationship built upon mutual trust, respect, and recognition of the interrelated nature of our roles. We are pleased to note that, as result of OIG reports, SSA's Actuary recently estimated that SSA will save about \$3.4 billion over 7 years, of which an estimated \$480 million will be realized in Calendar Year 1997. These savings are due to SSA's implementation of initiatives resulting from OIG's reports concerning the identification and processing of information regarding prisoners who are receiving benefits. In FY 1997, the Office of Audit issued 54 reports with recommendations that nearly \$700 million could be put to better use. Our criminal investigators, with the participation of SSA employees and other law enforcement agencies, conducted investigative activities that resulted in 2,507 criminal convictions, of which 1,469 were deportations related to Social Security Number fraud, and reported more than \$64 million in fines, judgments, and restitutions. SSA took 828 disciplinary and adverse actions against employees, some of which resulted from OIG investigations and referrals. It is significant to note that our financial achievements well surpassed our total budget authority of \$37,354,000 for FY 1997. OIG employees are also working jointly with SSA staff in a variety of study groups and task forces to ensure that our Agency sets a high standard for Government excellence.

The OIG has the authority to implement SSA's civil monetary penalty authorities for misuse of SSA's symbols and emblems, and for making false statements and representations of material facts to obtain SSA benefits and payments. In September 1997, the first civil monetary penalty settlement was negotiated for \$24,000. The Fraud Hotline, which opened in November 1996, has received a tremendous number of calls, letters, and facsimiles alleging potential fraud against SSA programs. By September 30, 1997, the Hotline had received over 75,000 calls, making it one of the largest Hotlines in the Federal Government. In addition to the calls, the Hotline received on average 3,000 written allegations per month. The Hotline referred to the Agency 18 percent of the allegations for disposition. As a result, SSA was able to recoup approximately \$55,900. To accommodate the overwhelming response to the Hotline, SSA has doubled the resources devoted to the Hotline and my office is evaluating the current operation to make improvements to better serve SSA employees and the public.

I want to thank the Commissioner of Social Security, the SSA senior management team, and Members of Congress and their staffs for their support. In addition, I want to commend the fine work performed by the OIG staff and SSA employees in their efforts to combat fraud, waste, and abuse during this fiscal year. I look forward to continuing our work together to achieve the highest level of integrity and accountability for SSA's programs and operations.

David C. Williams

David C. Williams
Inspector General

Audit of the
Social Security Administration's
Fiscal Year 1997
Financial Statements



To Kenneth S. Apfel
Commissioner of Social Security

This letter transmits the Price Waterhouse LLP report on its audit of the Fiscal Year (FY) 1997 financial statements of the Social Security Administration (SSA) and the results of the Office of the Inspector General's (OIG) review thereon. Price Waterhouse's report contains its opinion on SSA's FY 1997 financial statements, its opinion on management's assertions regarding its internal control structure, its report on compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), and its report on SSA's compliance with laws and regulations.

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by OIG, Price Waterhouse, an independent certified public accounting firm, performed the audit of SSA's FY 1997 financial statements. The FY 1996 financial statements, contained in SSA's *Accountability Report for Fiscal Year 1997* for comparative purposes, were audited by the OIG.

Price Waterhouse issued an unqualified opinion on SSA's FY 1997 financial statements and an unqualified opinion on SSA's assertions relating to the effectiveness of its internal control structure. However, the audit identified five reportable conditions in SSA's internal controls. The control weaknesses identified are:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures;
4. SSA needs to improve controls over insufficient separation of duties; and
5. SSA's quality control activities need improvement.

Price Waterhouse recommended SSA report the first four matters as material internal control weaknesses in its Federal Managers' Financial Integrity Act of 1982 (FMFIA) report.

Price Waterhouse reported that except for the effects of the reportable conditions listed above, SSA was in compliance with FFMIA.

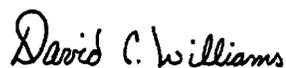
Price Waterhouse also reported instances of noncompliance with 1) Section 221(I) of the Social Security Act, which requires periodic continuing disability reviews for title II beneficiaries, and 2) FFMIA for the first four weaknesses listed above.

OIG Evaluation of Price Waterhouse's Audit Performance

To fulfill our responsibilities under the CFO Act for ensuring the quality of the audit work performed, we monitored Price Waterhouse's audit of SSA's FY 1997 financial statements by:

- reviewing Price Waterhouse's approach and planning of the audit;
- evaluating the qualifications and independence of its auditors;
- monitoring the progress of the audit at key points;
- examining its workpapers related to planning the audit and assessing SSA's internal controls;
- reviewing Price Waterhouse's audit report to ensure compliance with *Government Auditing Standards* and *OMB Bulletin No. 93-06*;
- coordinating the issuance of the audit report; and
- performing other procedures that we deemed necessary.

Based on the results of our review, we determined that Price Waterhouse planned, executed and reported the results of the planning, internal control and substantive testing phases of its audit of SSA's FY 1997 financial statements in accordance with applicable standards. Therefore, it is our opinion that Price Waterhouse's work provides a reliable basis on which to render an opinion on SSA's FY 1997 financial statements and SSA management's assertion on the effectiveness of its internal controls and substantial compliance with FFMIA and laws and regulations. Based on our review of Price Waterhouse's work, we concur with the findings and Price Waterhouse's recommendation that four of the weaknesses be reported as material in the annual FMFIA report. We also concur as to their reporting of noncompliances with Section 221(I) of the Social Security Act and FFMIA.



David C. Williams
Inspector General

Price Waterhouse LLP



REPORT OF INDEPENDENT ACCOUNTANTS

To Kenneth S. Apfel
Commissioner of Social Security

In our audit of the Social Security Administration (SSA) for fiscal year 1997, we found that:

- The principal financial statements were fairly stated in all material respects;
- Management fairly stated that SSA's systems of accounting and internal controls in place on September 30, 1997, are in compliance with the internal control objectives in Office of Management and Budget (OMB) Bulletin No. 93-06;
- Except for the effect of four instances of noncompliance with OMB Circulars, management fairly stated that SSA's financial management systems are in substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- We found two reportable instances of noncompliance with the laws and regulations we tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of SSA as of September 30, 1997, and the related consolidated statements of operations and changes in net position and of cash flows for the fiscal year then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of SSA for the year ended September 30, 1996, were audited by the Inspector General of SSA whose report dated November 22, 1996, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06, *Audits of Federal Financial Statements*. 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 audit provides a reasonable basis for our opinion.

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

In our opinion, the consolidated financial statements appearing on pages 26 through 36 of this report present fairly, in all material respects, the financial position of SSA at September 30, 1997, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

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

We have examined management's assertion that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in OMB Bulletin No. 93-06. This requires management to establish internal accounting and administrative controls to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with: (a) laws and regulations that could have a direct and material effect on the financial statements, and (b) any other laws and regulations that OMB, SSA management or the Inspector General of SSA have identified as being significant for which compliance can be objectively measured and evaluated.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06 and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control structure in place as of September 30, 1997.

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

In our opinion management's assertion that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in OMB Bulletin No. 93-06 is fairly stated, in all material respects.

However, we noted certain matters involving internal controls and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA) and by OMB Bulletin No. 93-06. Reportable conditions involve matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls, which could adversely affect the entity's ability to meet the internal control objectives described above.

The reportable conditions we noted were:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures;
4. SSA needs to improve controls over insufficient separation of duties; and
5. SSA's quality control activities need improvement.

A material weakness as defined by the AICPA and OMB Bulletin No. 93-06 is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the principal financial statements being audited or to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We believe that none of the reportable conditions listed above is a material weakness as defined by the AICPA and OMB Bulletin No. 93-06. However, we believe the first four reportable conditions listed above

should be reported as material weaknesses under the Federal Managers' Financial Integrity Act of 1982 (the Integrity Act or FMFIA).

Under OMB's guidelines for FMFIA reporting, SSA reports any deficiency that the Commissioner determines to be significant enough to be reported outside the agency in its annual Integrity Act report as a material weakness. This designation requires a judgment by SSA management as to the relative risk and significance of deficiencies. In identifying and assessing the relative importance of deficiencies, SSA management pays particular attention to the views of SSA's Inspector General and external auditors. In guidance to its contractors performing FMFIA reviews, SSA has defined the types of internal control weaknesses that it would consider as material weaknesses those that:

- Significantly impair SSA's fulfillment of its mission;
- Deprive the public of needed services;
- Violate statutory or regulatory requirements;
- Significantly weaken or provide insufficient safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Result in a conflict of interest;
- Merit the attention of SSA's senior management, the Executive Office of the President or the relevant Congressional oversight committee; or
- Are of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency.

Management has not reported the above weaknesses in its most recent FMFIA report, because they do not believe that these conditions have resulted or could result in significant monetary losses to SSA or its beneficiaries.

Overview of Internal Control Findings

In performing our tests of internal controls as part of our fiscal year 1997 financial statement audit, we identified weaknesses in SSA's internal control structure over several areas including: information protection; continuity planning; software application development and change control policies and procedures; separation of duties; and quality control activities. In our view, these weaknesses demonstrate the need for SSA to do more to assure that adequate controls are provided for information collected, processed, transmitted, stored, or disseminated in general support systems and major applications, as required by OMB Circular A-130, Appendix III. Additionally, we found that SSA's overall management controls structure relies to a large extent on detective controls as opposed to preventive controls, and on the premise that fraud, waste and abuse could not currently be material to the Trust Funds without being detected.

SSA states its accomplishments in delivering program services throughout the year in its Accountability Report. This includes making over \$350 billion in payments to approximately 50 million beneficiaries through its programs, and processing approximately 225 million wage and tax statements (W-2 forms) annually for approximately 138 million workers. We acknowledge that processing this amount of information is a formidable task and is core to SSA's mission. In managing such large business processes, SSA also bears a responsibility to do so in a manner which provides reasonable, but not absolute, safeguards against fraud, waste and abuse.

In 1996, SSA developed a tactical plan to focus attention on combating fraud in SSA's programs, and two fraud conferences have been held to increase employee awareness and detective capabilities. This heightened awareness, supported by management, is the kind of program that is needed in the other areas of control risk at SSA, which include preventive controls such as data protection and adequate separation of duties, as well as increased emphasis on the existing quality control processes.

In our visits to field offices and program service centers, SSA staff told us that efforts to apply controls have been limited due to a lack of resources. Staff also indicated that they believed issues would not be pursued unless they were of a potentially high dollar amount. We acknowledge that with 1,300 field offices, 8 processing centers, 10 regional centers and several other central office sites, and with over 65,000 employees, consistently applying certain types of preventive management controls imposes strain on the resources at hand. However, we believe that adding

preventive, quality assurance and management controls could contribute substantially to SSA's goals to serve all its constituents and increase public confidence in SSA just as much as current initiatives to increase the speed and efficiency of services to the public.

1. SSA Needs Improved Controls to Protect Its Information

For a large computerized organization like SSA, achieving an adequate level of information protection is highly dependent upon maintaining consistently effective access controls and system software controls. Access controls should limit and monitor access to computer resources (i.e., data files, application programs, and computer-related facilities and equipment) to the extent necessary to provide reasonable assurance that these resources are protected against waste, loss, unauthorized modification, disclosure, or misappropriation. Such controls include logical/technical controls, for example, security software programs designed to prevent or detect unauthorized access to sensitive data. Similarly, system software controls should limit and monitor access to powerful programs and sensitive files that (1) control computer processing and (2) secure the applications and data supported by the system.

Our internal controls testing identified information protection-related weaknesses throughout SSA's information systems environment. Impacted areas included SSA's distributed computer systems as well as its mainframe computers. These vulnerabilities expose SSA and its computer systems to external and internal intrusion, subject sensitive SSA information related to social security numbers, earnings, disabilities and benefits to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste and abuse.

Although SSA has an entity-wide security program in place, it does not sufficiently address the non-mainframe components of its computing environment. The program does not include a comprehensive set of policies and procedures surrounding each of the components in SSA's distributed computing environment. While policies and procedures are currently under development, the lack of emphasis in certain segments of this area has contributed to several exposures to risk in the distributed environment, including access vulnerabilities both of a general nature and those associated with specific SSA business processes. Due to the sensitive nature of these issues, we have reported our concerns in a separate, limited-distribution management letter.

SSA also needs to strengthen controls over specific aspects of its computer environment. We found weaknesses related to the following components of SSA's information protection controls, but since disclosure of our findings might further compromise controls, our specific examples are discussed in our separate, limited-distribution management letter. The components where weaknesses were noted are:

- SSA's mainframe computer access;
- Central access control software;
- Configuration of the mainframe operating system;
- Access request process;
- Audit trail facilities;
- Password controls;
- Certifying and accrediting certain general support and major application systems; and
- Security awareness and training campaign.

In summary, the weaknesses in information protection referred to above increase the risks of unauthorized access to, and modification or disclosure of, sensitive SSA information. Additionally, unauthorized access to sensitive data can result in the loss of data, loss of Trust Fund resources, and compromised privacy of information associated with SSA's enumeration, earnings, retirement, and disability processes and programs.

Recommendations

We recommend that SSA enhance information protection by strengthening its entity-wide security program as it relates to implementation of technical computer security mechanisms and controls throughout the organization.

Specific areas to be addressed are reported in a separate, limited-distribution management letter. Recommended corrective actions include:

- Modifying the current policy and procedural framework to expand the information protection program to cover each component in SSA's distributed computing environment.
- Strengthening controls over access to (a) protect all mainframe-based resources; (b) eliminate vulnerabilities in the mainframe operating system configuration; (c) address inadequacies and inconsistencies in the mainframe access request process; (d) require periodic review of user privileges to ensure that capabilities are in line with job responsibilities; and (e) enhance audit trail facility utilization and review.
- Enhancing SSA's overall computer security effectiveness by (a) improving and standardizing password security practices for all processing environments; (b) better enforcing sound password change practices and syntax standards through reconfiguration of security software; (c) involving users/owners of systems in the risk management process to certify and accredit their systems; and (d) continuing to improve upon general computer security awareness and training campaigns.
- Implementing, as a quality control function, continual compliance and enforcement reviews of security policies and procedures to improve the overall security environment.

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

Controls to ensure continuity of computer processing operations when unexpected events occur are crucial to SSA, given the impact and scope of its mission to serve the American public. Losing the capability to process, retrieve, and/or restore the beneficiary and payment information it maintains electronically would obviously impair SSA's ability to provide that service (and thus, to accomplish its mission). The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed, and critical and sensitive data can be restored if necessary. These controls can be grouped in two categories: (1) procedures to protect information resources and minimize the risk of unplanned interruptions, and (2) a contingency plan, covering both data center activities and activities performed by users of specific applications, to recover critical operations should interruptions occur. Contingency plans should be tested periodically in disaster simulation exercises to ensure that recovery plans will work as intended.

Our review of service continuity controls confirmed that SSA has many components of a contingency plan in place, including a designated "hot site" (a facility that already has computer equipment and space in place to provide processing capability on short notice). However, we identified deficiencies in SSA's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. The following deficiencies were noted:

- The existing SSA contingency plan does not address the worst case scenario in which SSA operations could be disrupted for an extended period of time. As written in the plan dated August 30, 1997, "in a national disaster, it would be likely that outside monitoring authorities and other Federal agencies that interact with SSA will join with the Agency team to address the problem." In our view, SSA's plan to address the problem of an extended business disruption after the fact represents a high risk to SSA's ability to provide continual service to the public and is not a best in business approach. An appropriate strategy needs to be developed to address this scenario, including processing alternatives to the "hot site".
- Critical workloads and processing priorities have been identified in the current SSA plan; however, the specific applications that support the critical workloads and their priority for recovery have not been documented. We did not find evidence that SSA had conducted a formal business impact analysis for both manual and computer operations, which is necessary to be able to adequately identify critical business processes and their recovery priority. Based on this lack of

detail, we were unable to determine whether the processing capacity available at the recovery facility would meet SSA's needs under various emergency scenarios. This analysis needs to be documented to ensure recovery of all mission critical systems following an extended disaster.

- Only 6 of the 13 critical workloads identified in the plan have been tested. Furthermore, no combination of multiple critical workloads has been tested simultaneously. All 13 critical workloads should be tested to assure success of recovery in a disaster scenario.
- Other emergency scenarios, such as hardware, software and telecommunications failures distinct from a complete disaster scenario, and appropriate response procedures have not been documented. SSA has prepared a draft document outlining emergency response procedures, but the document is not complete and needs to be finalized.

Recommendations

We recommend that SSA:

- Conduct a business impact analysis and use the results to enhance SSA's disaster recovery strategy and confirm the specific critical workloads identified in the contingency plan.
- Expand the current contingency plan to address (a) longer term outages (i.e., the worst case scenario); (b) identification of the specific applications and related resources supporting each critical workload and their relative priority for recovery; (c) technical capacity requirements for the recovery facility; and (d) additional emergency scenarios.
- Periodically conduct a comprehensive test of all components of the contingency plan, including testing scenarios in which various workload combinations are processed simultaneously.
- Finalize its draft Emergency Response Procedures document.

3. SSA Needs to Improve Its Software Application Development and Change Control Policies and Procedures

SSA modifies production software for a wide range of programs on a continuous basis to meet new legislative requirements. For this reason, SSA has established a defined methodology to handle major system development changes. During this software maintenance process, strict administrative and organizational controls must be employed to ensure that modifications are properly requested, approved, coded, tested, documented, and authorized for production. These controls also help to prevent unauthorized changes.

The controls and security measures surrounding the application maintenance process established at SSA do not adequately protect the integrity of application systems. These weaknesses create risks of errors or irregularities that could be introduced into the production processing environment.

Weaknesses we observed are:

- SSA's Software Engineering Technology (SET) methodology is not well suited to all program change activities. This methodology, which embodies the processes by which systems and software are developed and maintained, has been generally applied only to major development efforts, but not to smaller scale initiatives which constitute a large part of the systems programming workload. We found a wide variance in compliance with the SET methodology.
- Application programmers are empowered with retrieving programs, migrating code between various operating regions, and making changes to production programs. This overlap of responsibilities increases the risk of unauthorized production programs being inserted into the operational environment, since those responsible for

making program modifications are not prohibited from initiating and introducing those program modifications into production.

- The process established to implement changes into the production environment is not well controlled. A programmer-issued electronic message to computer operators is sufficient to prompt the migration of changes into production. Furthermore, our review of system changes produced insufficient evidence of resource owners authorizing, approving, accepting or testing changes prior to the programmers moving code into production. Also, we found a lack of documentation reflecting user initiation of changes to production programs.
- SET does not adequately address emergency changes. The current process does not require emergency changes to be formally initiated under special controlled emergency procedures during which all actions are logged, reported and reviewed for accuracy and integrity subsequent to implementation.
- The “validation” region, assumed by the Office of Systems Requirements - Data Validation to be a duplicate of production, is a section of the computer systems test environment used by SSA for testing the Benefit Rate Increase (BRI) and Year 2000 updates. However, we noted differences between the programs maintained in the test and the live processing environments that could potentially invalidate test scenarios and results.

As a result of these weaknesses, the risk is increased that unauthorized or untested changes to application systems could be introduced into the production environment to affect live processing and reduce the reliability of information processed.

Recommendations

We recommend that SSA modify the existing SET guideline to cover a wider range of program changes and incorporate strict audit controls throughout the process. The following duties must be more clearly defined and better segregated: (a) initiating program changes; (b) making and documenting program changes; (c) authorizing changed software before it is placed in production; and (d) migrating code. In addition, SSA should require all emergency changes to be formally initiated under special controlled emergency procedures during which all actions are logged, reported, reviewed and approved subsequent to implementation. Finally, we recommend that SSA investigate the impact of the validation region being different from production.

