

AUDIT OF THE SOCIAL SECURITY
ADMINISTRATION'S FISCAL YEAR
2002 FINANCIAL STATEMENTS



SOCIAL SECURITY

Office of the Inspector General

November 19, 2002

To: Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Accountants* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2002 and 2001 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements*, *Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on SSA's Compliance with Laws and Regulations*.

Objective of a Financial Statement Audit

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

PwC's examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income (SSI) program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2002 financial statements. PwC also audited the FY 2001 financial statements, presented in SSA's Performance and Accountability Report for FY 2002 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2002 and 2001 financial statements. PwC also reported that SSA's assertion that its systems of accounting and

internal control are in compliance with the internal control objective in OMB Bulletin 01-02 is fairly stated in all material respects. However, the audit identified one reportable condition in SSA's internal control:

SSA Needs to Further Strengthen Controls to Protect Its Information

This is a repeat finding from prior years. It is PwC's opinion that SSA has made notable progress in addressing the information protection issues raised in prior years. Despite these accomplishments, SSA's systems environment remains threatened by security and integrity exposures to SSA operations.

OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2002 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin 01-02;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report dated, November 14, 2002, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



James G. Huse, Jr.
Inspector General

REPORT OF INDEPENDENT ACCOUNTANTS

To Ms. Jo Anne B. Barnhart
Commissioner

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

- The consolidated balance sheets of SSA as of September 30, 2002 and 2001, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's systems of accounting and internal control in place as of September 30, 2002 are in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requiring that transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal; and
- No reportable instances of noncompliance with the laws and regulations we tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2002 and 2001, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the fiscal years then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above and appearing on pages 51 through 71 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2002 and 2001, and its net cost, changes in net position,

budgetary resources, and reconciliation of net cost to budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. The consolidated and combined financial statements referred to above give retroactive effect to the change in entity, as described in Note 1 to the consolidated and combined financial statements.

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

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring management to establish internal accounting and administrative controls to provide reasonable assurance that transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 2002.

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

In our opinion, management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal, is fairly stated, in all material respects, as of September 30, 2002.

However, we noted certain matters involving the internal control and its operation, set forth below, that we consider to be a reportable condition under standards established by the AICPA and by OMB Bulletin No. 01-02. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to meet the internal control objectives described above.

A material weakness, as defined by the AICPA and OMB Bulletin No. 01-02, is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the principal financial statements being audited or to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We believe that the reportable condition that follows is not a material weakness as defined by the AICPA and OMB Bulletin No. 01-02.

SSA Needs to Further Strengthen Controls to Protect Its Information:

Over the past year SSA has made notable progress in addressing the information protection issues raised in prior years. Specifically, in fiscal year 2002 SSA has:

- Issued final “risk models” to standardize platform security configuration settings for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Established and implemented ongoing monitoring tools and procedures to ensure the consistency of platform security configuration standards for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Established and implemented access based rule settings and standardized monitoring and logging procedures for firewalls;
- Continued progress on the Standard Security Profile Project (SSPP - the project consists of a full scale comparison of system user access assignments to job responsibilities to ensure propriety) and expanded the SSPP to include non-IT employees;
- Continued progress on the Dataset Naming Standards project, including setting naming conventions, determining tools for compliance and enforcement, and establishing data ownership;
- Strengthened physical security controls over Regional Office and Program Service Center offices; and
- Established and implemented procedures for enhanced review of security violations on the mainframe.

These enhancements have greatly improved the security over SSA’s systems environment. However, continued effort is needed to complete the implementation of platform security configuration settings for NT, Windows 2000, AS 400, Unix and WANG platforms. Continued effort is also needed to review security access assignments (SSPP), including (1) the full establishment of dataset naming conventions, (2) the establishment of a dataset dictionary for existing datasets and transactions, (3) the identification of system and data owners and (4) the enforcement of the new dataset naming rules and standards for sensitive systems. Specific disclosure of detailed information about these exposures might further compromise controls and are therefore not provided within this report. Rather, the specific details of weaknesses noted are presented in a separate, limited-distribution management letter.