4. SSA Needs to Improve Controls Over Insufficient Separation of Duties

Many system modernization efforts have resulted in SSA processing select transactions without the traditional multiple levels of review. In essence, this reengineering or streamlining of business processes has empowered SSA workers with increased processing capabilities in order to meet SSA’s goal of providing world-class service. An inherent risk associated with moving to an environment where employees have more on-line access and processing capability is that they will perform incompatible functions, therefore limiting SSA’s ability to prevent errors, fraud, waste, and/or abuse in a timely manner. In such cases, central access control software and application security mechanisms often are not configured to enforce the provisions in OMB Circular A-130, Appendix III concerning separation of duties and “least privilege”. Separation of duties and least privilege concepts should be applied to prohibit one individual from controlling all aspects within a process and bypassing critical controls such as authorization, supervisory review, and editing of transactions.

The issue of inadequate separation of duties was raised by the OIG in its report on SSA’s fiscal year 1996 financial statements. Management’s response identified several mitigating controls implemented to reduce the risk with this weakness. However, the results of this year’s audit, which focused on nine applications (involving Title II, Title XVI, financial accounting, earnings record maintenance, and enumeration), indicated that certain of these controls were minimally effective in identifying potential problems. Collectively, the results of our testing indicate the continued insufficient separation of duties or compensating controls to reduce, to an acceptable level, the risk of undetected errors and/or irregularities. Specifically, certain end users and technical support personnel have been empowered with functional responsibility for incompatible tasks.

We found various areas where inadequate separation of duties exist, including:

- Field offices - certain individuals have the responsibility and access capability required to perform the following functions which combined constitute a separation of duties issue: initiate and adjudicate claims, enumerate SSNs, post earnings, process death records, and perform many other transactions;
- Central office - certain individuals in the Office of Systems (including systems requirements personnel and programmers) were listed as resource owners for production applications and data; and
- Security administrators - certain of these individuals have other operational responsibilities (e.g., database administration, programming, updating standing data, and/or performing production transactions).

Certain of the mitigating controls identified by SSA management to compensate for risk associated with inadequate separation of duties could not consistently be relied upon to compensate for the excessive access provided to personnel in the field offices. These mitigating controls include (1) an automated capture/review of actions on the Audit Trail System; (2) claims integrity reviews; and (3) security and integrity reviews. When we tested each of the specified mitigating controls, which are primarily detective, to assess their effectiveness, we found that the SSA planned level of execution was not met and therefore determined that they could not be consistently relied upon, as described below:

- SSA has developed the Audit Trail System (ATS) to enable supervisors to review sensitive or potentially fraudulent system activity. Key ATS transactions or combinations of transactions are not being reviewed and followed-up on a consistent and timely basis and certain audit trail features have not been activated. Additionally, ATS does not log transactions for all systems.
- Inadequate claims integrity reviews and the security and integrity reviews due to a sample selection process that unduly limits or filters out the population of cases looked at, inconsistent reviews (i.e., case files do not contain sufficient documentation in many instances), and lack of timeliness of the reviews.

In addition to the field personnel, various programmers, security administrators and support personnel in the central office and processing centers have incompatible responsibilities, including access to the following:

- The production facility at SSA that contains sensitive files for financial accounting, enumeration, Title II, Title XVI, and earnings;
- The critical payment system production database, allowing programmers to delete records causing problems associated with processing the database records and generating the payment files; and
- Update access to transactions for systems they support.

Recommendations

Key duties and responsibilities in authorizing, processing, recording, and reviewing official SSA transactions should be separated among individuals. SSA managers should exercise appropriate oversight to ensure individuals do not exceed or abuse assigned authorities.

We recognize that SSA is currently working on plans for a Comprehensive Integrity Review Process (CIRP), which we believe will help to enhance the effectiveness of the integrity review process. In addition, we recommend that SSA:

- Implement preventive controls for high fraud risk transactions (such as death processing and earnings reinstatements) and sensitive transactions (such as performing functions relating to an employee's own records, or those of relatives, or of other employees).
- Strengthen both the claims integrity and the security and integrity review processes. First, the criteria for selecting case files for review must be enhanced to increase the number of files reviewed and ensure the quality of the review performed. Second, appropriate staffing must be assigned to ensure the timeliness of the reviews. And finally, new

guidelines must be developed to require field office personnel to maintain appropriate documentation in the files for review purposes.

- Develop appropriate procedures regarding the review of the data maintained in the Audit Trail System to include on-going periodic reviews of transactions or combinations of transactions which may involve fraudulent activity.
- Develop guidelines that address end user “ownership” and responsibilities in the live processing environment.
- Develop and implement a standardized profile structure for assigning and administering access capabilities to personnel throughout the organization. This structure is critical for ensuring efficiency in administration and maintenance of the overall security program, and warrants SSA conducting a comprehensive requirements analysis for all individuals.

5. SSA’s Quality Control Activities Need Improvement

SSA’s mission emphasizes service delivery and empowerment of line employees. In light of this, quality control activities become critical to SSA’s overall internal controls. During our audit, we noted weaknesses in those very quality control activities that have been identified by management in the past as key mitigating controls for several of the other findings discussed above. The previous discussion on separation of duties weaknesses includes several pertinent examples. Other specific examples include:

- To aid in preventing fraud, waste and abuse in the Supplemental Security Income (SSI or Title XVI) program and the disability insurance program under Title II, SSA is mandated to perform reviews for continued eligibility for program benefits. The acknowledged delays and backlog in performing Title XVI redeterminations and Title II continuing disability reviews undermines the effectiveness of this control.
- To ensure proper emphasis on controls and to deter employee fraud in field operations, SSA has developed the Onsite Security Control and Audit Review (OSCAR) program. We found that these standard security and integrity review processes are not being executed completely, consistently, or in some instances timely.
- In order to ensure data integrity over the reported wages for the U.S. workforce, SSA has in place several system controls to check for validity of earnings reported and accumulated. These controls include a suspense file for capturing earnings transactions which initially cannot be posted to workers’ accounts. However, a significant amount of the earnings recorded in the suspense file are not resolved on a timely basis. The size of this file has increased significantly every year since it was established. Responsibility for follow-up and resolution of the suspense file is unclear.
- Supervisory review of decisions made by employees regarding critical eligibility factors (age, relationship and citizenship) is now precluded because documents that provide such evidence are no longer required to be maintained in claims files. This also precludes subsequent periodic reassessment to detect fraud, waste and abuse.
- SSA employees have considerable institutional knowledge that is critical to the day-to-day operations of the agency. SSA must ensure this knowledge and information is “put to paper” and passed on to new employees. Certain key SSA work processes such as revenue estimation and certification are not clearly documented. Accordingly, SSA must rely almost totally on specific employees who possess the critical institutional

knowledge in these areas. This exposes SSA to the risk of not being able to continue to operate effectively in the absence of these individuals.

Recommendations

We recommend that SSA:

- Task SSA's Executive Internal Control Council with reassessing the overall balance between internal controls and service delivery using a top-down accountability framework to help management achieve its goal of zero tolerance for fraud and abuse. The Executive Internal Control Council should be empowered to guide, monitor, report and reward good management controls and to monitor audit follow-up and resolution.
- Summarize current control and quality assurance processes under one controls plan in order to address the overall adequacy of the control environment. This plan should be risk-based in such a manner that all key processing and operational risks are addressed from a control and quality assurance perspective. The controls plan should address key SSA business processes one by one, identifying control techniques and their scope. The controls plan should be a key input to the Executive Internal Control Council.
- Increase internal audit and FMFIA review emphasis in programmatic and other technical systems areas. To provide meaningful audit coverage of SSA's large and pervasive systems applications, ensure that the Office of Inspector General, in accordance with the Inspector General Act, has complete access to any application at any time, to avoid delays in reviewing systems and to provide complete independence in determining the scope of each review.
- Determine the adequate level and scope of applying existing quality control activities, in light of the fact that these are key mitigating controls for other control weaknesses caused by resource shortages, empowerment mechanisms and other business needs. In cases such as integrity reviews, apply statistical sampling methods to obtain meaningful levels of reportable results.
- Set goals to obtain coverage as planned and measure the quality control activities performed.
- Establish appropriate reward mechanisms for good performance in quality control activities.
- Assign a single workgroup within the Office of Central Records Operations with primary responsibility for earnings suspense file resolution.
- Maintain key documents in claims files or imaged files to enable effective review and supervision.
- Document the processes used in revenue estimation and certification so that these may be performed in the absence of key employees.

REPORT ON MANAGEMENT'S ASSERTION REGARDING SUBSTANTIAL COMPLIANCE WITH FFMIA

We have examined management's assertion that SSA's Program Benefits, Financial Accounting and Debt Management Systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level as required by the Federal Financial Management Improvement Act of 1996. This assertion is included in the Message from the Commissioner in SSA's Accountability Report for fiscal year 1997. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in our Report on Management’s Assertion About the Effectiveness of Internal Controls, we noted certain matters that we consider to be reportable conditions under standards established by the AICPA and by OMB Bulletin No. 93-06. We believe the four reportable conditions listed below are also significant departures from certain of the requirements of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures;
and
4. SSA needs to improve controls over insufficient separation of duties.

In our opinion, except for the effect of these four instances of noncompliance, the assertion included in the Message from the Commissioner referred to above presents fairly that SSA’s Program Benefits, Financial Accounting and Debt Management Systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

REPORT ON 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 SSA’s compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We identified the following reportable instances of noncompliance:

- SSA is not in full compliance with Section 221(i) of the Social Security Act which requires periodic Continuing Disability Reviews (CDRs) for Title II beneficiaries;
- As reported above in our report on management’s assertion regarding substantial compliance with FFMIA, we noted four instances of noncompliance with FFMIA.

Continuing Disability Reviews

With respect to the CDRs, Section 221(i)(1) of the Social Security Act requires SSA, in conjunction with the state Disability Determination Services (DDS), to review “any case where an individual is or has been determined to be under a disability” for determination of continued eligibility for Title II disability benefits. The Section further requires that these reviews be performed at least once every three years for beneficiaries determined by SSA and the DDS to have impermanent disabilities. The law authorizes the Commissioner of Social Security to determine how often permanent disability cases should be reviewed. SSA has established seven years as a guideline for reviews of permanent disability cases for continuing eligibility.

SSA’s lack of compliance with this section of the Social Security Act has been reported by the Inspector General in previous years, and SSA management acknowledges the significant backlog in reviewing disability cases in a timely manner. In 1996, Congress enacted the Contract with America Advancement Act. Section 103 of this act addressed Title II CDRs, and provided SSA with additional funding for fiscal years 1996 through 2002, in order to increase efforts to reduce the backlog.

During the fiscal year 1997 audit, we found that SSA was still not in compliance with Section 221(i) of the Social Security Act. At September 30, 1997, SSA management estimated the total backlog of Title II cases yet to be

reviewed for continuing eligibility at 2.4 million cases. If CDRs are not performed timely, beneficiaries who are no longer eligible for disability may inappropriately continue to receive benefits, including Medicare benefits.

SSA management attributed the backlog of CDRs to be performed to an increased number of initial disability claims filed and the significant cost to complete CDRs. In addition, SSA stated that resources are still not adequate to complete both the initial claims case load and CDRs, within the required time frames. SSA has formulated a plan to eliminate the backlog by 2002.

Except as noted in the preceding paragraphs, the results of our tests disclosed no other instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 93-06.

CONSISTENCY OF OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of SSA taken as a whole. SSA's Accountability Report includes an Overview of SSA and Supplemental Financial and Management Information containing a wide range of data, most of which are not directly related to the consolidated financial statements. We assessed whether this information, and the manner of its presentation, is materially inconsistent with the information, and the manner of its presentation, appearing in the consolidated financial statements. The information presented in the Overview of SSA and the Supplemental Financial and Management Information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements of SSA, and, accordingly, we express no opinion on it.

OBJECTIVES, SCOPE AND METHODOLOGY

SSA management is responsible for:

- Preparing the annual financial statements in conformity with the basis of accounting described in Note 1;
- Establishing, maintaining, and assessing an internal control structure that provides reasonable, but not absolute, assurance that the broad control objectives of FMFIA are met; and
- Complying with applicable laws and regulations.

Our responsibilities are to:

- Express an opinion on SSA's principal financial statements;
- Obtain reasonable assurance about whether management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon the internal control objectives in OMB Bulletin No. 93-06;
- Obtain reasonable assurance about management's assertion regarding substantial compliance of SSA's financial management systems with the requirements of FMFIA;
- Test SSA's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements; and
- Perform limited procedures with respect to certain other information appearing in this Accountability Report.

In order to fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of the internal controls related to safeguarding assets, compliance with laws and regulations including execution of transactions in accordance with budget authority, financial reporting, and performance measures reported in the overview of SSA;

- Tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls;
- Tested for substantial compliance with FFMIA;
- Tested compliance with selected provisions of the following laws and regulations:
 - Social Security Act, as amended
 - Social Security Independence and Improvement Act of 1994
 - Personal Responsibility and Work Opportunity Reconciliation Act of 1996
 - Cash Management Improvement Act of 1990
 - Debt Collection Improvement Act of 1996
 - Anti-Deficiency Act
 - Chief Financial Officers Act of 1990
 - Federal Managers' Financial Integrity Act of 1982
 - Government Management Reform Act of 1994
 - Federal Financial Management Improvement Act of 1996
 - The Omnibus Budget and Reconciliation Act of 1989, as amended in 1990
 - OMB Bulletin No. 94-01, Form and Content of Agency Financial Statements; and
- Considered compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems.

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

SSA'S COMMENTS ON REPORT OF INDEPENDENT ACCOUNTANTS

SSA's comments on this audit report are included in the following Appendix. We have discussed these responses with SSA management and incorporated certain of their comments herein. We believe that SSA's discussion focuses on certain elements of its control processes without addressing the overall reportable conditions that we noted. In many cases we tested the control processes discussed in management's response, and we found weaknesses as stated in this report. We will continue to work with management in addressing these issues.

* * * * *

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

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

Price Waterhouse LLP

Arlington, Virginia
November 21, 1997

Appendix



SOCIAL SECURITY

Office of the Commissioner

November 19, 1997

Price Waterhouse LLP
1616 N. Fort Myer Drive
Arlington, Virginia 22209

Ladies and Gentlemen:

Enclosed are our comments on the Price Waterhouse draft report on the audit of the Social Security Administration's fiscal year 1997 financial statements. If we can be of further assistance, please contact Steven L. Schaefer at (410) 965-3927.

Sincerely,

John R. Dyer
Acting Principal Deputy Commissioner
of Social Security

Enclosure

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION ON THE CONTRACTOR PREPARED REPORT ON THE SOCIAL SECURITY ADMINISTRATION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

General Comments

Thank you for the opportunity to comment on your confidential draft report on the audit of the Social Security Administration's (SSA) fiscal year 1997 financial statements. We were pleased to note that in your opinion SSA's principal financial statements were fairly stated in all material respects and that management fairly stated that SSA's systems of accounting and internal controls complied with the internal control objectives in Office of Management and Budget (OMB) Bulletin 93-06.

However, we disagree with the auditors' finding regarding noncompliance with OMB Circulars in four areas in the design or operation of internal controls. We believe that we are in full compliance with all relevant OMB Circulars and in full compliance with the Federal Financial Management Improvement Act (FFMIA). We reaffirmed our understanding with the OMB officials responsible for developing the guidance contained in these Circulars. These officials advised SSA staff and staff from the Office of the Inspector General (OIG) that SSA's interpretation of OMB Circulars A-123 and A-127 and OMB Bulletin 93-06 was correct. The auditors, consistent with OMB guidelines, did not report any non-compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). By being in compliance with OMB Circulars A-123 and A-127 for FMFIA reporting purposes the Agency is also in compliance with those same Circulars for FFMIA reporting.

We have a comprehensive FMFIA program which is explained on page 57 of the Agency's Accountability Report as well as elsewhere in our comments on this draft report. We believe that the controls we have in place to address security, which are a subset of the management controls required under OMB Circular A-123, are more than adequate to provide reasonable assurance of the Agency's compliance. The auditors have not provided any evidence that SSA does not have a well-documented process in place to conduct the reviews required under the OMB circulars, that the process was not followed, or that a decision regarding reasonable determination was not based on the facts. The auditors have not provided any detailed information that any real assets have been corrupted or lost or that there was any real probability that such could occur other than in a theoretical context.

Our comments concerning the four instances of noncompliance identified in the report are provided below in the discussion of each individual finding.

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

We disagree that the following four conditions identified in the draft report should be reported as material weaknesses under the Federal Manager's Financial Integrity Act (FMFIA). We do not agree with the basic provisions of each finding and, therefore, would not consider them reportable outside the Agency.

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures; and,
4. SSA needs to improve controls over insufficient separation of duties.

We strongly believe that our adherence to Federal Accounting Standards Advisory Board and OMB policies and procedures, the innovative compensating controls we have implemented, along with our excellent record in the area of employee fraud, provides us reasonable assurance that we are in compliance with FMFIA. This belief is substantiated by statistics concerning employee fraud over the period 1991 through 1996. During that period there were a total of 254 cases of employee fraud valued at \$790,089 compared to \$1.9 trillion in title II and title XVI program dollars paid. That translates to an annual average of about 42 cases and an annual average value of \$131,682 compared to about \$330 billion in outlays.

Our comments concerning each of the above findings are provided below in the sections dealing with the findings and recommendations.

SSA Recommendation: Delete the sentence in this section (page 3) beginning "SSA has defined the types of internal control weaknesses that it would consider material as weaknesses that:" and all the following bullets.

Reason: The above sentence does not accurately describe SSA's procedures for determining a material weakness. Agency managers and staff analyze the deficiencies found through FMFIA reviews, GAO and OIG audits, or other studies, and using those reports and other information available to them as a result of normal operations determine whether the weaknesses should be classified as material as defined in OMB Circular A-123. This designation requires a judgement by Agency managers as to the relative risk and significance of the deficiencies. The matter is then referred to SSA's Executive Internal Control Council, whose membership includes the Principal Deputy Commissioner, the Inspector General and the Deputy Commissioners, for Agency-level approval. The Commissioner of Social Security then makes the final decision as to whether the weakness is significant enough to be reported outside the Agency (i.e., included in the annual Accountability Report to the President and the Congress).

Overview of Internal Control Findings

Auditor's Note

Material was deleted from SSA's comments relating to information in the draft report which was changed in the final report.

Finding Number 1: SSA Needs Improved Controls to Protect its Information

Recommendations

We recommend that SSA enhance information protection by strengthening its entity-wide security program as it relates to implementation of technical computer security mechanisms and controls throughout the organization. Specific areas to be addressed are in a separate, limited-distribution management letter.

Recommended corrective actions include:

- **Modifying the current policy and procedural framework to expand the information protection program to cover each component in SSA's distributed computing environment.**

SSA Comment

We do not concur. Administrative components do not need the same level of protection as those components dealing with sensitive programmatic data. It would not be cost effective to protect all data at the same level.

As the report states, we are developing policies and procedures to strengthen the security of SSA's distributed computing environment. We are also developing security software, the Enterprise Security Interface (ESI), that will integrate security controls throughout the enterprise. This software is in the initial stages of implementation at selected sites, in support of the Reengineered Disability System (RDS) and the Customer Help and Information Program (CHIP) applications systems. We continually monitor the marketplace in search of commercial products that can eventually meet our security needs in the distributed computing environment.