Management has made and continues to make concerted efforts to address these issues; however, the full rollout of the risk models and the completion of the SSPP are time consuming tasks that will require substantial resources to complete. Further, the physical controls over the state Disability Determination Services sites continue to be a challenge because many of the sites are co-located with other state agencies or are housed in buildings with inherent physical security issues. Progress on the issue regarding monitoring of security violations on the mainframe has already been made, but full use of the new procedures needs to be demonstrated during fiscal year 2003.

The need for a strong security program to address threats to the security and integrity of SSA operations grows and transforms as the agency continues to move ahead with plans to increase dependence on the Internet and Web-based applications to serve the American public. To more fully protect SSA from risks associated with the loss of data, loss of other resources and/or compromised privacy of information associated with SSA’s enumeration, earnings, retirement, and disability processes and programs, SSA must complete the strengthening of its security program.

Recommendations

We recommend that SSA explore methods to accelerate and continue to build on its progress to enhance information protection by continuing to implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- Continue to follow established processes to conduct and enhance periodic risk assessments to identify inherent vulnerabilities from emerging technologies across mainframe, midrange and distributed systems;
- Implement cost-effective countermeasures to mitigate risk to an acceptable level, including effective monitoring of systems to ensure currency of security configuration settings for all platforms;
- Continue to implement risk models to achieve compliance with SSA standard platform security configuration settings;
- Accelerate the SSPP program to ensure that sensitive systems, as defined by SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, data ownership assignments and inclusion in the dataset dictionary;
- Ensure use of the new procedures for reviewing security violations on the mainframe;
- Ensure that employees with access to sensitive SSA data (soft or hardcopy) and equipment are properly assessed to determine their eligibility for access to such resources;
- Coordinate contingency planning between program services center/regional office sites, disability determination service sites and SSA central office functions and the national computer center; and,
- Continue to enhance the overall security policy for DDS sites and improve physical security controls for the disability determination service sites.

More specific recommendations focused upon the individual exposures we identified are included in a separate, limited-distribution management letter.

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

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02.

The management of SSA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of SSA's compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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

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

The objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions of laws and regulations and, accordingly, we do not express such an opinion.

INTERNAL CONTROL RELATED TO KEY PERFORMANCE MEASURES

With respect to internal control related to those performance measures determined by management to be key and included on pages 28 to 40 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, and we determined that they have been placed in operation as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on the internal control over reported performance measures, and accordingly, we do not express an opinion on such control.

OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The other accompanying information included on pages 1 to 6, and 95 to the end of this performance and accountability report, is presented for purposes of additional analysis and is not a required part of the consolidated and combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The required supplementary information included on pages 7 to 48, and 76 of this performance and accountability report and the required supplementary stewardship information included on pages 77 to 94 of this performance and accountability report, is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Bulletin No. 01-09 and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The consolidating and combining information included on pages 72 to 74 of this performance and accountability report, is presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position, changes in net position, and reconciliation of net cost to budgetary resources of the individuals SSA programs. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of SSA taken as a whole. The required supplementary information, Schedule of Budgetary Resources, included on page 75 of this performance and accountability report, is not a required part of the consolidated and combined financial statements but is supplementary information required by OMB Bulletin No. 01-09. This information is also presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the budgetary resources of the individual SSA programs. This information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.



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

A handwritten signature in cursive script that reads "Pricewaterhouse Coopers LLP".

Washington, DC
November 14, 2002

APPENDIX



SOCIAL SECURITY

The Commissioner
November 8, 2002

PricewaterhouseCoopers LLP
1301 K. Street, N.W.
Washington, D.C. 20005

Ladies and Gentlemen:

We have reviewed the draft combined report containing the Fiscal Year 2002 Report of Independent Accountants, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations. We agree with all the findings and recommendations contained in the report, and our response and comments are enclosed.

We are pleased that the report indicates that the Social Security Administration (SSA) has made notable progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new reportable condition was found. We are also pleased that you recognize that the enhancements made by SSA have greatly improved the security over SSA's systems environment. As you recommend, we will continue with the improved programs implemented during the past year and monitor the programs to ensure compliance.