We believe that the Financial Accounting System (FACTS) in particular is adequately protected by three separate levels of security: TOP SECRET, Integrated Database Management System/Relational (IDMS/R) and application security. TOP SECRET security is required for accessing both the FACTS Customer Information Control System (CICS) region and the Time Sharing Option (TSO). These are the only methods of accessing FACTS. If a user does not have access to either TSO or the proper CICS region, they cannot access FACTS. The TOP SECRET access to the CICS region, which is the method generally used for FACTS, is controlled by the SSA Office of Financial Policy and Operations (OFPO) component security officer. With few exceptions, only OFPO personnel have access to this region. While it is true that any user with TSO access (controlled by component security officers) can acquire the IDMS/R region, they cannot logon to IDMS/R without a proper personal identification number (PIN) and password. Furthermore, this assumes that the user (1) has access to system 56, (2) has prior knowledge of the existence of the FACTS IDMS/R and (3) is privy to the TSO command to access it. This is no different than a user who is aware of a specific CICS region name and attempts a logon. That person can access the PIN/password screen, but can not proceed without the proper security access. For FACTS, both IDMS/R security and application security would be required to proceed.

IDMS/R Release 12 is currently scheduled for implementation in January 1998. This release will provide a "handshake" to TOP SECRET, which will invoke all the rules relating to password changes, minimum length, suspensions, etc. In the interim, the SSA Office of Finance has issued additional security procedures to ensure that users change their passwords on a periodic basis. Effective immediately, access will be revoked for any FACTS user with an unchanged password. Once IDMS/R Release 12 is implemented, TOP SECRET security rules will be invoked (i.e., users will be required to change their passwords every 30 days, will be suspended if accessing IDMS/R after two failed attempts, etc.).

Recommendation

- o Strengthening controls over access to a) protect all mainframe-based resources, b) eliminate vulnerabilities in the mainframe operating system configuration, c) address inadequacies and inconsistencies in the mainframe access request process, d) require periodic review of user privileges to ensure that capabilities are in line with job responsibilities, and e) enhance audit trail facility utilization and review.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- o **Enhancing SSA's overall computer security effectiveness by a) standardizing password security practices for all processing environments, b) better enforcing sound password change practices and syntax standards through reconfiguration of security software, c) involving users/owners of systems in the risk management process to certify and accredit their systems, and d) continuing to improve upon general computer security awareness and training campaigns.**

SSA Comment

As we continue to implement our Intelligent Workstations/Local Area Networks architecture, and as the ESI security software described above is deployed, the password rules and practices will be uniformly enforced in accordance with established Agency policy.

About standardizing password security practices, information provided by the auditors to date does not support this recommendation. We do not agree that standard password procedure is the best solution in all cases. The sensitivity of the information being protected should dictate the degree of password sophistication used. In any event, SSA cannot apply standard password security practices in commercial off-the-shelf (COTS) software, such as FACTS, without obtaining an exemption from OMB. The FACTS package selected by SSA is available on the General Services Administration (GSA) Financial Management Systems Software (FMSS) multiple award schedule. All products available on the FMSS schedule have been certified by GSA to be in compliance with federal financial systems requirements, promulgated by the Joint Financial Management Improvement Program. The Joint Systems Solution Team is presently drafting additional guidelines for the use of such software which encourages agencies to limit modifications to COTS packages.

The responsibility for automated systems is based on the functional organizational structure. Generally, the user community for programmatic systems is represented by the SSA Office of Systems Requirements which is responsible for obtaining the needs and requirements of all the users throughout SSA. In most cases, the users of financial/administrative systems are directly involved in the process.

We agree that our computer security training can always be improved and will continue to work to that end.

Recommendation

- **Implementing, as a quality assurance function, continual compliance and enforcement reviews of security policies and procedures to improve the overall security environment.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Finding Number 2: SSA Needs to Improve and Fully Test Its Plan for Maintaining Continuity of Operations

Recommendation

- **Conduct a business impact analysis and use the results to enhance SSA's disaster recovery strategy and confirm the specific critical workloads identified in the contingency plan.**

SSA Comment

We are continually working to improve our disaster recovery strategy. Our current strategy was developed as one of the alternative backup and recovery facilities resulting from the Martin-Marietta study of the Backup and Recovery Program at SSA. Under this alternative, during a period of disruption SSA would analyze the physical requirements for a return to the original National Computer Center (NCC) or a move to a permanent alternative facility.

We have a contract for a "hot site" to process the critical workloads for a period of 42 days after a disaster. In addition to this facility, the contract includes a "cold site" for SSA's use for 6 months. This "cold site" will include the equipment and software necessary to process SSA's critical workloads for this period. The equipment and software for the "cold site" can be leased through the contractor's leasing facility or leased/purchased through existing contracts for hardware and software already in existence. The delay in initiating processing in the "hot site" and "cold site" would be minimal.

Recommendation

- **Expand the current contingency plan to address (1) longer term outages (i.e., the worst case scenario); (2) identification of the specific applications and related resources supporting each critical workload and their relative priority for recovery; (3) technical capacity requirements for the recovery facility, and (4) additional emergency scenarios.**

SSA Comment

We conducted a study in 1993 to determine the specific applications that would impact the payment of benefits to SSA clients. We determined which workloads were critical to achieving this objective. These workloads are documented in our "NCC Backup and Recovery Plan" dated August 30, 1997.

The processing capacities and capabilities are reviewed annually to ensure that these critical workloads can be processed efficiently at the "hot site." In addition, there is a continual process of review by which additional critical workloads are added to the list.

Recommendation

- o **Periodically conduct a comprehensive test of all components of the contingency plan, including testing scenarios in which various workload combinations are processed together.**

SSA Comment

We test our critical workloads annually, and are working toward a 3-year cycle to test all critical workloads. Currently, these workloads are tested by SSA staff during a 64-hour weekend test at the "hot site." The combination of workloads tested is based on the availability of the application, staff resources, and financial resources. We are planning to expand the test to 84 hours beginning in 1999, in order to deal with the more complicated environment in which we operate. We are also documenting the specific workloads, when they will be tested, and the results of the testing.

Recommendation

- o **Finalize its draft Emergency Response Procedures document.**

SSA Comment

We have determined that the most severe disaster that would affect our operations would be the loss of the NCC. Based on this determination, the "NCC Backup Plan" was written and updated yearly to reflect the Agency's priority to process the critical workloads in an alternative location. In addition, all individual hardware and software areas have recovery plans to provide continuing support during less severe emergencies.

Our Emergency Response Procedures document contains the procedures for three major teams to analyze the extent of the disaster and proceed with an orderly response. This document has been in existence for over 5 years and is continually updated with information such as staff names, addresses, and telephone numbers.

Finding Number 3: SSA Needs to Improve its Software Application Development and Change Control Policies and Procedures

Recommendations

We recommend that SSA modify the existing Software Engineering Technology (SET) guideline to cover a wider range of program changes and incorporate strict audit controls throughout the process. The duties of a) initiating program changes; b) making and documenting program changes; c) approving changed software before it is placed in production; and d) migrating code must be more clearly defined and better segregated. In addition, SSA should require all emergency changes to be formally reported, reviewed and approved subsequent to implementation. Finally, we recommend that SSA investigate the impact of the validation region being different from production.

SSA Comment

We disagree, in part, with the cited control weaknesses surrounding the production software release process. For code releases that are not emergencies, SSA's automated processes employ release procedures which: 1) extract code from protected libraries on the Software Engineering Facility (SEF); 2) move copies of modules and program products through our Office of Telecommunications and Systems Operations (OTSO) testing components; and 3) release only these modules to production by authorized, non-programmer, personnel. Furthermore, modules introduced to production are logged by the release software, thereby supporting release auditing back to the TSO-userid of the programmer/release requestor.

Nonemergency releases are well-communicated using the Software Testing and Migration Release Schedule Summary (STAMRSS) for online releases and our weekly initiatives report for batch releases and the Change Management System. Release actions are correlated to these reports and the schedules reflected therein, thus providing an indication of expected module releases. The reports are developed from initial planning meetings that include staff from OTSO, our Office of Systems Design and Development (OSDD), and other of our systems components, and, in many cases, users of the applications being implemented.

We agree that a programmer-initiated e-mail message is a release triggering event that needs to be changed. The programmer knowledge of release timing, module naming, status of related releases and problem programs, etc., is key to successfully targeting the release. We will modify the release communications process to include concurrences from non-programmer sources. However, in non-emergency situations, the modules released to production originate from source libraries where modules have been validated or, in online regions, have been part of end-user training regions. The statement in the draft report (page 9) that "our review of system changes produced insufficient evidence of resource owners approving, accepting or testing changes..." should be further clarified. Also, the reference (page 9) to "user initiation of changes" is unclear when the extent of release communications delineated above is considered.

Although SET may not adequately address emergency situations, the operating process does include levels of pre-release documentation depending on the severity of the emergency and the type of code (online/batch) impacted. Emergency changes require a Problem Management record. In many cases, this already exists because the problem has been reported by OTSO. If a problem record does not exist, one must be created and the problem documented before the OTSO release utilities will accept the change request. This is the level of formal initiation in the current process.

Online systems changes require a change record which must be approved by OTSO management. OSDD managers are contacted by telephone for concurrence and, if time permits, changes are validated and integration tested prior to

production release. Since many batch emergencies occur overnight, only the programmer and OTSO are involved in many of these change/release actions.

The automated release system employed for emergency changes is the same as that used for regular releases. Modules from secured ENDEVOR libraries on the SEF are the source of the new, changed modules. Module movements are audited to the TSO-userid requesting the release. Production modules cannot be created directly on the production computer systems. Data and reports are available from the release software which describe release actions.

We do not agree that the production release process is without user coordination, integrity controls, or release security. At a macro level, appropriate organizations are involved and concur with most release actions. The SSA-developed software systems which actually effect a production release maintain records which could be applied to review release actions. Programmers are specifically prohibited from directly changing production code without involving staff from OTSO. The current process has a level of separation-of-duties and audit capability previously considered adequate for the risk. We agree that the process should be tightened as indicated and can be done with additional pre-release concurrences and not major process or release system redesigns. We do not agree that, given the changes required to the existing process, these deficiencies should be considered material weaknesses reflective of an absence of a control structure.

About reporting, reviewing, and approving emergency program changes, we agree that the current SET methodology and process addresses making an emergency change to the application, but does not address subsequent quality control action to ensure that the change did, in fact, correct the problem while maintaining application integrity. We will update the SET to include subsequent quality control action.

Regarding investigation of the impact of the validation region being different from production, appropriate SSA systems staff discussed this issue when planning our Year 2000 tests, and determined that the risks involved in using the benefit rate increase version of the online software were so insignificant that they would not affect our test results.

As future major releases are set for validation, CICS validation regions will be adjusted. This will ensure that the Year 2000 CICS validation region will remain stable. When the future release becomes the production version, the Year 2000 CICS validation region will be modified to point to this software.

Finding Number 4: SSA Needs to Improve Controls Over Insufficient Separation of Duties

General Comment

As downsizing compels the Agency to combine functions once performed by different job positions, we evaluate the inherent risks brought on by this activity. As previously stated, we strongly believe that our adherence to Federal Accounting Standards Advisory Board and Office of Management and Budget policies and procedures, the innovative compensating controls we have implemented, along with our excellent record in the area of employee

fraud, provide us reasonable assurance that we are in compliance with FMFIA. We have implemented the following compensating controls in this area.

Access - For any employee to access SSA's programmatic systems three levels of security clearance are required. The first level of system security is through TOP SECRET which requires the SSA Systems Security Officer to issue an

employee a PIN and password. In addition to having a valid PIN and password, the employee must currently be on duty with SSA. Access to an application and any action within that application must also be included in the employee's security profile. Security profiles are approved by SSA's Systems Security Officer.

Audit Trail System (ATS) - ATS provides an automated means of capturing and storing characteristics of vulnerable input transactions. It identifies: (1) the individual who input the data; (2) date and time of the occurrence; (3) the transaction; (4) the account upon which the transaction was applied; and (5) selected information about the transaction. Since this information is routinely available to security and management staff it acts as a strong deterrent to employee fraud.

OIG Hotline - OIG has established a special toll-free telephone number for employees to use in reporting suspected instances of fraud by both the public and other employees. In addition, OIG investigates reports from SSA's systems where multiple Social Security number (SSN) cards are mailed to the same address.

Publications and Employee Training - SSA employees are made aware of fraud through publications and training, such as:

- SSA's bimonthly news magazine, *OASIS*;
- SSA's headquarters newsletter, *Central Office Bulletin*;
- Informational literature on fraud policy, guidelines and issues;
- Regional security alert newsletters which advise field staff of known fraudulent documents and incidents and encourage staff to refer cases to the OIG;
- Special training conducted for targeted groups of individuals, such as entrance-on-duty trainees, administrative law judges, etc;
- Employees are required to complete a comprehensive, self-administered microcomputer security awareness program called "MicroSecure II";
- SSA managers are required to certify annually that they have communicated with each employee about SSA's systems security guidelines and penalties for abuse, and
- Screens for logging-on to SSA's systems include a warning against unauthorized entry or use. Employees must complete their log on at the warning screen before proceeding.

Financial Management Systems Reviews - Since 1988, the Agency has had its financial management systems, including payment systems, reviewed by an independent contractor to ensure these systems comply with FMFIA, the Paperwork Reduction Act, the Computer Security Act and OMB Circulars A-123, A-127 and A-130. These evaluations determine whether the Agency complies with these standards.

Computer Matching - To detect potential fraud, SSA performs various computer matches of data from its records against other data bases, such as State death records.

Special Systems Queries by SSA'S Control and Audit Test Facility (CATF) - At the request of SSA Regional and Program Service Center Security staffs and OIG and SSA Systems Security Officers, CATF makes special selections from employee-generated transmission files and master data bases to study the data to detect or prove employee fraud.

Regional Security Audits and Reports - SSA Regional Security Officers and Integrity Branch Staffs conduct audits of special users of SSA data and conduct Onsite Security, Control, Audit and Reviews (OSCAR). Reports of these audit activities provide information on security violations and profile vulnerabilities which are reviewed by SSA Security staff.

Office of Program and Integrity Reviews (OPIR) Quality Reviews (QR) and Special Studies - OPIR conducts assessments of the accuracy of initial claims and ongoing payments in SSA programs. During QRs, if a reviewer identifies an instance of suspected employee fraud, the case is sent to the Regional Office of Program and Integrity Reviews for referral to the Regional Security Officers and to OIG.

Automated Systems Alerts - Systems outputs include alerts for peer review by a different Benefit Authorizer or by a Technical Advisor. For example, an alert is generated if a prior month accrual amount exceeds an established payment amount tolerance.

Personnel Policy - SSA's policy is for zero tolerance of employee fraud. Personnel guidelines have been reviewed and action is being taken to include fraudulent employee actions as being suitably addressed by termination of employment.

Integrity Reviews (IR) - To prevent and detect fraud, targeted samples of particularly vulnerable transactions are selected for review by Integrity Staffs and SSA managers. IRs provide a mechanism for either random review of completed transactions or selected review of transactions identified as vulnerable to fraud. This also acts as a strong deterrent to fraud.

In the future SSA will have the Comprehensive Integrity Review Program (CIRP) - CIRP is a major compensating control which coordinates and greatly improves the value of integrity reviews. CIRP provides for an SSA-wide integrity review control system to assure that reviews are completed timely. Most importantly, CIRP integrates all existing reviews and enables the use of selection criteria across programmatic systems, which greatly increases the likelihood of detecting inappropriate or fraudulent activity by employees.

Recommendation

- **Implement preventive controls for high fraud risk transactions (such as death processing and earnings reinstatements) and sensitive transactions (such as performing functions relating to an employee's own records, or those of relatives, or of other employees).**

SSA Comment

We have implemented the following controls.

- o In processing death records, an action to remove a death annotation (i.e., a death resurrection) requires two PINs under MSSICS. Death resurrections in title II systems must be processed in the program service center (PSC) and reviewed by the PSC Integrity Staff. In MCS, adjudication actions on records having a death annotation require a management override.
- o In Modernized Earnings System Item Correction, 2-PINs are required to post earnings if the name and SSN associated with the item to be corrected are changed.
- o We have controls in place in all major program systems which prevent employees from accessing their own records. In addition, all attempts by employees to access their own records are reported to both their Security Officer and Office Manager.
- o With regard to preventing employees from taking actions on relatives' accounts, we do not believe this would be feasible or desirable. First "relative" would have to be defined. Then all "relative's" SSNs would have to be recorded somewhere creating a system of records for which Privacy Act implications would have to be considered. In addition, this file would have to be updated whenever an employee's "relatives" changed. Such a process would be unworkable and would create serious public and labor relation problems. In lieu of preventive measures, SSA relies upon various integrity reviews where managers review transactions and queries that employees have taken or requested on relatives.
- o Management approval is required to process any action on the account of another SSA employee. In addition, office managers receive and review lists of transactions processed in their office on the accounts of SSA employees.
- o Effective with Modernized Enumeration System Release 3, which was implemented in August 1997, two PINs are required to enumerate U.S.-born individuals age 18 or older who are applying for an SSN for the first time.

Recommendation

- **Strengthen both the claims integrity and the security and integrity review processes. First, the criteria for selecting case files for review must be enhanced to increase the number of files reviewed and ensure the quality of the review performed. Secondly, appropriate staffing must be assigned to ensure the timeliness of the reviews. And finally, new guidelines must be developed to require field office personnel to maintain appropriate documentation in the files for review purposes.**

SSA Comment

We have determined that overall systems integrity and security are better served by directing our scarce resources to the development of CIRP rather than diverting these resources to enhancing the several current integrity reviews. SSA believes that its service to the public is enhanced by the redesign of its business processes and the improvement of its automated systems which enables us to rely less and less on hard copy documentation. Under the current funding

environment, we have to continue to look for ways to decrease the cost of customer support. This report provides no evidence that it would be cost-beneficial to spend any more resources in this area.

Recommendation

- **Appropriate procedures regarding the review of the data maintained in the ATS must be developed to include on-going periodic reviews of transactions or combinations of transactions which may involve fraudulent activity.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- **Develop guidelines that address end user "ownership" and responsibilities in the production environment.**

SSA Comment

We have guidelines that address end user ownership and responsibilities in the production environment. Our functional organization structure best meets the needs of the Agency.

Recommendation

- **Develop and implement a standardized profile structure for assigning and administering access capabilities to personnel throughout the organization. This structure is critical for ensuring efficiency in administration and maintenance of the overall security program, and warrants SSA conducting a comprehensive requirements analysis for all individuals.**

SSA Comment

We have a standardized profile structure in place for SSA field activities and much of SSA central office, except for the Office of Systems. The Office of Systems has established a workgroup to develop a standardized profile structure.

Finding Number 5: SSA's Quality Assurance Activities Need Improvement

General Comment

OSCAR reviews are conducted in accordance with Section 2, FMFIA, to determine if management controls are implemented and effective, whereas security and integrity reviews are intended to review selected transactions to determine if they were processed properly.

In March 1997, SSA revised the minimum onsite review requirements to require that 10 percent of field offices be reviewed each fiscal year (rather than the 20 percent previously required). In fiscal year 1997, SSA conducted 1,499 OSCAR reviews of management control areas, or about 134 percent of those required under the new program. At the same time the Agency initiated a pilot program using automated data in two Regional Offices designed to compile and analyze field office workload data for the purpose of targeting offices for review. The targeting of offices to be reviewed based on workload data will promote a more efficient use of the OSCAR and integrate performance measures into the FMFIA program. Concerning the security and integrity reviews, SSA is giving priority to developing CIRP rather than using scare resources to improve the security and integrity process.

Recommendations

We recommend that SSA:

- **Consider establishing a National Controls Committee as a sister organization to the National Fraud Committee to reassess the overall balance between internal controls and service delivery using a top-down accountability framework to help management achieve its goal of zero tolerance for fraud and abuse. The National Controls Committee should be empowered to guide, monitor, report, and reward good management controls and to monitor audit follow-up and resolution.**

SSA Comment

We have established an Executive Internal Control Council and do not see any reason to expand its charter at this time.

Recommendation

- **Summarize current control and quality assurance processes under one controls plan in order to address the overall adequacy of the control environment. This plan should be risk-based in such a manner that all key processing and operational risks are addressed from a control and quality assurance perspective. The controls plan should address key SSA business processes one by one, identifying control techniques and their scope. The controls plan should be a key input to the National Controls Committee as described above.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- o **Increase internal audit and FMFIA review emphasis in programmatic and other technical systems areas. To provide meaningful audit coverage of SSA's large and pervasive systems applications, ensure that the Office of Inspector General, in accordance with the Inspector General Act, has complete access to any**

application at any time, to avoid delays in reviewing systems and to provide complete independence in determining the scope of each review.

SSA Comment

We believe that our current FMFIA review program provides the Agency reasonable assurance that its programs and systems are in compliance with FMFIA and other Federal requirements. Beginning in July 1998, SSA will implement a contractor-conducted review program that continues the current practice of conducting a detailed review, including transaction testing, of each SSA automated financial management system once every five years. SSA's systems managers will also conduct a limited review of each system during that 5-year period. Under the same new contract, SSA will for the first time require its contractor to review SSA's management control program at its central office, regional offices, processing centers and field offices. We estimate that the contractor will visit about 5 regional offices and conduct OSCAR reviews at about 40 to 60 field offices annually. These OSCAR reviews will be in addition to those conducted by regional offices. The new contract will also require that the management control reviews and financial management systems reviews be performed to Generally Accepted Government Auditing Standards.

We believe OIG has adequate access on the financial audit while in progress and through its overall involvement in the audit.

Recommendations

- o **Determine the adequate level and scope of applying existing assurance activities, in light of the fact that these are key mitigating controls for other control weaknesses caused by resource shortages, empowerment mechanisms, and other business needs. In cases such as integrity reviews, apply statistical sampling methods to obtain meaningful levels of reportable results.**
- o **Set goals to obtain coverage as planned and measure the quality assurance activities performed.**
- o **Establish appropriate reward mechanisms for good performance in quality assurance activities.**
- o **Maintain key documents in claims files or imaged files to enable effective review and supervision.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- o **Establish one workgroup that has primary responsibility for earnings suspense file resolution.**

SSA Comment

We do not agree. The Office of Central Records Operations, under the direction of the Deputy Commissioner for Operations, has responsibility for follow-up and resolution of items in the Earnings Suspense File (ESF). We have established a tactical plan to reduce both accretions to the ESF and its overall size, and to improve employer accountability for earnings data submitted. SSA also has an intercomponent workgroup to implement the tactical plan initiatives.

Recommendation

- o **Document the processes used in revenue estimation and certification so that these may be performed in the absence of key employees.**

SSA Comment

More extensive documentation of the revenue estimation process would be useful in explaining our methods, and therefore would have some value. However, by itself, such documentation would not enable untrained personnel to perform the estimation function. The computer programs are so large and complex that training by the existing staff is indispensable for anything beyond rote operation. We have hired a new staff member to provide for succession, and intend to add another person in the future.

Regarding the process for revenue certification, we believe that it is properly documented. Although it is true that the POMS documenting certification procedures have not been revised in recent years, written guidelines describing the procedures currently exist in the SSA Office of Program Accounting Operations, where employees are cross trained so that there is at least a primary and backup person for each function. These procedures are kept current as systems are modified. We plan to update the POMS by the end of this fiscal year.

Report on Management's Assertion Regarding Substantial Compliance with FFMIA

For the reasons shown in our general comments, we believe that it has satisfied the requirements of OMB Circulars A-127 and A-130, Appendix III for the following four conditions:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures; and,
4. SSA needs to improve controls over insufficient separation of duties.

Report on Compliance with Laws and Regulations - Continuing Disability Reviews

We recognize that there is an inventory of CDRs to be processed and have obtained additional funding to address this. As a result, the Agency continues to significantly increase the number of CDRs processed on a year-to-year basis.

Other Matters

Auditor's Note

Material was deleted from SSA's comments relating to information in the draft report which was changed in the final report.

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

**INSPECTOR GENERAL'S REPORT
TO THE CONGRESS**

OCTOBER 1, 1996 - SEPTEMBER 30, 1997



Office of the Inspector General *Mission Statement*

Mission

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

Authority

The Inspector General (IG) Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the Inspector General with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

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

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Overview of the Office of the Inspector General

Created in 1935, the Social Security Administration (SSA) has grown to be an indispensable part of the American way of life. SSA directly touches the lives of more people than any other public service agency in the United States. More than 50 million Americans depend on SSA's programs. Under the Social Security Act, as amended, SSA administers the Old-Age, Survivors and Disability Insurance (OASDI) Program, popularly called Social Security or title II, and the Supplemental Security Income (SSI) Program, a needs-based and means-tested assistance program, also known as title XVI. In FY 1997, SSA paid almost \$385 billion in benefits to retirees; the needy, aged, blind and disabled persons; their spouses and dependent children; and certain surviving family members of deceased insured workers. It is vital that the public has confidence and trust in SSA and its programs.

SSA is vast in size, employing about 65,000 people in over 1,500 offices. In addition, the disability program depends on the support of the 15,000 State employees of the 54 Disability Determination Services (DDS) located in all 50 States, the District of Columbia, Guam and Puerto Rico. The DDS are State agencies that determine whether individuals are disabled.

Under the Social Security Independence and Program Improvements Act of 1994 (Public Law 103-296), SSA was provided with its own statutory Office of the Inspector General (OIG), effective March 31, 1995. OIG's mission is to improve the effectiveness and efficiency of SSA's operations and programs and to protect them against fraud, waste, and abuse.

Our Fiscal Year (FY) 1997 budget included an appropriation of \$37,354,000 and the authority for 383 positions to support OIG operations. To effectively carry out and accomplish the OIG's mission and to support the Agency's goals, the office is organized into five components.



Office of Investigations

The Office of Investigations conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA's programs and operations. This investigative activity also includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. The Office of Investigations frequently conducts joint investigations with other Federal, State, and local law enforcement agencies. The Office of Investigations is organized into seven field divisions and the Enforcement Operations, Strategic Enforcement, and Special Inquiries Divisions, which are headquarters components. The Enforcement Operations Division oversees the day-to-day activities of the field divisions. The Strategic Enforcement Division, staffed with senior investigators, identifies and targets for investigation SSA programs and operations that are potentially vulnerable to widespread fraud and abuse. The Special Inquiries Division handles sensitive investigations into allegations of wrongdoing by senior SSA officials. In addition, the OIG's Office of Investigations and the Agency have established a unique partnership through the National and Regional Anti-Fraud Committees to jointly combine their efforts and forces in a seamless attack on fraud, waste, and abuse.



Office of Audit

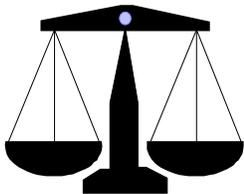
The Office of Audit conducts comprehensive financial and performance audits of SSA's programs and operations. In its reports, the Office of Audit makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the efficiency and effectiveness of SSA's programs. The Office of Audit also conducts short-term management and program evaluations focused on issues of concern to SSA, the Congress, and the general public.

The Office of Audit is organized into issue area teams that provide centers of expertise in each of SSA's program areas. We have issue area teams for Enumeration; Retirement and Survivors Insurance Program; Earnings; Supplemental Security Income/Old-Age, Survivors and Disability Insurance Programs; Field Office Operations; Office of Hearings and Appeals; State Disability Determination Services; Program Service Center/Teleservice Center Operations; Financial Management; Systems; General Management; Payment Accuracy; and Performance Monitoring. The Office of Audit has permanent sites in 10 cities across the Nation.



Office of Operations

The Office of Operations coordinates the OIG's strategic planning function, the development and implementation of performance measures required by the Government Performance and Results Act, public affairs, interagency activities, reporting requirements and publications, and responses to congressional inquiries.



Office of the Counsel to the Inspector General

The Office of the Counsel to the Inspector General provides legal advice and counsel to the Inspector General and senior staff on various matters, including: 1) statutes, regulations and legislative and policy directives governing the administration of the SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material. Section 4(a) of the Inspector General Act of 1978, as amended, requires the Inspector General to review existing and proposed legislation and regulations and make recommendations concerning the possible effects on the economy and efficiency of the administration of the Agency's programs. The Counsel's office is also responsible for the implementation of the Civil Monetary Penalty Program.



Office of Management Services

The Office of Management Services coordinates resource management needs for the OIG components by providing budgetary, administrative, facilities and equipment, human resources, and information resources management. The Office of Management Services also manages the Hotline, which receives allegations of fraud, waste, and abuse that could threaten the effectiveness and efficiency of SSA's programs and operations.

Office of the Inspector General Summary Of Activities

This report chronicles the accomplishments of OIG for FY 1997. During this past year, SSA's Actuary estimated that SSA will save about \$3.4 billion over 7 years, of which an estimated \$480 million will be realized during Calendar Year 1997. These savings are due to SSA's implementation of initiatives resulting from audit work regarding prisoners. Individuals who are incarcerated are not entitled to receive SSA benefits during their incarceration. OIG reported that not all prisoners in correctional facilities were being identified in a timely manner, or at all, by SSA. OIG had originally estimated that \$48.8 million was made in overpayments. However, the Agency initiated aggressive efforts to establish more effective systems to ensure that SSA benefit recipients who become incarcerated do not continue to receive payments. The Federal Bureau of Prisons, all State prisons, and more than 3,500 local facilities agreed to report prisoner data timely to SSA.

During FY 1997, the Office of Audit issued 54 reports with recommendations that over \$700 million could be put to better use. In addition, OIG's criminal investigators, with the participation of SSA employees and other law enforcement agencies, conducted investigative activities that resulted in 2,507 criminal convictions, of which 1,469 were deportations related to Social Security Number (SSN) fraud, and more than \$64¹ million in fines, judgments, and restitutions. It is significant to note that our financial achievements well surpassed our total budget authority of \$37,354,000 for FY 1997.

The integrity of SSA's trust funds relies on the trustworthiness and dedication of SSA's many employees. Unfortunately, a few corrupt employees can compromise the integrity of the Social Security system and undermine the public's confidence in the Agency's programs. Twenty-nine of the criminal convictions obtained during this period involved SSA employees. Employee fraud cases usually involve creating fictitious identities, fraudulently issuing and/or selling SSN cards, misappropriating refunds during the collection and deposit of overpayments, or abusing access to confidential information. In addition, SSA took 828 disciplinary and adverse actions against employees, some of which resulted from OIG investigations and referrals. These personnel actions included removals, reprimands, suspensions, and demotions.

Different investigations have found unscrupulous individuals defrauding SSA's programs through theft and forgery of benefit checks, using fraudulent medical records, feigning disabilities, filing false claims, making false statements, concealing the deaths of beneficiaries to continue to fraudulently receive their payments and/or concealing factors affecting initial or continuing entitlement to or eligibility for benefits. Information regarding some of our more significant investigations may be found beginning on page 132.

OIG PURSUES CIVIL REMEDIES

The Commissioner delegated to the Inspector General, under section 1140 of the Social Security Act, the authority to impose civil monetary penalties against entities that use SSA's program words, letters, symbols, or emblems in advertisements or certain other communications in a manner which conveys, or which reasonably could be interpreted or construed as conveying, the false impression that the advertisement or other communication was approved, authorized, or endorsed by SSA. Before imposing civil monetary penalties, cease and desist letters are issued advising entities of the violations and requesting voluntarily compliance with section 1140.

During this past fiscal year, the Office of the Counsel to the Inspector General reviewed 176 complaints involving 40 entities (including 25 new entities). Complaints against 28 of the entities were closed. Twenty-four were closed because there was no violation of section 1140; four were closed because the entities had agreed to comply with a cease and desist letter.

¹ Of which \$21,450,322 is based on calculations of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds over a 5-year period.

On September 3, 1997, OIG agreed to settle a claim against an individual for false statements which he made to SSA in violation of section 1129 of the Social Security Act. It is a violation of section 1129 of the Act for any person to make a statement or representation of a material fact for use in determining any initial or continuing right to benefits under the Old-Age, Survivors and Disability Insurance Program, or payments under the Supplemental Security Income Program, which the person knows or should have known is false or misleading. A person who violates this statute is subject to a civil monetary penalty of up to \$5,000 for each statement or representation and an assessment, in lieu of damages, of up to twice the amount of benefits or payments paid as a result of the statement(s) or representation(s). In this case, the individual made false statements to conceal the fact that his wife had died and that he had improperly received \$15,844 of her retirement benefits. OIG reached a settlement of \$24,000 on its claim. The individual paid \$2,000 in a cashier's check at the execution of the settlement agreement and the remaining balance of \$22,000 will be offset from his future retirement benefits.

OIG ISSUES REGULATORY COMMENTARIES

During this fiscal year, the Office of the Counsel to the Inspector General issued two regulatory commentaries. The first regulatory commentary, entitled "Agency's Removal of Signature Blocks from Thirteen Disability Interview Forms," reviewed the Agency's decision to remove signatures from 13 different disability forms. We believe that this could have a wide-ranging effect on SSA and OIG operations. More specifically, our review detailed how this policy could compromise the integrity of Agency disability decisions and hamper OIG efforts to bring criminal, civil, and civil monetary penalty cases to adjudication. The commentary recommended that SSA: 1) restore the signature certification and warning block to the 13 disability interview forms; and 2) change existing procedures which permit SSA employees to alter Agency forms after completion by a claimant. SSA plans to temporarily reinstate the signature block for reasons unrelated to the commentary. Meanwhile, the Agency will review its current signature policy in light of OIG's concern. The Agency agreed that the removal of the signature requirement on certain disability forms would make criminal or civil prosecution more difficult. Nonetheless, the Agency questioned whether this inability to prosecute presented a true fraud vulnerability.

The second regulatory commentary, "Computer Warning Banners," informed SSA of the need to create and implement computer warning banners on the Agency's Internet and Intelligent Work Station/Local Area Network (IWS/LAN) systems. Such banners help prevent and detect computer-generated fraud and abuse in an agency's programs and operations. We found that recent computer break-ins at other Federal agencies had generated a great deal of public concern about the security of Federal computer systems. Highly publicized break-ins at U.S. law enforcement, defense, and intelligence agencies within the last year had spurred a Governmentwide move to shore up computer security systems. We coordinated our efforts with the Department of Justice which, with the support of the Federal Bureau of Investigation, is encouraging all Federal agencies to implement computer warning banners on their systems. As part of our research, we polled other Federal agencies and determined that 10 agencies have either instituted or are in the process of instituting a computer warning banner.

We recommended that SSA implement computer warning banners that would deter and detect computer crimes and facilitate the search and seizure of evidence of computer crimes in the workplace. We indicated that computer warning banners would have to be carefully drafted to balance employee privacy concerns with the OIG's interest in investigating fraud perpetrated within the Agency. SSA agreed with our recommendations and, with the assistance of the OIG, drafted two computer warning banners, one for the Agency's Internet Webpage and one for the Agency's IWS/LAN workstations around the country. On September 17, 1997, SSA implemented the Internet computer warning banner. With respect to the IWS/LAN computer warning banner, SSA is in the process of ensuring compliance with internal guidelines prior to final installation.

OIG HOTLINE BECOMES ONE OF THE LARGEST IN GOVERNMENT

Our Fraud Hotline, which became operational in November 1996, received over 75,000 calls during FY 1997 from a variety of sources. Thirty-one percent of the allegations were received from private citizens; 29 percent from anonymous individuals; 18 percent from SSA field offices; 6 percent from State/local public agencies; 6 percent from law enforcement agencies; 4 percent from other sources; 3 percent from beneficiaries; and 3 percent from SSA employees.

Once allegations are processed they are referred to the appropriate OIG or SSA component and/or to an outside agency for further development. OIG's Hotline referred 29 percent of the allegations to OIG's Office of Investigations; 18 percent to SSA components; and 3 percent to outside agencies. Further action on 50 percent of the allegations was deferred due to lack of sufficient information to substantiate the violation, lack of investigative leads, or insufficient resources. As a result of Hotline referrals to the Agency, SSA was able to recoup approximately \$55,900.

Most allegations received by the Hotline fall into one of four categories: SSN (i.e., obtaining an SSN based on false information, counterfeiting SSN cards, misusing SSNs to obtain benefits and services from Government programs, improperly issuing SSNs for illegal work activity by noncitizens, etc.); Program (i.e., concealment of work activity, false claims, forgery, deceased payees, marriage not reported, etc.); Employee (i.e., mismanagement, discrimination, sexual harassment, unauthorized activities, etc.); and Other (i.e., misuse of SSA's symbols, misuse of direct deposit, multiple benefits, excessive fee charges, diversion of funds, receiving benefits for children not in recipient's care, mail fraud, etc.).

OIG MOVES ON-LINE

During this fiscal year, OIG's information technology team experienced notable achievements. OIG purchased 126 computer workstations and printers to support all OIG personnel nationwide. The team completed network connections to all offices throughout the country including electronic mail, and now most offices have access to the SSA mainframes to perform queries. They also developed an OIG Webpage now on the Internet, transitioned from the Department of Health and Human Services' Automated Data Processing system to SSA's network, and trained the OIG employees to utilize the capabilities of the new technological environment.

Office of the Inspector General Significant Investigative and Audit Activities

We have summarized both our audit and investigative activities under the following eight categories: Task Forces and Major Investigative Initiatives; Enumeration; Earnings; Initial Claims; Post-entitlement; Financial Management; General Management; and Representative Payee. Enumeration, Earnings, Initial Claims, and Post-entitlement are among the core business processes identified by SSA's General Business Plan for Fiscal Years 1997-2001. The Financial Management, General Management, and Representative Payee categories include cross-cutting issues that affect all of SSA's operations. The following section highlights the OIG's significant activities:

TASK FORCES AND MAJOR INVESTIGATIVE INITIATIVES

The OIG participates jointly with the Agency in a number of task forces, operations and study groups promoting economy and efficiency and deterring fraud, waste and abuse. Together we launched and/or continued the following initiatives:

OIG Leads Payment Accuracy Task Force

The Payment Accuracy Task Force is an SSA-wide initiative led by the OIG's Office of Audit. It was created to improve the accuracy of payments for SSA's Old-Age, Survivors and Disability Insurance and Supplemental Security Income Programs. This task force is guided by a high-level steering committee of Associate Commissioners from SSA's major components. Through an OIG/SSA cooperative effort, the steering committee has established multi-disciplinary issue teams to analyze the causes of payment errors and recommend corrective actions to SSA's Executive Staff. Despite SSA's efforts to improve its payment accuracy rates, error rates have remained constant over the years. Even small percentages of error represent large costs to the Agency, beneficiaries, and taxpayers. For example, a one-tenth of 1 percent error in the \$385 billion benefits paid out by SSA in FY 1997 equals \$385 million.