Please direct any questions on our comments to Anthony DiNoto, Acting Associate Commissioner for Financial Policy and Operations at (410) 965-3839.

Sincerely,

Jo Anne B. Barnhart

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

**Comments of the Social Security Administration (SSA) on PricewaterhouseCoopers'
Draft Combined Report Containing the Fiscal Year (FY) 2002
Report of Independent Accountants Report on Management's Assertion
About the Effectiveness of Internal Control and the
Report on Compliance with Laws and Regulations**

General Comments

Thank you for the opportunity to comment on your combined draft report containing the Report of Independent Accountants, the Report on Management's Assertion About the Effectiveness of Internal Control and the Report on Compliance with Laws and Regulations. We welcome your opinion that management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in Office of Management and Budget Bulletin No. 01-02 is fairly stated, in all material respects as of September 30, 2002.

We are pleased that the report indicated that SSA has made notable progress in addressing the reportable condition concerning the need to further strengthen controls to protect its information and that no new reportable condition was found. We are also pleased that you recognized the enhancements made by SSA have greatly improved the security over SSA's systems environment. SSA will continue with the improved programs implemented during the past year and monitor the programs to ensure compliance. We will also continue to work with you to find ways to further strengthen the security program.

SSA agrees with all of the recommendations and has the following comments to offer.

Recommendations

We recommend that SSA explore methods to accelerate and continue to build on its progress to enhance information protection by continuing to implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- **Continue to follow established processes to conduct and enhance periodic risk assessments to identify inherent vulnerabilities from emerging technologies across mainframe, mid-range and distributed systems.**

SSA Comment

We will continue to monitor the risk models issued in the past 2 years to standardize platform security configuration settings to ensure their currency and will issue new models as needed for emerging technologies.

- **Implement cost-effective counter measures to mitigate risk to an acceptable level, including effective monitoring of systems to ensure currency of security configuration settings for all platforms.**

SSA Comment

SSA will continue to develop and monitor automated and manual monitoring tools and procedures established in FY 2002 to ensure the approved platform configuration settings are implemented and effective. We will also continually review the monitoring process for possible improvements.

- **Continue to implement risk models to achieve full or near full compliance with SSA standard platform security configuration settings.**

SSA Comment

We will continue to implement risk models to ensure compliance with standard platform configurations and/or process requests for exceptions to standard settings. In particular, we will continue to identify and ensure entity-wide changes are made.

- **Accelerate the Standardized Security Profile Project (SSPP) program to ensure that sensitive systems, as defined by SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, data ownership assignments and inclusion in the dataset dictionary.**

SSA Comment

SSA has already taken steps to accelerate the SSPP program to ensure proper access assignments. Action to set dataset naming standards is nearly complete and implementation is scheduled for February 2003. Plans for assigning data ownership and creation of a dataset dictionary are well underway. Focus will remain on these initiatives to ensure their completion as fast as resources permit.

- **Ensure full use of the new procedures for reviewing security violations on the mainframe.**

SSA Comment

As indicated in the auditor's report, SSA implemented new procedures for reviewing security violations towards the end of FY 2002. We will ensure the full use of the new procedures in the coming year.

- **Ensure that all employees with access to sensitive SSA data (soft or hardcopy) and equipment are properly assessed to determine their eligibility for access to such resources.**

SSA Comment

We will continue to work to ensure that accesses are provided using the principles of "least privilege" and "need to know."

- **Coordinate contingency planning between Program Service Center/Regional Office sites, Disability Determination Services (DDS) sites and SSA central office functions and the National Computer Center.**

SSA Comment

The Executive Internal Control committee at SSA oversees contingency planning at the Agency level and ensures coordinated planning at all levels. The Agency also identifies critical functions and priorities upon which all Agency contingency planning is based. We will look for ways to better integrate contingency plans at the lower levels mentioned above.