The Earnings Record payment error category was the first issue area to be addressed by the task force. It was selected because it consistently accounts for the largest amount of dollar errors. The team examined SSA's payment processes to identify the aspects of those processes that result in inaccurate payments and explored solutions for improving SSA's ability to issue accurate payments. In September 1997, the task force issued its first report on the Earnings Record payment error category that contained 18 recommendations to improve the accuracy of payments made to beneficiaries. The majority of recommendations require modifications to the Modernized Claims System and operating policies and procedures. Other recommendations address training, employee feedback, public information, and the impact of the recent automation of the field office earnings adjustment process. The next issue area is scheduled to be studied beginning in January 1998 and will focus on Supplemental Security Income Earned Income errors.

Inspector General Co-Chairs National Anti-Fraud Committee

In September 1997, the National Anti-Fraud Committee sponsored its second National Anti-Fraud Conference, "New Approaches in a New Environment." This committee, comprised of SSA Deputy Commissioners and co-chaired by SSA's Deputy Commissioner for Finance, Assessment and Management and Chief Financial Officer and the Inspector General, welcomed a week-long conference to present and discuss anti-fraud issues and SSA's recently initiated "Zero Tolerance for Fraud" campaign. The conference was attended by over 450 SSA and OIG employees from headquarters and field offices.

In addition, OIG Special Agents-in-Charge chair Regional Anti-Fraud Committees in their respective field division locations. These committees bring together OIG's investigative experience and SSA personnel's program and operational knowledge in a concerted effort to identify and prevent fraud in SSA programs. Committees focus on key issues such as the process for potential fraud referral and necessary training in detecting fraud and counterfeit documents. They also foster improved communications between SSA and OIG components and encourage suggestions to further the goals of the committees.

To support SSA's "Zero Tolerance for Fraud" initiative, the Office of Investigations' Strategic Enforcement Division formed task forces to identify areas that are potentially vulnerable to widespread fraud and abuse. These task forces are operating in joint efforts with the Agency as well as with other Federal, State, and local agencies to effectively respond to criminal activities that target the Social Security system and undermine the public's confidence in the Agency's programs.

Our Strategic Enforcement Division undertook seven major initiatives during FY 1997:

1. OPERATION BORDER VIGIL ADDRESSES RESIDENCY ISSUES

This effort was established to address residency issues as they pertain to entitlement to and/or eligibility for SSA benefits. Currently there are 369,629 individuals living in foreign countries who are receiving \$1.9 billion in retirement, survivors and disability payments annually. Monthly benefit checks are disbursed to almost every country in the world. These individuals have every right to reside wherever they wish, but foreign residency makes it difficult for SSA to verify continued eligibility. SSA does not have a system in place to determine if all the individuals receiving payments are alive, and whether or not their children and/or spouses are still entitled to receive the payments.

Individuals who receive Supplemental Security Income payments, on the other hand, must reside in the United States to maintain their eligibility for benefits. There are 785,000 aliens and an unknown number of citizens receiving Supplemental Security Income checks every month who have birth ties to foreign countries. One concern with the Supplemental Security Income Program is that individuals enter the United States as resident aliens, refugees or even obtain citizenship to establish eligibility for and begin to receive benefits, then move back to their countries of origin. The pilot projects discussed below were used as a basis for establishing limited scope operations at selected foreign sites for suspicious Supplemental Security Income claims.

The Chula Vista residency fraud project was the first operation established to target individuals fraudulently receiving Supplemental Security Income while residing in Mexico. SSA's Chula Vista, California Field Office manager began this effort to address concerns about improper payments to recipients living in Mexico. With the assistance from the OIG and private investigators, the SSA field office identified 26 Supplemental Security Income applicants who had provided false residency information. In addition, Supplemental Security Income payments were stopped to 99 recipients who were not residing in the United States. Our investigative work has resulted in 17 indictments, 6 arrests, and 2 convictions for fraud. This effort also resulted in 18 arrests and 8 convictions of individuals committing SSN fraud.

The El Paso residency verification pilot was also initiated as a result of numerous complaints about residents of Mexico receiving Supplemental Security Income payments. This operation was designed to identify individuals receiving payments based on fraudulent statements regarding residency, or other eligibility factors such as citizenship, alien residency status, age, income, and resources. The operation focused on the total population of 2,107 Supplemental Security Income recipients with residence addresses in two El Paso, Texas zip code areas. The initial contact, requesting evidence of residency, was made through the mail. Approximately 1,150 interviews were conducted to resolve issues related primarily to residency. The operation thus far has stopped payments to 156 recipients who did not meet the required eligibility criteria and identified \$1.6 million in fraudulent payments. The amount of payments avoided as a result of this effort is estimated at \$3 million.

2. VALIDATION SURVEYS VERIFY ELIGIBILITY

The Office of Investigations participated in several international validation surveys to verify beneficiaries' existence, identity, and continuing eligibility. Those beneficiaries found to be no longer eligible for benefits or collecting benefits fraudulently are then removed from the rolls. In concert with SSA's Office of International Operations, we conducted surveys in Argentina, North Yemen, and Costa Rica. We also joined forces in conducting a series of surveys with the Department of Defense and the U.S. Secret Service under "Operation Mongoose," which utilized state-of-the-art computer technology data matching techniques to detect and deter fraud. These surveys took place in Korea, Japan, and the United Kingdom and resulted in the termination of payments to individuals no longer eligible to receive benefits. The results of these surveys are being used to evaluate the advisability and reality of creating a project that will effectively and efficiently identify and address program fraud conducted in foreign locations.

We also participated in a validation survey with SSA's Office of Program and Integrity Reviews. The survey's objective was to identify foreign-born Supplemental Security Income recipients not living in the United States and to terminate their benefits, if appropriate. The survey targeted 900 foreign-born recipients and has identified some individuals with the potential of having their benefits terminated.

3. OPERATION WATER WITCH TARGETS FUGITIVE BENEFIT SUSPENSIONS

SSA's ongoing efforts in prison matching identify beneficiaries who have been imprisoned as a result of felony convictions. SSA benefits are suspended if a recipient is incarcerated. In some instances, when prison officials are contacted to verify the incarceration, SSA is informed that the prisoner has escaped. Based on this experience, the Office of Investigations created an initiative to use the prison match to locate escapees and parole violators who are still receiving SSA benefit payments.

In the past, SSA considered recipients in flight to avoid confinement still under an order of confinement, and therefore payments were stopped. This act negated an opportunity for apprehending the criminals and possibly recovering the improper payments. In FY 1997, with the assistance of other law enforcement agencies, we were able to arrest five escaped felons and suspend benefit payments to an additional 18 escapees. These escapees had already received \$333,000 in fraudulent payments. We estimated that these escaped felons would have received approximately \$450,000 in additional payments.

4. OPERATION CONTENDER TARGETS DISABILITY FRAUD

Operation Contender is designed to investigate and prosecute service providers (lawyers, doctors, representative payees, and interpreters) who aid individuals in fraudulently obtaining eligibility for Disability Insurance Program benefits. In Washington State, a task force of SSA employees, and Federal and State investigators identified approximately 600 Cambodian Supplemental Security Income recipients in Pierce County who were suspected of fraudulently receiving benefits. Thus far, there have been 31 convictions, 60 cases accepted for prosecution, \$1.8 million in restitution, \$80,000 in forfeitures, and an estimated \$1.7 million in future payments avoided. The Strategic Enforcement Division is looking at this model for potential application in other areas of the country where similar types of fraud may be occurring.

The Disability Determination Services (DDS) pilot project was initiated to develop a process for detecting and investigating fraud in the Disability Insurance Program at the application stage. Of particular interest are the third-party facilitators such as attorneys, doctors, and translators. The pilot consists of teams of two DDS quality assurance and/or integrity specialists, two State law enforcement officers, and one OIG special agent. The DDS employees will provide their institutional knowledge of abusive practices. We will also receive additional information from criminal and insurance fraud data bases. Local investigators will provide the resources necessary to identify widespread patterns of regional fraud. Since many disability programs are cooperative ventures with State governments, the inclusion of State investigators on the team is vital. These teams will review and investigate suspected fraud referrals from the DDS and the Office of Investigations. A number of DDS offices requested to be pilot sites. Five areas were selected for this project: Oakland, California; Chicago, Illinois; Atlanta, Georgia; Baton Rouge, Louisiana; and Brooklyn, New York.

5. OPERATION CLEAN SLATE IDENTIFIES EMPLOYEE SYSTEMS ABUSE

This operation is intended to identify and prosecute employees who fraudulently manipulate SSA electronic records systems to commit program fraud and other crimes. An example of this approach is a project nearing completion that involved a New York credit card investigation. This project identified several credit card conspiracies that resulted in the arrest of 17 SSA employees and 3 SSA contract guards. The estimated loss to financial institutions was \$30 million.

As part of this operation, a committee comprised of security executives from major bank card and credit card companies was established to periodically advise the OIG on fraud trends within their industry. Manual comparison of SSA employee query information with stolen credit card reports has been successful in identifying employee collaboration.

6. OPERATION OCTOPUS IDENTIFIES FRAUDULENT USES OF SSNs

This operation has established several projects to identify and prosecute individuals fraudulently obtaining SSNs or using the SSNs of others for fraudulent purposes. One initiative focused on cases that identified a pattern of Eastern European illegal aliens using common identification documents to obtain SSN cards as a precursor to a host of fraudulent activity. Our efforts resulted in the arrest of 24 individuals for SSN fraud across 7 States. Other projects will be implemented to identify the fraudulent use of the SSN for various criminal activities. Another effort resulted in the identification of nine individuals who filed false income tax returns and student loan applications using fraudulently obtained SSNs. This fraud scheme resulted in a loss of at least \$1 million to the Federal Government.

Many State Bureaus of Vital Statistics have reported the theft of a number of blank birth certificates. Using a birth certificate is the first step in establishing a false identity for criminal activities. The second step is to acquire an SSN. We have identified a State where we will match the place of birth in the SSA records with the respective Bureau of Vital Statistics records to identify individuals with SSNs who apparently used fictitious information for their applications. The goal of this project is to expose persons committing a variety of crimes.

7. OPERATION FAIR SHARE MERGES INTERAGENCY EFFORTS TO DETECT EMPLOYER FRAUD

This operation will be a coordinated effort with outside Government agencies to identify and address employers who are defrauding and abusing SSA programs. An initial project will isolate the misuse of the SSN as indicative of fraud involving illegal aliens or attempts to establish fraudulent financial accounts. Task force initiatives will focus on employers who violate Federal laws in their hiring practices or fail to pay Federal Insurance Contributions Act (FICA) taxes for their employees.

A recent law requires that SSA provide the Attorney General, in electronic format, information regarding the unauthorized employment of aliens. During FY 1996, SSA reported that over 1.3 million nonwork SSNs had earnings posted to their accounts. In addressing employer fraud, OIG hopes to make use of this type of information to identify employers who are routinely hiring large numbers of individuals who are not authorized for employment.

OIG Developing Computer Forensic Capability

We are implementing an initiative to ensure readiness to combat "electronic crimes." Current investigations require a "computer forensic" capability to appropriately recognize and recover evidence in the electronic environment. The specific goals of this initiative are to identify and train special agents in each field division who will conduct "electronic crime" investigations and who will seize computers involved in investigations. With SSA's decision to expand on-line applications for customers, OIG recognizes the need to increase resources devoted to identifying and addressing exploitation of SSA systems and services.

OIG Helping Census Bureau Develop Single Audit Clearinghouse

The Single Audit Act Amendments of 1996 established a Federal clearinghouse to receive copies of Single Audit reports covering Federal, State, and local Governments as well as nonprofit organizations. As part of this collaborative effort, the Office of Audit has been working with the Census Bureau's Single Audit Clearinghouse Task Force to develop a Single Audit report data base, identify the data elements to be collected Governmentwide, and refine the machine-readable form used to input data.

Office of Audit Participates in SSA Task Forces

As a member of SSA's Electronic Service Delivery Steering Team, the Office of Audit is involved in efforts to select, assess, and foster the innovative use of technology to improve service to the public, improve support for employees, and increase Agency efficiency. In addition, our role is to identify potential audit and investigative problems early in the process development stage and suggest preemptive remedies. The OIG also served on a work group responsible for establishing criteria to be used by SSA in determining the level of authentication necessary to appropriately secure private information about beneficiaries using a range of possible electronic services. We were concerned that the Electronic Service Delivery Steering Team still needed to establish a plan identifying current and future initiatives and a process for approving new proposals. The steering team initiated actions to develop a strategic plan and a formal work plan, and to establish procedures for adding and managing future projects.

The Office of Audit also participates on SSA's Customer Service Executive Team. The team is responsible for developing an ongoing process to review and update SSA's performance measures and customer service standards within the context of SSA's strategic planning process. Moreover, the team will make recommendations for any changes to the current performance measures and customer service standards based on input from customers and stakeholders.

OIG Active in President's Council on Integrity and Efficiency

The Inspector General serves as editor of the President's Council on Integrity and Efficiency's Journal of Public Inquiry, a semiannual publication. This journal focuses on issues and topics of interest to the Inspector General community.

ENUMERATION

Enumeration is the process by which SSA assigns original SSNs, issues replacement cards to individuals with existing SSNs, and verifies SSNs for employers and other Government agencies. SSA processed 16.3 million requests for new and replacement SSN cards in FY 1997. The expanded use of SSNs as identifiers has given rise to the practice of counterfeiting SSN cards, obtaining SSN cards based on false information, and misusing SSNs to obtain benefits and services from Government programs, credit card companies, retailers, and other businesses. Additional concerns relate to improperly issuing SSNs for illegal work activity by noncitizens, issuing multiple SSNs to individuals, and controls over third-party involvement (i.e., hospitals, relatives, and other Governmental agencies) in the enumeration process. During FY 1997, over 86 percent of our criminal convictions involved SSN fraud. Some of our significant work included:

Investigations:

Former SSA Employee Sold SSNs: A former SSA employee was sentenced to 15 months incarceration, to be followed by 3 years supervised probation, and was ordered to pay a \$300 special assessment fee. The employee pled guilty on January 18, 1997, to conspiracy and bribery of a public official and sale of SSN cards. The employee admitted to processing approximately 37 false applications for SSN cards and selling newly issued SSNs to a co-conspirator. The co-conspirator, a tax preparer, used the newly issued SSNs to file false income tax returns.

Man Obtained Two SSNs to Hide Stock Income: A Massachusetts man was sentenced to 41 months in Federal prison, to be followed by 3 years supervised release, and was ordered to pay \$418,541 in restitution, a \$75,000 fine, and a \$900 special assessment. He pled guilty to wire fraud, money laundering, misuse of SSNs, and false representations concerning SSNs. He devised and executed a scheme in which he presented false information on applications to SSA to obtain two SSNs so he could open securities trading accounts under a false identity.

Clergyman and SSA Employee Obtained Valid SSN Cards for Illegal Aliens: A long-time clergyman in Philadelphia's Korean community pled guilty to conspiring with an SSA supervisor to obtain valid SSN cards for over 600 illegal Korean aliens during the period of January 1992 through December 1994. The clergyman was sentenced to 30 months imprisonment, to be followed by 3 years supervised release, and was ordered to pay a fine of \$60,000. The SSA employee was sentenced on April 16, 1997 to 10 months imprisonment, to be followed by 2 years supervised release, and was ordered to pay a \$1,000 fine.

Man Obtained SSNs for Nonexistent Children to Obtain Fraudulent Benefits: Between 1993 and 1997, a California man applied for SSNs in the names of nonexistent children by utilizing counterfeit Arkansas birth certificates and counterfeit immunization records. The individual also used genuine California drivers' licenses, obtained through fraud, under several aliases to pose as the father of these fictitious children. The man submitted approximately 650 applications to SSA offices throughout California, resulting in the assignment of about 575 SSNs. On August 21, 1997, the man was arrested and charged with furnishing false information in connection with the establishment of SSNs. On September 5, 1997, he was indicted by a Federal Grand Jury and charged with conspiracy and knowingly submitting false information to obtain SSNs.

Individuals Misused SSNs in a Scheme to Defraud Insurance Companies: Since 1993, various individuals in the New York area were involved in a scheme that staged auto accidents and then subsequently filed false claims with 17 private insurance companies. The claims contained false, transposed and/or misused SSNs. Total fraud to date is in excess of \$500,000. As of August 5, 1997, 77 SSNs had been misused. On August 14, 1997, 10 of the 13 individuals indicted were arrested.

Audit:

Canada's Experience in Charging a User Fee for Social Insurance Number Cards, A-06-97-62003, May 22, 1997

To assist SSA in responding to a congressional request to determine the feasibility of charging a user fee for replacement SSN cards, we reviewed the experiences of the Canadian Government, which charges for replacement Social Insurance Number cards. We found that the primary purpose of the user fee is to generate revenue to help recover the cost of producing replacement cards. Based on these findings, and on SSA's cost estimates for producing SSN cards, we recommended that SSA charge a fee of \$13 to those individuals who need a replacement card. Relying on these estimates, we determined that SSA could increase its resources by approximately \$142 million annually by charging a replacement fee. However, the costs of producing the SSN card may increase with the additional costs associated with collecting the user fee. In September 1997, SSA provided Congress with a proposal providing options for charging a user fee for a replacement card.

EARNINGS

Social Security benefits are based on an individual's earnings as reported to SSA. SSA establishes and maintains a record of an individual's earnings for use in determining an individual's entitlement to benefits and for calculating benefit payment amounts. In FY 1997, SSA processed more than 249 million earnings items. In 1989, the Omnibus Budget Reconciliation Act mandated that SSA issue Personal Earnings and Benefit Estimate Statements (PEBES) annually to individuals over age 60 during FYs 1996 through 1999, and to persons age 25 and over beginning in FY 2000. This will generate additional work for the Agency, mostly in the form of public inquiries and requests for earnings corrections. In FY 1997, SSA issued more than 15 million PEBES.

Reviews in this area have noted problems with unidentified earnings items, omitted earnings reports, duplicate posting of earnings, and poor controls over the earnings correction process. Fraud related to earnings usually involves deception, such as false identity cases where an individual uses another person's identity or SSN that distorts the true SSN holder's earnings records and income tax records. Some of our significant work in the earnings area included:

Investigations:

Disability Beneficiary Concealed Work as a Limousine Driver: A New York man was arrested after voluntarily surrendering for a false statement violation. He confessed to having received SSA disability benefits under one SSN and name while working as a limousine driver with another SSN and name. He had been receiving benefits since 1981 and had been overpaid \$48,199.

Couple Charged with Grand Theft, Perjury, and Welfare Fraud: A California couple, with the wife acting as a representative payee, never declared owning property and a landscaping business for the past 10 years when applying for Supplemental Security Income and other welfare benefits. A 1997 review established that none of these earnings nor assets were declared on the Supplemental Security Income application. The couple has been sentenced to 5 years in a State prison (suspended), 5 years felony probation, and 1 year in the county jail (to be served). The couple was also ordered to pay restitution of \$354,000, of which \$48,634 were Supplemental Security Income payments.

Woman Concealed Employment while Receiving Disability Benefits: A California woman, while collecting disability benefits, applied for and received an SSN and a California driver's license under a fictitious name and then gained employment as a lab assistant. This was done to conceal employment so she could continue to receive disability benefits. SSA incurred a loss of \$112,000.

Parking Lot Attendant Worked under Alias to Continue Receipt of Disability Benefits: A New York disability beneficiary was employed as a parking lot attendant under a fictitious name and SSN. She was employed for 12 years while on disability and received disability benefits of \$92,989 to which she was not entitled. On February 28, 1997, she was sentenced to 4 years probation and 6 months home confinement. In addition, 5 percent of her annual gross income will be applied to the overpayments during her 4 years of probation.

SSA Disability Beneficiary Did Not Report Earnings: A Massachusetts man did not report wages to SSA while receiving disability insurance since 1990. He was sentenced to 5 months in a corrections house and 3 years of supervised release, of which the first 5 months is home detention, and was ordered to pay \$92,238 in restitution.