- **Continue to enhance the overall security policy for DDS sites and improve physical security controls for DDS sites.**

SSA Comment

SSA will continue to enhance overall security policy for DDS sites by making improvements to the security policy found in the DDS Security Document that was issued in FY 2001. SSA's physical security program requires periodic, recurring reviews of DDS sites by DDS managers and SSA personnel. SSA will continue to help its DDS partners correct any problems found during these reviews, or through audits, and to fully implement physical security policies to ensure the integrity of physical resources and data.



SOCIAL SECURITY

Inspector General

November 15, 2002

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this statement in the Fiscal Year (FY) 2002 *Social Security Administration's Performance and Accountability Report*.

In October 2001, we identified the following 10 significant management issues facing the Social Security Administration (SSA) for FY 2002.

Fraud Risk

Performance, Management and Data Reliability

Improper Payments

Management of the Disability Process

Systems Security

Integrity of the Earnings Reporting Process

Service Delivery

Social Security Number Misuse and Privacy Concerns (Identity Theft)

Human Capital

Integrity of the Representative Payee Process

In FY 2002, SSA continued its efforts to address these issues, many of which are of a long-term nature and do not lend themselves to quick fixes. Our assessment of the status of these 10 management challenges is enclosed.

Sincerely,

James G. Huse, Jr.

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

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

A-02-03-13034



NOVEMBER 2002

Fraud Risk

Fraud is an inherent risk in all of the Social Security Administration's (SSA) core business processes: enumeration, earnings, claims, and post-entitlement. All of these processes include vulnerabilities that provide individuals the opportunity to defraud third parties, SSA, or its beneficiaries and recipients. As SSA payments to beneficiaries approach half a trillion dollars annually, its exposure to fraud increases proportionately. Our focus on fraud risk is based on program eligibility factors that individuals misrepresent to attain or maintain eligibility.

SSA's difficulties in monitoring eligibility factors for Supplemental Security Income (SSI) recipients is a key reason the SSI program has remained on the General Accounting Office's (GAO) list of high-risk Federal programs since 1997.¹ Because the SSI program is means-based, it includes eligibility factors that tend to be more difficult for SSA to verify and monitor, including income, resources, living arrangements, residency, and deemed income. While SSA is addressing the factors affecting the complexity of the SSI program, the Agency still relies on self-reporting of income, living arrangements, and medical improvement in determining whether an individual is eligible for SSI payments. Examples of the eligibility factors susceptible to fraud under the Old-Age, Survivors and Disability Insurance (OASDI) program include family relationships (for dependents and survivors), school attendance (for children age 18 and older), and child in-care (for surviving spouses under age 60). Other key risk factors common to both programs are the reporting of beneficiary and recipient deaths and monitoring of medical improvements for disabled individuals.

SSA Has Taken Steps to Address this Challenge

SSA has taken an active role to address the integrity of the OASDI and SSI programs through its "zero tolerance for fraud" initiative. This initiative involves various activities. In addition to increasing resources for the Office of the Inspector General (OIG), SSA's Offices of Operations and Disability, in conjunction with the OIG, formed 17 Cooperative Disability Investigation (CDI) teams by Fiscal Year (FY) 2002. These teams rely on the combined skills and specialized knowledge of OIG investigators, State and local law enforcement officials, and SSA and Disability Determination Services (DDS) personnel to combat disability fraud. During FY 2002, CDI teams prevented over \$62.9 million in improper payments.

SSA continues to identify and terminate payments to incarcerated beneficiaries. SSA has agreements with 5,559 correctional facilities that encompass over 99 percent of the inmate population. SSA estimates the suspension of payments to prisoners saved the OASDI and SSI programs \$500 million in FY 2002.

¹ In 1997, GAO designated the SSI program as high-risk since SSA lacked an effective plan to address the level of debt that results from overpayments. As a result, SSA developed a corrective action plan, which was updated in June 2002, to remove the SSI program from GAO's high-risk list.

In addition, SSA has taken steps to improve the SSI program, including a corrective action plan with the goal of removing the SSI program from GAO's high-risk list. As part of this effort, SSA has initiated computer matches to identify unreported wage and unemployment compensation, and real time access to external databases. For instance, SSA has obtained on-line query access to selected records in 68 agencies in 40 States. SSA estimated these efforts would save \$5 million in FY 2002. SSA has also implemented new computer matches by field office staff to identify recipient income before awarding SSI payments. This program provides direct access to Office of Child Support Enforcement (OCSE) databases related to wages, new hires, and unemployment insurance.