Audits:

Internal Controls of the Earnings Modernization 2.8 Program, A-03-95-02608, March 31, 1997

The objective of our review was to evaluate the accuracy of the operative controls to detect and prevent fraudulent entry of earnings corrections. The Earnings Modernization (EM) 2.8 program is the computerized process for making earnings corrections for errors found by individuals on their Personal Earnings and Benefit Estimate Statements. Our review showed that controls over the earnings adjustment process at the Mid-Atlantic Program Service Center and the Office of Central Records Operations need to be improved to address the increased vulnerability to fraud with the expanded access to the Master Earnings File resulting from the EM 2.8 program.

We recommended that SSA: 1) implement an internal review system at the Mid-Atlantic Program Service Center; 2) introduce separation of duties procedures at the Mid-Atlantic Program Service Center and the Office of Central Records Operations for high-risk transactions; and 3) improve its automated security matrix to restrict the usage of EM 2.8. While addressed to the locations reviewed, these recommendations apply system-wide and should be implemented at all locations having access to the EM 2.8 program.

SSA agreed to correct the matrix problem, but because the Agency is concerned with the effect additional controls will have on productivity, it did not agree with some of our recommendations. The Agency stated that it has satisfactorily addressed the vulnerability of the earnings adjustment process by putting in place a comprehensive package of administrative and system-enforced security controls. The SSA plans to implement the new Comprehensive Integrity Review Process software, which will provide additional transaction targeting capabilities, as well as the flexibility to dynamically control transaction selections and profile criteria for integrity reviews.

OIG disagreed with SSA's position, stating that while there are a number of intricate and overlapping controls in place, they would not detect nor prevent fraudulent entry of earnings corrections because these controls do not compensate for the absence of separation of duties. Further, it was noted that the Comprehensive Integrity Review Process software, when fully implemented, may be an acceptable compensating control for the absence of separation of duties; however, implementation is 3 years away.

Activity Related to the Suspense File - Management Advisory Report, A-03-96-31001 and A-03-96-31002, September 15, 1997

Two OIG audits on the Suspense File, "Use of Internal Data to Post Wage Items from the Suspense File" (A-03-96-31001) and "Review of Computerized Methods for Identifying Postable Suspense Items" (A-03-96-31002), have been deferred. SSA's Suspense File is the alternate repository for annual and quarterly wage items which are processed through the earnings system but fail to match a name or SSN in SSA's records. As of February 1997, the Suspense File contained over 203 million wage items representing over \$217 billion in covered wages. In July 1996, SSA informed OIG that pilot studies were being conducted in response to allegations made by the manager of the San Bernardino, California District Office concerning the methods used to reduce the Suspense File. Since these studies had similar objectives to our audits, we delayed our work and will review the results of SSA's pilot studies when they are complete.

While we did not complete our audits, we did observe staff at the San Bernardino District Office perform a review to reduce the Suspense File wage items of one employer. The procedures used included matching names and middle initials to data base files other than the Numident file. By using this system, 105 postings were matched, which reduced the Suspense File by \$1.62 million. We tested the accuracy of the review and determined that the procedures used, while not the standard, are valid.

The San Bernardino District Office had also alleged that the matching procedures discriminate against women and minorities. While conducting our preliminary reviews, we found that the earnings system has special validation rules for both women and minorities and wage earners with compound surnames which increase the chances that their wages will be posted.

We recommended that SSA's pilot tests should experiment with using the matching procedures devised by the San Bernardino District Office, using information other than the Numident file to match wage items that are in the Suspense File.

INITIAL CLAIMS

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

In FY 1997, SSA processed over 3 million initial claims for Old-Age and Survivors Insurance, 1.6 million initial claims for Disability Insurance, and 1.6 million initial claims for Supplemental Security Income. These programs may be defrauded by persons who file false claims, make false statements, or conceal factors affecting initial or continuing entitlement. Our work also places emphasis on future opportunities to improve the timeliness and accuracy of SSA's initial payments. The OIG's major concerns in these areas are delays in processing disability claims, reliability of disability determinations, benefit payment error computations, and inadequate internal controls. Some of our significant work included:

Investigations:

Arson of a Health Care Clinic Revealed Employee Who Concealed Employment to Receive Disability Benefits: An Indiana man was involved in the arson of a health care clinic where he was employed. It was later discovered that he had been employed while receiving disability benefits. As a result of this employment, the man received an overpayment of benefits of more than \$90,000 to which he was not entitled.

Two Individuals Received Benefits Based on False Identities: Two North Carolina individuals were indicted for conspiring to defraud SSA by applying for benefits using false documents and switching identities to receive disability benefits. They also admitted filing false nonreceipt of payment claims to receive duplicate checks. The approximate loss to SSA was \$80,000.

SSA Employee Completed Fraudulent Claims Forms and Received Half of the Check Amounts: An SSA Benefits Authorizer pled guilty to fraudulently filing, on nine separate occasions, forms for “Amount Due in the Case of a Deceased Beneficiary.” This form is completed by the next of kin for benefits owed on the account of a deceased relative. After forging the name of family members and close friends as claimants, the Benefits Authorizer processed a “Determination of Resumption or Award,” which initiated the issuance of a check from SSA to the relatives and friends to pay the full amount allegedly owed to the next of kin. Following receipt of the money, half of the proceeds were paid to the Benefits Authorizer. The employee agreed to make restitution in the amount of \$14,923.

Doctors, Middlemen, and Recipients of Supplemental Security Income Obtain Fraudulent Benefits: In Washington State, OIG participated in a task force which identified doctors, middlemen, and recipients involved in obtaining fraudulent benefits. During the period from April 1, 1997 to September 30, 1997, the task force successfully obtained 11 voluntary terminations of fraudulent benefits valued at \$449,138.

Three Sentenced for Fraudulent Billings to U.S. Government Agencies and Private Insurance Companies: Three defendants were part of a conspiracy to defraud various Government agencies and private insurance companies. They billed for payment for psychotherapy sessions, medical, nursing and transportation services provided to patients covered by the Government programs and private insurance carriers, when they knew that the patients had not received such treatments and services. One of the defendants was sentenced to 24 months in prison and 3 years supervised release, and was ordered to pay SSA \$65,010. In addition to his role in the conspiracy, this defendant was also fraudulently collecting disability benefits. Another defendant was sentenced to 27 months in prison and 3 years supervised release, and was ordered to pay restitution to three private insurance companies. The third was sentenced to 87 months in prison and 3 years of supervised release, and was ordered to pay a special assessment fee of \$1,400 and restitution to three Government agencies and three private insurance carriers. This defendant was also receiving survivors retirement benefits from SSA, which will be suspended during her incarceration.

Audits:

The Social Security Administration’s Payment for Medical Evidence of Record Obtained by State Disability Determination Services, A-07-95-00833, March 26, 1997

The objective of our audit was to assess SSA’s policy of reimbursing medical providers for the cost of providing medical evidence of record. To determine the medical condition of individuals applying for Disability Insurance and Supplemental Security Income payments and to ensure prompt receipt of medical evidence from treating sources, Congress authorized SSA to pay non-federal hospitals and health care providers directly for the medical evidence of record. The Congress believed that this practice would improve claims processing time and reduce the need for the Disability Determination Services to purchase additional consultative exams.

The major finding of our review was that claims processing time during the period from FY 1985 through FY 1994 increased substantially while consultative examination rates remained relatively constant. Additionally, we found that the State of Connecticut, which precluded reimbursement to both institutional and noninstitutional providers for medical evidence of record, has encountered no adverse effect on the disability determination process. Accordingly, we have concluded that reimbursing medical sources has had no discernible effect on improving the timeliness of medical evidence of record receipt or reducing consultative exam purchases.

We recommended that SSA reevaluate its policy for paying for medical evidence records. As part of this reevaluation, we suggested that SSA measure the time between the initial request for medical evidence of record and the receipt of the record. This data will furnish the information as to which providers are timely. We also recommended that SSA initiate a legislative proposal precluding payment to medical sources for medical records not received within 30 days from the date of the request, if this reevaluation discloses significant delays.

SSA deferred commenting on our recommendations, but agreed that payment should provide an incentive for timely and responsive submission of medical evidence. SSA, as part of its ongoing disability redesign process, plans to complete a reevaluation of the medical evidence collection process within 9 months from the date of its comments. If the reevaluation results show that statutory changes are needed, then SSA will propose the necessary legislation.

Payments to Surviving Spouses at Retirement Age, A-05-95-00016, March 28, 1997

We conducted this review to determine if surviving spouses were receiving the highest benefit at retirement age for which they were eligible and if SSA was effective in identifying and notifying affected individuals.

SSA procedures place the responsibility on surviving spouses to reapply for retirement benefits when their retirement benefits may become higher than their survivors benefits. We identified 7,694 surviving spouses who could potentially qualify for retirement benefits and who had attained age 65 in December 1992. A sample of cases (all were widows) disclosed that 16 percent were eligible for higher retirement benefits. Many of these widows did not apply for the retirement benefits and, therefore, were not receiving the highest benefits for which they were eligible. The widows were due increased monthly benefits with an average increase of 15.7 percent. The widows were unaware of the higher retirement benefits and, at their retirement age, SSA did not notify them. This problem could become worse as the number of widows entitled to retirement benefits grows due to the increase in women's participation in the work force.

We recommended that SSA improve its procedures to assist surviving spouses in receiving the highest benefits due to them. We expect that our recommendations will improve the accuracy of benefit payments to surviving spouses by \$660,000.

SSA implemented our recommendations and earlier this year identified more than 200,000 surviving spouses who were eligible for higher retirement benefits. These individuals were notified by letter and requested to contact SSA. Most of the individuals notified have filed claims and are now receiving the higher benefits.

POST-ENTITLEMENT

Once individuals become eligible for benefits, any changes in circumstances (events that affect the amount or continuation of payments, change of address, etc.) must be reflected in SSA's records. The post-entitlement process encompasses actions that SSA takes after claims have been processed as initial awards. This process contributes to timely and correct payment of benefits. In FY 1997, SSA processed 65.6 million post-entitlement Old-Age and Survivors Insurance transactions; 13 million Disability Insurance transactions; and 22.1 million Supplemental Security Income transactions.

Post-entitlement fraud includes the concealment of changes material to the beneficiary's or recipient's entitlement to or eligibility for SSA benefits. This concealment sometimes involves representative payees who defraud SSA programs either by filing fraudulent applications for persons not in their care or custody or through misuse of the benefits received on behalf of another. Individuals may also conceal facts affecting the beneficiary's continuing eligibility or entitlement such as remarriage, incarceration, or death. Some of our significant work included:

Investigations:

Woman Concealed Death of Husband to Continue to Receive His Benefits: An Iowa woman pled guilty to concealing the 1986 death of her husband from SSA. The woman did not disclose the death to SSA, buried him in the back yard of their residence, and continued to receive his disability benefits totaling \$106,318. After she admitted to the crime, the court sentenced the woman to 3 years supervised release and ordered her to pay full restitution.

Civil Action Filed against Man Who Cashed Deceased Brother's Retirement Checks for 31 Years: A Virginia man continued to cash his deceased brother's retirement checks from 1964 until October 1995, when the benefits were terminated. He had cashed \$120,086 in benefits over a 31-year period. A civil action was filed against the man in the amount of \$156,456 plus civil penalties in the amount of \$1,000,000, for a total of \$1,156,456.

Idaho Man, with the Help of His Mother, Allegedly Committed Murder to Receive Another Individual's Retirement Benefits: An Idaho man, with the help of his mother, allegedly murdered a 73-year-old man in 1986 and until 1997 collected \$78,198 of the deceased man's retirement benefits. These individuals were arrested and are being held without bond.

Granddaughter Forged and Negotiated Her Deceased Grandmother's Retirement Checks for 22 Years: A Massachusetts woman died in 1974 and her granddaughter forged and negotiated her retirement checks until 1996. The total loss to SSA was \$91,311. The granddaughter was sentenced to 2 years probation, of which the first 10 months are to be served in home confinement, ordered to pay full restitution of the amount, fined \$5,000, ordered to pay for the cost of her supervision, and required to perform 100 hours of community service.

Wife Continued to Receive Deceased Husband's Retirement Benefits: The wife of a deceased beneficiary acknowledged that she used the proceeds of her husband's retirement benefits subsequent to his death. The investigation documented that the wife did not notify SSA of her husband's death, had not attained the mandatory age to qualify for widow's benefits at the time of his death, and upon reaching age 60 had not filed an application with SSA for widow's benefits. The wife was subsequently charged with theft of Government property for continuing to receive via direct deposit her deceased husband's retirement benefits.

Son of a Deceased SSA Beneficiary Continued to Cash Father's Benefit Checks: A Connecticut man pled guilty on October 25, 1996, to one count of theft of Government property for cashing \$99,846 in SSA benefit checks subsequent to the death of his father. On January 13, 1997, the man was sentenced to 5 years probation, ordered to perform 100 hours of community service, and ordered to make full restitution.

Audits:

Effectiveness of SSA's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments, A-01-96-61083, June 24, 1997

The objective of this review was to determine whether SSA had adequate procedures in place for matching Federal, State, county, and local prisoner data to SSA's records and suspending payments to identified prisoners. This review also assessed whether SSA was effective in collecting overpayments from prisoners.

Our review indicated that procedures for matching prisoner data to SSA's records do not provide reasonable assurance that alerts were received in field offices and program service centers and processed in a timely manner. In addition, SSA is not effective in collecting overpayments from prisoners.

We estimated that prison data processing delays resulted in SSA's continuing to pay \$558,000 to 233 prisoners. Also, without controls over prisoner alerts, overpayments, estimated at \$5.7 million in Social Security benefits and \$3.8 million in Supplemental Security Income payments for the 6-month period ending December 1994, will continue. SSA has failed to collect \$8.9 million in Social Security benefits and \$11.5 million in Supplemental Security Income overpayments paid to prisoners.

By modifying the matching process and increasing electronic matches, the matching procedures for identifying prisoners receiving benefits would become more accurate. Establishing procedures to resolve old alerts and requiring program service center and field office managers to process alerts timely, with modifications built into the alerts accelerating their transmission, would improve the process. Finally, by establishing procedures for monitoring Supplemental Security Income overpayments and changing policy regarding collection efforts, the process for collecting overpayments from prisoners would be more effective. We also recommended that SSA intensify its collection activities for the \$8.9 million in Social Security overpayments and \$11.5 million in Supplemental Security Income overpayments that we identified. SSA's comments on this report expressed disappointment that we did not acknowledge or reflect the improvements in the prisoner suspension process which SSA has implemented even though it is limited in its authority to collect overpayments. As such, we also recommended that SSA pursue legislative change to allow more aggressive pursuit of the overpayments.

Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries, A-06-95-00076, July 29, 1997

Our objective was to evaluate SSA's policies and procedures for suspending and terminating benefits to Disability Insurance beneficiaries whom SSA cannot locate. We found that SSA's practice is to maintain the entitlement of unlocated beneficiaries by suspending, rather than terminating, benefits. This practice is inconsistent with section 223(f) of the Social Security Act and, in addition, overstates SSA's accrued benefit liability and program expense in the Agency's financial statements.

Our sample of unlocatable disabled beneficiaries whose benefits were suspended identified an estimated \$80 million in unpaid benefits to an estimated 3,340 unlocatable beneficiaries as of September 30, 1995. Also, related individuals (i.e. spouses and children) continued to receive benefits after payments to disabled persons were suspended. We estimated that these payments totaled \$1.4 million.

To resolve these problems, we recommended that SSA examine the entitlement status of all disability beneficiaries who are in suspended pay status because they cannot be located, and terminate benefits in cases where a reasonable time period lapses to locate the beneficiary and due process has been provided. SSA did not agree with our recommendations, citing legal opinions provided by the Agency's General Counsel which stated section 223(f) did not provide authority for terminating beneficiaries on the basis of returned mail.

The Adequacy of the Residency Verification Process for the Supplemental Security Income Program, A-06-96-62001, May 29, 1997

The objective of this review was to determine if the residency verification process is adequate to assess residency for individuals who receive Supplemental Security Income benefits living near the Mexico-United States border. More specifically, our objectives were to determine whether listings of addresses with multiple recipients are useful in identifying nonresident recipients, if home visits are effective for verifying residency for recipients, and if the Program Operations Manual System (POMS) contained adequate guidance to field offices for verifying that recipients are U.S. residents.

The results of a home residency verification study conducted by the Chula Vista Field Office proved the effectiveness of such visits. The field office determined that 63 recipients of its targeted population were overpaid \$385,443 because SSA was unaware that they were not U.S. residents and, therefore, ineligible for Supplemental Security Income. We also found that the POMS is lax in its instructions. Current

procedures allow SSA to make Supplemental Security Income payments to individuals based on testimonial information without obtaining documentary evidence supporting U.S. residency.

We recommended that SSA implement a process that field offices can use to search for addresses for its Supplemental Security Income recipient population, and SSA agreed. We also recommended that SSA increase resources for this activity by either hiring a contractor or making staff available. While SSA had concerns regarding this recommendation i.e., cost, the Agency agreed. In addition, we recommended that SSA revise POMS to provide for expanded residency development to verify questionable addresses of claimants and recipients (e.g., conducting home visits or researching third party information). SSA agreed with this recommendation as well, realizing that if the residency of recipients is not adequately developed, SSA risks making payments to ineligible nonresidents.

FINANCIAL MANAGEMENT

The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires agencies to report annually to the Congress their financial status and any other information needed to fairly present the agencies' financial positions and results of operation. To meet these requirements, SSA prepares annual financial statements. The OIG audits and issues an opinion on the fair representation of these statements. Our audit activity included:

Inspector General's Report on SSA's Fiscal Year 1996 Financial Statements, A-13-96-51001, November 22, 1996

The objective of our audit was to express an opinion on the fair representation of SSA's FY 1996 principal financial statements taken as a whole, test the internal control structure, and assess SSA's compliance with applicable laws and regulations that could have a material effect on its annual financial statements.

We found that the combined financial statements present fairly, in all material respects, the financial position of SSA at September 30, 1996 and 1995, and the results of its operations, change in net position, and cash flows for FY 1996, in accordance with generally accepted accounting principles.

In performing our test of internal controls, we found that SSA's primary benefit payment systems, the Modernized Supplemental Security Income Claims System, the Modernized Claims System, and the Manual Adjustment Credit and Award Data Entry System, lack sufficient compensating controls to accommodate for the lack of separation of duties. The absence of separation of duties poses a significant risk that employees could implement fraudulent financial transactions and not be detected. In addition, the title XVI Overpayment System remains a material weakness under the Federal Managers' Financial Integrity Act because it cannot generate reliable accounts receivable data.

We also found in our review of SSA's compliance with laws and regulations that SSA had implemented a programmatic change to eliminate the practice of posting overpayments to beneficiary records and initiating collection without providing the beneficiary with the legally required notification. However, we found no indication that SSA has attempted to contact the recipients we previously reported as already affected by this practice. Also, despite an increase in the number of continuing disability reviews performed by SSA, a substantial backlog of approximately 1.8 million title II reviews remain.

GENERAL MANAGEMENT

General Management reviews encompass a wide range of SSA's administrative functions, extensive public information activities, data processing systems, data exchanges with other agencies, and research and policy making. Part of SSA's core business processes involves the dissemination of information about its programs. Significant OIG activities during this reporting period included:

Investigations:

SSA and Immigration and Naturalization Service Employees Processed Fraudulent Documents: An SSA employee was indicted on charges of conspiracy and accepting bribes. The SSA employee and an accomplice, who was an employee with the Immigration and Naturalization Service, are alleged to have accepted cash payments in return for issuing fraudulent immigration documents and fraudulent SSN cards. The indictment alleged that the two processed at least 30 such sets of documents, with the SSA employee allegedly receiving \$100 for each fraudulent card. If convicted, the SSA employee faces a maximum punishment of 20 years imprisonment and/or a fine of \$500,000.

Former Office of Hearings and Appeals Hearings Clerk Engaged in Bribery: A former hearings clerk in SSA's Office of Hearings and Appeals, along with her husband, were found guilty by a Federal jury and were charged with bribery and conspiracy. The former hearings clerk was sentenced to 46 months imprisonment and ordered to make restitution in the amount of \$23,809. Her husband received a prison term of 30 months and also ordered to make restitution in the amount of \$23,809. In connection with this case, a former Office of Hearings and Appeals employee and a SSA District Office employee, who entered guilty pleas to lesser charges and testified at the trial, were also sentenced. One of the former employees received a 6-month jail sentence and was ordered to make restitution in the amount of \$7,709; the other individual was sentenced to 3 years probation and ordered to make restitution in the amount of \$4,226.

Audits:

Audit of the Office of Program and Integrity Reviews' Special Studies, A-13-96-51142, February 19, 1997

The objectives of this review were to determine whether the Office of Program and Integrity Reviews' (OPIR) special studies were: 1) used by management to improve SSA programs; 2) cost-effective and efficient; and 3) performed in accordance with established standards.

We were not able to meet our intended objectives because OPIR had not implemented appropriate management controls for assuring accountability for its special studies. OPIR had not developed a system for tracking special studies and proposed recommendations, had not established standards for conducting its special studies, and had not established policies for ensuring the statistical validity of its studies. As a result, we were unable to ascertain the cost-effectiveness or efficiency of OPIR's special studies or their usefulness to Agency managers.

In general, we recommended that OPIR improve its management control program, establish special study standards, and implement statistical policies and procedures as published by the General Accounting Office. Most importantly, we recommended that SSA establish OPIR as a management control area under the Federal Managers' Financial Integrity Act program.

The Agency response to our recommendations, dated July 22, 1997, was favorable. SSA agreed with the four recommendations referring to management controls and statistical policies and procedures. However, SSA did not believe that OPIR should be declared a management control area under the Federal Managers' Financial Integrity Act program since the controls that were to be implemented would address the deficiencies.

The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public, A-13-96-52001, July 31, 1997

This review was undertaken to determine whether the SSA's program for monitoring the quality of telephone service provided to the public complies with Federal laws and regulations, and has adequate controls to ensure it is being used for its intended purpose. The review was prompted by congressional concerns about the effect of monitoring on privacy in the work place. Also, representatives from the American Federation of Government Employees requested that we conduct an audit in this area since they were concerned that SSA management was not adhering to established policies governing telephone monitoring practices.

We determined that SSA's telephone monitoring program may not comply with Federal laws and regulations and lacks internal controls sufficient to ensure that telephone monitoring is being used for its intended purpose. As a result, we provided SSA with a list of 19 specific recommendations regarding regulations, review, and prevention and deterrence. These recommendations included corrective actions to ensure that legal requirements are being met and the establishment of internal controls to ensure that telephone monitoring is being used for its intended purpose.

SSA disagreed with the major conclusions in the report, including the issue of noncompliance with Federal laws and regulations, but has begun drafting regulations to address telephone monitoring. SSA agreed to explore our recommendations regarding review and agreed with some of our recommendations on preventing and deterring improper telephone monitoring.

Review of Physical Security at the Social Security Administration's National Computer Center, A-13-96-11046, June 26, 1997

The objective of our review was to evaluate the physical security program in place at SSA's National Computer Center, one of the world's largest computer facilities. To achieve our objective, we reviewed pertinent guidelines and previous reviews issued by the Federal Government, and other written procedures and documents. We interviewed SSA and contract personnel responsible for physical security and made site inspections of the buildings and grounds. We performed tests of security devices and controls to evaluate their effectiveness.

We concluded that the security practices at the National Computer Center facility need to be strengthened. Our review identified 29 conditions needing improvement, ranging from faulty equipment to safety-related issues. SSA agreed with 27 of 29 of our recommendations. We have asked them to reconsider their position on the two remaining recommendations.

Due to security concerns, this report is designated restricted and confidential and distribution is limited to authorized officials.

***Review of Internal Controls in the Social Security Administration's Modernized Claims System, A-04-95-06019, May 16, 1997;
Audit of Separation of Duties in the Social Security Administration's Modernized Supplemental Security Income Claims System, A-07-96-21065, August 29, 1997; and
Review of Internal Controls over MADCAP Transactions Processed through the MACADE System at the Mid-Atlantic Program Service Center, A-03-95-02609, September 8, 1997***

The Office of Audit performed three reviews this fiscal year dealing with the effectiveness and implementation of SSA's internal controls over the nationwide Modernized Claims System, Modernized Supplemental Security Income Claims System (MSSICS) and Manual Adjustment, Credit and Award Data Entry (MACADE) System. Our studies showed that there are a lack of internal controls in the computer systems and a lack of separation of duties among data entry and systems staff, with a need to provide for compensating controls for the deficiency in the separation of duties. In the MSSICS review, we determined that the separation of duties does not meet the standards set forth by the Comptroller General. The other audits are restricted and confidential since they provide information on how to commit fraud within these computer systems.

We recommended that the Agency follow the General Accounting Office standards for separation of duties or compensate for this deficiency by increasing resources. SSA felt that in some cases separation of duties was not operationally feasible, but that the Comprehensive Integrity Review Process software, when implemented in the future, will provide the compensating controls OIG is recommending. OIG believes that SSA cannot wait to provide the needed compensating controls.

Access Controls for the Social Security Administration's Telephone Switch at the Western Program Service Center, A-09-96-91001, September 24, 1997

The objective of this review was to determine the adequacy of access controls in place at the Western Program Service Center (WNPSC) to ensure proper use of SSA's telephone switch (PBX). We met with WNPSC staff and made a physical inspection of the site. We also reviewed regulations in place and technical and PBX equipment publications related to telephone fraud.

Our review disclosed that controls are not adequate and leave the system vulnerable to fraud. First, telephone call detail reports had not been designated as a system of records. SSA questioned the need for and the cost-benefits related to establishing a formal system of records. Second, no staff is permanently assigned the responsibility of monitoring employee long-distance use. Without an accountable staff member, personnel will not be deterred from misusing the system. Also, password protection capabilities were not fully utilized. Last, we found that there is an absence of procedural guidance to ensure that PBX security capabilities are fully utilized.

We recommended that SSA establish telephone call detail reports as a system of records as required under the Privacy Act of 1974. Four of our recommendations consisted of improving procedural guidance including the use of call blocking, frequently changing PBX passwords, and assigning staff to monitor long distance calls. Last, we recommended that SSA assess the controls at other PBX locations and ensure that they are adequate.

The Agency agreed to our recommendations concerning improvements of procedures and implementing controls nationwide if necessary. However, SSA did not agree to establish a system of records for call detail reports. SSA felt that current controls, if fully implemented, would substantially reduce the incidence of telephone abuse. SSA felt that there was no evidence that implementing a system of records would be cost-effective. OIG believes that the deterrent measure alone would be of great benefit.

REPRESENTATIVE PAYEE

If an SSA beneficiary cannot manage his/her own finances, Congress has authorized the Agency to pay his/her benefits to another individual or organization, known as a representative payee. Approximately 6.6 million beneficiaries have payees. Payees may include, but are not limited to, parents, spouses, legal guardians, friends and institutions. A payee's responsibilities include frequently monitoring the beneficiary's current well-being, informing SSA of changes in the payee's own circumstances that would affect the payee's performance, reporting events to SSA that could affect the beneficiary's entitlement to or amount of benefits and submitting an annual accounting to SSA reporting how benefits were used or conserved.

The representative payee accounting process is expensive, labor intensive and produces limited results. The process rarely detects misuse of benefits or other problems and was estimated to cost SSA approximately \$57 million in FY 1996. Significant activities during this reporting period included:

Investigations:

Stepfather Spent Disabled Stepson's Money: An Iowa stepfather, who acted as his disabled stepson's representative payee, requested \$33,000 in retroactive Supplemental Security Income payments for his stepson. It was later found that the stepfather provided false information on the SSA payee accounting forms and that he did not spend any of the money on the stepson. It was disclosed that the stepfather spent the entire \$33,000 in less than 4 months. The stepfather was sentenced to serve 21 months imprisonment "without possibility of parole" and was ordered to pay \$12,000 in restitution.

Beneficiary's Brother Stole Five Retroactive Supplemental Security Income Checks: A Boston man was appointed by SSA to be the payee for his sister. He requested five retroactive payments totaling \$27,085, then failed to convert the retroactive checks to the benefit of his sister. The brother was later convicted.

Representative Payee Received Payments for Incarcerated Beneficiary: A Boston man who was acting as a representative payee for his son never reported that his son was incarcerated and, thus, no longer entitled to Supplemental Security Income payments. The father completed the eligibility forms alleging that his son was renting a room in his house during the period the son was incarcerated. The father continued to receive checks that totaled \$29,695. The father pled guilty and is scheduled for sentencing in December.

California Mother Received Payments for Son after His Incarceration: A California mother who served as her son's representative payee continued to collect his Supplemental Security Income payments after he was incarcerated. SSA suffered a loss of \$60,000. She will be sentenced in late October 1997. In addition, the woman managed a boarding and care facility where she embezzled funds from the residents and defrauded SSA of an additional \$6,963. She was convicted by the State for embezzlement.

Owner of Boarding Homes Defrauded Residents: The owner of several boarding homes in Philadelphia utilized threats and coercion to obtain power of attorney over the residents' withholdings and converted their assets to the owner's personal use. In addition, the owner illegally obtained the residents' Social Security checks, forged endorsements, and converted the funds to personal use. A civil judgment was issued in favor of the United States in the amount of \$500,000, of which \$350,000 is to be paid as restitution to the victims.

Audits:

SSA asked the OIG to conduct a series of studies that would review and recommend improvements to the representative payee process. The following roll-up report summarized what we found:

Monitoring Representative Payee Performance: Roll-Up Report, A-09-96-64201, March 28, 1997

This roll-up report provided comprehensive recommendations for increasing the efficiency and effectiveness of SSA's representative payee monitoring process. This report summarized the findings and recommendations of 16 audit and evaluation reports concerning representative payee issues. The reports, issued by the Department of Health and Human Services' OIG and SSA's OIG since the 1990s, provided findings and recommendations concerning: 1) SSA's accounting review process; 2) assessment of risk by various types and categories of representative payees; and 3) the demographics of representative payees and beneficiaries.

In summarizing the 16 reports, two general findings emerged: 1) the problems with representative payees are less extreme than anecdotal stories would suggest; and 2) the accounting review process and the accounting system need to be revised.

Some of our recommendations were specific to the accounting system and review process and the remaining took into consideration the representative payee. We believe that SSA could save \$39.1 million annually by allowing certain categories of representative payees with custody (parents or relatives, and legal guardians) to submit the current annual accounting form every 3 years. Legislative amendment of the

Social Security Act requirements and relief from the court order in Jordan vs. Schweiker, No. Civ-79-994-W (W.D. Okla., March 17, 1983), concerning the requirement to obtain an annual accounting of benefits from all representative payees would be required to achieve these savings.

SSA is in general agreement with our recommendations. SSA expressed concerns with exempting some representative payees (e.g., legal guardians) from the annual accounting requirement, performing suitability checks for only the payees highest on the preference list, and revising accounting forms to ask specific questions about events that representative payees commonly fail to report.

***Lists of Office of the Inspector General
Reports Issued October 1, 1996 to September 30, 1997***

The Office of Audit conducts comprehensive audits and evaluations of SSA's programs and operations and makes recommendations to ensure that program objectives are achieved effectively and efficiently. The following charts provide listings of all reports issued from October 1, 1996 to September 30, 1997.

REPORTS ISSUED OCTOBER 1, 1996 TO MARCH 31, 1997

Reports with Non-Monetary Findings

Date Issued	Title	Report Number
October 23, 1996	Office of the Inspector General Evaluation Report: Test of Satisfaction Scales	A-02-96-02204
November 22, 1996	Inspector General's Report on SSA's Fiscal Year 1996 Financial Statements	A-13-96-51001
December 13, 1996	Social Security Coverage of State and Local Government Employees	A-04-95-06013
December 16, 1996	Monitoring Representative Payee Performance: Nonresponding Payees	A-09-96-64208
January 6, 1997	Monitoring Representative Payee Performance: The Accounting Form	A-09-96-64204
January 6, 1997	Monitoring Representative Payee Performance: The Accounting Review Process	A-09-96-64209
January 21, 1997	Unresolved Internal Revenue Service Alerts	A-13-97-61007
January 30, 1997	Reading Level for Spanish-Speaking Clients Receiving Social Security Administration Spanish Language Notices	A-06-96-62200
January 31, 1997	Review of Administratively Uncontrollable Overtime	A-13-97-92001
February 5, 1997	Missing Data Hinders Vocational Rehabilitation Referrals	A-13-97-21009
February 19, 1997	Audit of the Office of Program and Integrity Reviews' Special Studies	A-13-96-51142
February 28, 1997	Monitoring Representative Payee Performance: Management and Staff Survey	A-09-96-64212
March 18, 1997	Review of CA-Top Secret Access Control Software	A-13-95-00606

March 26, 1997	The Social Security Administration's Payment for Medical Evidence of Record Obtained by State Disability Determination Services	A-07-95-00833
March 26, 1997	Large Underpayments to Representative Payees	A-02-96-61201
March 28, 1997	Payments to Surviving Spouses at Retirement Age	A-05-95-00016
March 31, 1997	Internal Controls of the Earnings Modernization 2.8 Program	A-03-95-02608
March 31, 1997	Review of the Social Security Administration Procedures to Ensure State Compliance with Section 1616(e) of the Social Security Act	A-01-96-62001

Reports with Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
March 13, 1997	Procedures for Collecting Social Security Administration/Railroad Retirement Board Combined Benefit Payments Issued After Death	A-05-95-00017	\$391,716
	Total Questioned Costs		\$391,716

Reports with Funds Put to Better Use

Date Issued	Title	Report Number	Dollar Amount
March 28, 1997	Monitoring Representative Payee Performance: Roll-Up Report	A-09-96-64201	\$39,100,000
	Total Funds Put to Better Use		\$39,100,000

REPORTS ISSUED APRIL 1, 1997 TO SEPTEMBER 30, 1997

Reports with Non-Monetary Findings

Date Issued	Title	Report Number
April 29, 1997	The Social Security Administration's Use of Customer Comment Cards	A-02-96-02203
May 16, 1997	Review of Internal Controls in the Social Security Administration's Modernized Claims System	A-04-95-06019
May 20, 1997	Management Letter - Audit of the Social Security Administration's Fiscal Year 1996 Financial Statements	A-13-97-51011
May 29, 1997	The Adequacy of the Residency Verification Process for the Supplemental Security Income Program	A-06-96-62001
June 19, 1997	Review of the Back-Up and Recovery Procedures at the National Computer Center	A-13-96-11052
June 23, 1997	Study of the Social Security Administration's Operating Procedures Referencing Fraud	A-13-97-92002
June 26, 1997	Review of Physical Security at the Social Security Administration's National Computer Center	A-13-96-11046
July 9, 1997	Review of the County of Los Angeles' Performance as Representative Payee for Title II and Title XVI Children in Foster Care	A-09-96-62003
July 11, 1997	Review of Referral and Monitoring Agency Contracts for Drug Addicts and Alcoholics	A-04-95-06017
July 29, 1997	Review of the Effectiveness of the Social Security Administration's Low Birth Weight Baby Program	A-04-95-06015
July 31, 1997	The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public	A-13-96-52001
August 11, 1997	Audit of the County of Los Angeles' Review to Identify and Report to SSA Past Deficiencies for Title II and Title XVI Children in Foster Care	A-09-97-61002
August 29, 1997	Audit of Separation of Duties in the Social Security Administration's Modernized Supplemental Security Income Claims System	A-07-96-21065
August 29, 1997	Review of Child Adoption Practices under Title II of the Social Security Act	A-09-96-51001
September 8, 1997	Review of Internal Controls over MADCAP Transactions Processed through the MACADE System at the Mid-Atlantic Program Service Center	A-03-95-02609
September 15, 1997	Activity Related to the Suspense File	A-03-96-31001/31002
September 22, 1997	Payment Accuracy Task Force: Earnings Record Issue Team	A-13-97-52003
September 22, 1997	Benchmarking Private Sector Policies and Practices for Distributing Customer Notices	A-02-96-61000
September 24, 1997	Cataloging Social Security's Customer Service Monitoring	A-02-96-02202
September 24, 1997	Disability Applicants' Responses to Vocational Rehabilitation Issues: A Mail Survey	A-13-97-21008

September 24, 1997	Evaluation of the Social Security Administration's Back-up and Recovery Testing of its Automated Systems	A-13-97-12014
September 24, 1997	Access Controls for the Social Security Administration's Telephone Switch at the Western Program Service Center	A-09-96-91001
September 25, 1997	Review of Controls for Ensuring the Proper Use of the System Override of the Representative Payee's Social Security Number Action	A-13-96-41043

Reports with Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
May 7, 1997	The Social Security Administration's Monitoring of the Massachusetts Department of Social Services' Effectiveness as a Representative Payee	A-01-96-61071	\$1,600,000
June 9, 1997	Audit of Administrative Costs Claimed by the Maryland State Department of Education for its Disability Determination Services	A-13-96-25000	\$1,377,499
June 20, 1997	Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations	A-02-95-00002	\$390,137
September 10, 1997	Consultative Examination Costs Claimed by Maine's Disability Determination Services	A-01-97-82005	\$197,261
September 29, 1997	State of Arkansas' Disability Determination for the Social Security Administration	A-07-97-52005	\$7,874
	Total Questioned Costs		\$3,572,771

Reports with Funds Put to Better Use

Date Issued	Title	Report Number	Dollar Amount
May 14, 1997	Potential for Contracting with Medical Provider Networks to Purchase Consultative Examinations	A-07-95-00828	\$11,300,000
May 22, 1997	Canada's Experience in Charging a User Fee for Social Insurance Number Cards	A-06-97-62003	\$142,000,000
June 23, 1997	Overpayments Incurred by Representative Payees	A-02-96-61202	\$3,800,000
June 24, 1997	Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments	A-01-96-61083	\$20,400,000
July 29, 1997	Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries	A-06-95-00076	\$1,400,000
September 30, 1997	Review of Intergovernmental Personnel Act Assignments of Senior Staff	A-13-96-02001	\$1,500,000
	Total Funds Put to Better Use		\$180,400,000

***Resolving Office of the Inspector General
Recommendations***

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

TABLE I: REPORTS WITH QUESTIONED COSTS

For the Reporting Period October 1, 1996 to March 31, 1997

	Number	Dollar Value	
		Questioned	Unsupported
A. For which no management decision had been made by the commencement of the reporting period.	2 ¹	\$269,638	\$0
B. Which were issued during the reporting period.	1 ²	\$391,716	\$0
Subtotals (A+B)	3	\$661,354	\$0
Less:			
C. For which a management decision was made during the reporting period:	3	\$661,354	\$0
(i) dollar value of disallowed costs.	3	\$661,354	\$0
(ii) dollar value of costs not disallowed.	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	0	\$0	\$0

¹ These Single Audit Act reports were submitted to the Agency after the issuance of the OIG's Semiannual Report to the Congress for the period covering 4/1/96 to 9/30/96: Department of Administration, State of Maine - (A-01-96-40576 - 5/23/96); State of Maine, Department of Human Services, Bureau of Rehabilitation Disability Determination Services - (A-01-95-36087 - 6/22/95)

² See list of Audit Reports Issued - Questioned Dollars - page 151

TABLE I: REPORTS WITH QUESTIONED COSTS

For the Reporting Period April 1, 1997 to September 30, 1997

	Number	Dollar Value	
		Questioned	Unsupported
A. For which no management decision had been made by the commencement of the reporting period.	5 ¹	\$342,705	\$0
B. Which were issued during the reporting period.	6 ²	\$3,640,275	\$0
Subtotals (A+B)	11	\$3,982,980	\$0
Less:			
C. For which a management decision was made during the reporting period:	9	\$3,584,969	\$0
(i) dollar value of disallowed costs.	9	\$3,584,969	\$0
(ii) dollar value of costs not disallowed.	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	2 ³	\$398,011	\$0

1 These Single Audit Act reports were submitted to the Agency after the issuance of OIG's Semiannual Report to the Congress for the period covering 10/1/96 - 3/31/97: Department of Economic Security, State of Arizona - (A-09-97-45281 - 3/6/97); Brandeis University - (A-01-97-44143 - 1/30/97); North Carolina Department of Human Resources - (A-04-97-44052 - 1/9/97); New Jersey Department of Labor - (A-02-96-39964 - 4/25/96); Kass Management Services, Inc. - (A-09-91-05300 - 4/2/91).

2 See list of reports issued - Questioned Dollars - page 153. In addition, \$67,504 are Questioned Dollars from Single Act Audit entitled: Mississippi Department of Rehabilitation Services - (A-04-97-43949 - 4/10/97).

3 Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations - (A-02-95-00002 - 6/20/97); State of Arkansas' Disability Determinations for the Social Security Administration - (A-07-97-52005 - 9/29/97).

TABLE II: REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

The following chart summarizes reports which include recommendations that funds be put to better use through cost avoidances, budget savings, etc.

For the Reporting Period October 1, 1996 to March 31, 1997

	Number	Dollar Value
A. For which no management decision had been made by the commencement of the reporting period.	0	\$0
B. Which were issued during the reporting period.	1 ¹	\$39,100,000
Subtotals (A + B)	1	\$39,100,000
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management.	0	\$0
(a) based on proposed management action.	0	\$0
(b) based on proposed legislative action.	0	\$0
Subtotals (a + b)	0	\$0
(ii) dollar value of costs that were not agreed to by management.	0	\$0
Subtotals (i + ii)	0	\$0
D. For which no management decision had been made by the end of the reporting period.	1 ²	\$39,100,000

1 See list of reports issued - Funds Put to Better Use - page 151

2 SSA management had made decisions on the 14 reports listed in OIG's portion of SSA's FY 1996 Accountability Report.

TABLE II: REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the Reporting Period April 1, 1997 to September 30, 1997

	Number	Dollar Value
A. For which no management decision had been made by the commencement of the reporting period.	1 ¹	\$39,100,000
B. Which were issued during the reporting period.	6 ²	\$660,400,000 ³
Subtotals (A + B)	7	\$699,500,000
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management.	4	\$535,700,000
(a) based on proposed management action.	4	\$535,700,000
(b) based on proposed legislative action.	0	\$0
Subtotals (a + b)	4	\$535,700,000
(ii) dollar value of costs that were not agreed to by management.	2	\$143,400,000
Subtotals (i + ii)	6	\$679,100,000
D. For which no management decision had been made by the end of the reporting period.	1	\$20,400,000

1 Monitoring Representative Payee Performance: Roll-up Report - (A-09-96-64201 - 3/28/97)

2 See list of reports issued - Funds Put to Better Use - page 153

3 This dollar amount has been modified due to developments that occurred after the issuance of OIG's reports entitled "Effectiveness in Obtaining Records to Identify Prisoners" - (A-01-94-02004 - 5/10/96) and "Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments" - (A-01-96-61083 - 6/24/97). SSA's Chief Actuary estimated a cost avoidance of about \$3.4 billion over 7 years, with \$480 million to be realized in Calendar Year 1997.

Reporting Requirements Index

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

Reporting Requirement	Page
Section 4(a)(2): Review of legislation and regulations.....	131
Section 5(a)(1): Significant problems, abuses, and deficiencies.....	132-150
Section 5(a)(2): Recommendations with respect to significant problems, abuses and deficiencies.....	132-150
Section 5(a)(3): Recommendations described in previous semiannual reports for which corrective actions have not been completed.....	Appendices A and B
Section 5(a)(4): Matters referred to prosecutive authorities.....	132-150
Sections 5(a)(5) and 6(b)(2): Summary of instances where information was refused.....	None
Section 5(a)(6): Listing of audit reports.....	150-153
Section 5(a)(7): Summary of particularly significant reports.....	132-150
Section 5 (a)(8): Statistical table showing the total number of audit reports and total dollar value of questioned costs.....	154-155
Section 5(a)(9): Statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use.....	156-157
Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made.....	None
Section 5(a)(11): Significant revised management decisions during the reporting period.....	None
Section 5(a)(12): Significant management decisions with which the OIG disagreed.....	Appendix C

APPENDICES

APPENDIX A

This schedule represents monetary recommendations from prior Reports to the Congress for which corrective actions have not been completed.

Monitoring Representative Payee Performance: Roll-Up Report, A-09-96-64201, 3/28/97

SSA should develop a system to continuously educate payees concerning their responsibilities; conduct more thorough screening of potential representative payees; revise its "Preference Lists" for payees to place greater emphasis on custody arrangements; develop a comprehensive automated representative payee system; not require annual reports from all representative payees; tailor forms to address variations among payees and differences in relationships between payees and beneficiaries; conduct periodic reviews of selected payees; change the focus of the current process from accounting to monitoring and compliance; develop a payee coding scheme that reflects the Agency's need for administering the process; and review previous HHS/OIG and SSA/OIG recommendations related to representative payments to determine if additional benefit could be gained from these recommendations. We estimated that SSA could save \$39.1 million in funds put to better use. SSA agreed to most of the recommendations, except for conducting suitability checks only for those payees intended for selection; exempting from annual accounting and periodically certifying alternative reporting for those payees who complete extensive reporting for an official or external organization; and capturing on the accounting form reporting events that would affect entitlement.

Follow-up on "Payments Under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income Benefits," A-01-95-02007, 7/24/96

SSA should institute a policy of paying only for services rendered and attempt to implement that policy at all Disability Determination Services units. Such a policy would allow for payment for review of medical records but not for broken medical appointments. This action would result in \$541,000 in funds put to better use. In June 1996, SSA representatives conferred with representatives from States that no longer pay for broken medical appointments in order to develop a presentation which was given at the National Professional Relations Conference in August 1996. The presentation encouraged paying States to adopt a no-pay policy and also shared strategies employed by States that have already converted to a no-pay policy. Representatives will begin to contact the regions that have States which are paying for broken medical appointments to ascertain what progress they have made in converting to a non-pay status. The Office of Disability is working closely with States that have not adopted a policy of not paying for broken consultative examination appointments. The Office of Disability expects to complete its contacts and will monitor regions' progress quarterly, or as needed. There are also non-monetary recommendations noted in Appendix B.

Identification of Reported Name Changes That Affect Auxiliary Benefits under Title II of the Social Security Act, A-01-94-02001, 6/14/96

SSA should conduct a one-time match to identify name changes on the Numident record that have not been posted to the Master Beneficiary Record. Eligibility should be redetermined for those beneficiaries whose name changes are found to be caused by marriage or divorce, and recovery of overpayments in the amount of \$4.2 million should be pursued. On September 19, 1997, SSA's Office of Systems Requirements provided the Office of Operations with a list of 100 accounts with 800 account numbers for each payment center containing discrepancies between the Numident and the Master Beneficiary Record names. The payment centers will conduct an analysis of the 800 account numbers to determine entitlement and whether any erroneous payments were made. After the study results are obtained, SSA will hold meetings, as necessary, in order to analyze the results. Analysis is anticipated to be completed by March 1998. Further milestones for completing this project cannot be provided at this time.

SSA Field Office Visitor Workload, OEI-05-92-00043, 8/22/95

SSA should eliminate the field office interview workload for noncitizens applying for an original SSN. The SSA is working with staff from the Department of State to transfer the enumeration of aliens to the Immigration and Naturalization Service (INS), effectively eliminating the workload from SSA field offices. Plans require a phased-in approach, beginning with a Memorandum of Understanding with the INS and Department of State. This action is still pending because of other INS priorities. In addition, a regulation change to waive mandatory in-person interviews for aliens age 18 or older who are applying for SSNs through the INS was initiated in December 1995 and was expected to be completed in September 1997.

Improvements are Needed to Prevent Underpayments for Social Security Beneficiaries with Earnings Posted after Entitlement, A-13-94-00509, 5/1/95

SSA should strengthen internal controls by improving sampling techniques to include random sampling and quality assurance procedures for the Automatic Earnings Reappraisal Operation in order to identify beneficiaries with post-entitlement earnings who received no benefit increases. Total underpayments are estimated between \$159 million and \$549 million. SSA should identify and correct underpayments to all current and noncurrent beneficiaries who were due benefit increases for post-entitlement earnings. The Office of Systems has processed payments for 90,000 accounts to date. The Office of Systems has identified an additional 340,000 beneficiaries who are potentially due benefit increases. Some of these cases are expected to be processed manually by the program service centers. The new ongoing post-entitlement earnings review for current beneficiaries is expected to be in place by July 1998.

APPENDIX B

This schedule represents non-monetary recommendations from prior Reports to the Congress for which corrective actions have not been completed.

Audit of the Office of Program and Integrity Reviews' Special Studies, A-13-96-51142, 2/19/97

We recommended that the Office of Program and Integrity Reviews (OPIR) improve its management control program and establish special study and statistical policies and procedures. Specifically, we recommended that OPIR: 1) develop and maintain a workload tracking system which includes monitoring prior and current assignments and resources expended; 2) develop and maintain a system for tracking the current status of OPIR recommendations incorporating any prior recommendations that have not been implemented; 3) establish OPIR as a management control area in SSA's Federal Managers' Financial Integrity Act Program; 4) develop and implement policies and procedures for conducting OPIR studies, including requirements for maintaining adequate study documentation for examination; and 5) implement statistical policies and procedures, such as those published by the General Accounting Office, and modify reporting formats to include detailed statistical information, such as response rates and confidence intervals, in all reports where statistical sampling is used.

Actions Needed to Strengthen Controls to Deter Fraudulent Transactions at Program Service Centers, A-02-95-00003, 9/23/96

We recommended that SSA put in place controls over all prior month accrual payments until the proposed long-term solution is implemented. We also recommended that SSA examine the feasibility of revising the Manual Adjustment, Credit and Award Process to automatically generate a confirmation notice to the beneficiary of significant changes to his/her account, such as a change from check payment to a direct bank deposit or vice versa. SSA agreed to put such a confirmation notice in practice in 1997.

Review of Asset Transfers for Supplemental Security Income Eligibility, A-09-95-01017, 9/13/96

SSA should develop a legislative proposal to address abuse when individuals transfer assets to become eligible for Supplemental Security Income benefits. SSA developed a proposal and successfully had it incorporated, as a substitute, in the House-passed welfare reform bill (H.R. 4). However, the provision was dropped during conference committee deliberations.

Follow-up Audit on "Payments Under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income Benefits," A-01-95-02007, 7/24/96

SSA should institute a policy of paying only for services rendered and attempt to implement that policy at all Disability Determination Services units. Such a policy would allow for payment for review of medical records, but not for broken medical appointments. In June 1996, SSA representatives conferred with representatives from States that no longer pay for broken medical appointments in order to develop a presentation which was given at the National Professional Relations Conference in August 1996. The presentation encouraged paying States to adopt a no-pay policy and also shared strategies employed by States that have already converted to a no-pay policy. The Office of Disability has concluded its survey of the 17 States which, as determined in a 1995 survey, continue to pay for broken consultative examination appointments. The survey revealed that four States have adopted a no-pay policy and two have made progress toward a no-pay policy by either changing the rate paid or the situation for which they pay. SSA cannot set a target date for implementing this recommendation because circumstances in each State vary. Achieving a no-pay policy will be realized at different times for those States that still pay for broken consultative examinations. SSA's Office of Disability will monitor the regions' progress on this issue. There are also monetary recommendations that are noted in Appendix A.

Follow-up Report on a Department of Health and Human Services, Office of Inspector General Audit Entitled, “Suspended Payments Need to be Resolved Timely,” A-13-93-00421, 7/18/96

SSA should implement policy and procedural changes to ensure adequate control, follow-up, and timely resolution of current and future suspensions, and require SSA field office management to report on all suspense cases that cannot be resolved through the alert process. Also, SSA should implement corrective action to place those cases in a special benefit termination category; require SSA field office employees to search death records when there is either no death information contained in SSA records, beneficiaries cannot be located within 1 year of suspension, and/or employees have direct access to State records; and ensure that field office and program service center employees have adequate evidence that a beneficiary is alive before reinstating benefits.

Social Security Administration’s Plan for Achieving Self-Support for Supplemental Security Income Recipients, A-13-93-00426, 1/25/96

SSA should require an independent vocational assessment as a prerequisite for approving a Plan for Achieving Self-Support (PASS); develop a standard PASS application to be used nationally; and expand the work credit for all aspects of PASS work performed by SSA field office employees. SSA should also develop a PASS data base to 1) maintain an electronic record of the PASS plan and all related activity to ensure that both historic and current PASS status is retained and available; 2) provide ongoing management information on the number of PASS plans nationwide, success and failure rate, cost of the program, and other analytical data; and 3) generate and control diary alerts to ensure compliance review alerts are timely.

APPENDIX C

This schedule represents significant management decisions with which the Inspector General is in disagreement.

The Social Security Administration’s Program for Monitoring the Quality of Telephone Service Provided to the Public, A-13-96-52001, 7/31/97

SSA should take corrective actions to ensure it meets the legal requirements of 18 U.S.C. sections 2510, et seq., and applicable regulations and establish internal controls to ensure telephone monitoring is being used for its intended purpose. SSA disagreed with the OIG on the issue of noncompliance with Federal laws and regulations. SSA advised OIG that the major conclusions reached in the report are not valid. SSA did, however, acknowledge that OIG identified some areas where improvements are possible and agreed to pursue those improvements, and is preparing new regulations governing telephone monitoring.

Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries, A-06-95-00076, 7/29/97

SSA should examine the entitlement status of all disability beneficiaries who are in suspended pay status because they cannot be located and terminate benefits in cases where a reasonable time period lapses (e.g., 90 days from the date of suspension) to locate the beneficiary; and due process has been provided (e.g., notification letter to last known address). SSA did not concur with the recommendations. However, SSA agreed to explore the possibility of initiating continuing disability reviews for unlocated disability beneficiaries whose benefits have been suspended for an extended period. The Office of Program and Integrity Reviews will conduct a brief study of unlocated disability beneficiary records.

APPENDIX D

Investigative Statistics

October 1, 1996 to March 31, 1997 ¹			
Opened Investigations	Closed Investigations	Criminal Convictions	Funds Reported ²
953	784	622 ³	\$10,531,130 ⁴

April 1, 1997 to September 30, 1997			
Opened Investigations	Closed Investigations	Criminal Convictions	Funds Reported ²
4,502	1,373	1,885 ⁵	\$53,786,667 ⁶

1 Figures have been revised after the issuance of the OIG's Semiannual Report to the Congress for the period covering 10/1/96 - 3/31/97 as a result of a computer reporting error.

2 Reported through fines, judgments, and restitutions.

3 Of which 229 are deportations.

4 Of which \$2,629,614 are calculations, over 5 years, of the avoidance of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds.

5 Of which 1,240 are deportations.

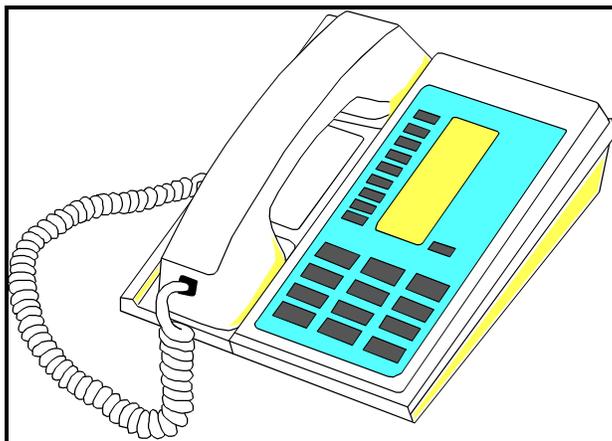
6 Of which \$18,820,708 are calculations, over 5 years, of the avoidance of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds.

APPENDIX E

How to Report Wrongdoing

The OIG maintains a toll-free Hotline through which it receives allegations and complaints relative to SSA operations nationwide. The Hotline offers a convenient means for you to provide information on suspected fraud, waste, and abuse. If you know of current or potentially illegal or improper activities involving SSA programs or personnel, we encourage you to call our Hotline number at:

1-800-269-0271



or you may

send a fax to: **(410)-597-0118**

or

Mail to:

Office of the Inspector General
Attention: Hotline
P.O. Box 17768
Baltimore, Maryland 21235

Glossary of Acronyms

ACH	Automated Clearing House
ALJ	Administrative Law Judge
AO	Adjudication Officer
ACH	Automated Clearings House
AWR	Annual Wage Report
BL	Black Lung
CAS	Cost Analysis System
CDR	Continuing Disability Review
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CG	Comptroller General
CIRP	Comprehensive Integrity Review Program
CMP	Civil Monetary Penalty
CPA	Certified Public Accountant
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSIP	Computer Security and Integrity Project
CSRS	Civil Service Retirement System
DA&A	Drug Addiction and Alcoholism
DCM	Disability Claims Manager
DDS	Disability Determination Service
DI	Disability Insurance
DM	Debt Management
DMS	Debt Management System
DOJ	Department of Justice
DOL	Department of Labor
DPRT	Disability Process Redesign Team
DSU	Direct Service Unit
EFS	Earnings Suspense File
EFT	Electronic Funds Transfer
FASAB	Financial Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers Financial Integrity Act
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	General Accounting Office
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
HCFA	Health Care Financing Administration
HI/SMI	Health Insurance/Supplemental Medical Insurance

IDA	Index of Dollar Accuracy
IG	Inspector General
IRS	Internal Revenue Service
IWS/LAN	Intelligent Workstation/Local Area Network
LAE	Limitation on Administrative Expenses
MBR	Master Beneficiary Record
MCS	Modernized Claims Systems
MES	Modernized Enumeration System
MSSICS	Modernized Supplemental Security Income Claims System
NAFC	National Anti-Fraud Committee
NFC	National Fraud Committee
OASDI	Old-Age and Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OHA	Office of Hearings and Appeals
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PE	Postentitlement
PEBES	Personal Earnings and Benefits Estimate Statement
PIN	Personal Identification Number
P.L.	Public Law
PM	Performance Measures
PMA	Prior Month Accrual
POMS	Program Operating Manual Systems
PPA	Prompt Payment Act
RAFC	Regional Anti-Fraud Committee
RRB	Railroad Retirement Board
SECA	Self-Employment Contributions Act
SIPEBES	SSA Initiated Personal Earnings and Benefits Estimate Statement
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
SSR	Supplemental Security Record
STDP	Short Term Disability Project
TRO	Tax Refund Offset