SSA Needs to Continue to Address this Challenge

SSA needs to further address the risk of fraud in the areas of detecting beneficiary deaths, fugitive felons, and unreported income. A significant tool against fraud risk is the detection of unreported beneficiary and recipient deaths. However, our audit work has disclosed that SSA needs to strengthen the effectiveness of this detection tool. SSA relies on its Death Alert, Control, and Update System (DACUS) to identify and terminate payments after a beneficiary's death. Our June 2001 audit report, *Old-Aged, Survivors and Disability Insurance Benefits Paid to Deceased Auxiliary Beneficiaries* (A-01-00-20043), disclosed that 881 auxiliary beneficiaries were paid about \$31 million after their dates of death through December 2000 because DACUS could not properly match their records. Another audit issued in September 2002, *Effectiveness of the Social Security Administration's Death Termination Process* (A-09-02-22023), disclosed that, based on a random sample of 200 DACUS alerts, SSA disbursed about \$142.4 million in payments after death during Calendar Year 1999. Of this amount, SSA had not recovered about \$5.4 million as of March 2002.

Another area that is susceptible to fraud risk is payments to unidentified fugitive felons. Our investigative efforts under the Fugitive Felon Program have identified 65,857 fugitives who were overpaid more than \$137.4 million from August 1, 1996 through March 31, 2002. Of the 65,857 fugitives, 6,984 were arrested, and we estimated the related savings to be about \$213 million for the SSI program. While SSA has made progress in obtaining fugitive data, more work remains in this area. We have recommended that SSA pursue legislation to prohibit the payment of OASDI benefits to fugitives. We estimate that fugitives continue to receive at least \$39 million annually in OASDI benefits.

As GAO noted in its September 2002 report, *Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, but Management Attention Should Continue* (GAO-02-849), it is too soon to tell what impact a number of SSA's initiatives to strengthen the integrity of the SSI program will have. GAO also made several recommendations aimed at further strengthening SSA's ability to deter, detect and recover SSI overpayments, including reexamining policies and procedures for SSI overpayment waivers.

Improper Payments

Improper payments are a major management challenge since even the slightest error in SSA's overall process can result in millions of dollars of OASDI and SSI over- or under-payments. Allegations of individuals obtaining improper payments from SSA programs have recently been the subject of media reports, congressional hearings, and legislative actions. Also, in August 2001, the Office of Management and Budget (OMB) published *The President's Management Agenda, FY 2002*, which includes a Government-wide initiative for improving financial performance and reducing improper payments. Improper payments are defined as payments that should not have been made or that were made for incorrect amounts. Examples of improper payments include payments with inadvertent errors, for unsupported or inadequately supported claims, for services not rendered, to ineligible beneficiaries, and resulting from fraud and abuse by program participants and/or Federal employees.

The risk of improper payments increases in programs with (1) a significant volume of transactions, (2) complex criteria for computing payments, and/or (3) an emphasis on expediting payments. SSA faces all three of these risks. Specifically, the Agency is responsible for issuing timely benefit payments for complex entitlement programs to 50 million individuals. Also, SSA's purpose—providing Social Security benefits to retired and disabled workers; as well as providing SSI payments to financially needy individuals who are aged, blind, or disabled—emphasizes expediting payments.

SSA Has Taken Steps to Address this Challenge

SSA has actively sought to identify actions to reduce improper payments and/or recover amounts overpaid. Specifically, SSA has been working to improve its ability to prevent overpayments by obtaining beneficiary information from independent sources sooner and/or using technology more effectively. For instance, SSA has initiated new computer matching agreements, obtained on-line access to wage and income data, and implemented improvements in its debt recovery program.

According to SSA's June 2002 Corrective Action Plan for the SSI program, "...SSI overpayment collections are 33 percent higher since FY 1998, and detections are 32 percent higher." Additionally, SSA is focusing on initiatives that have proven potential in preventing overpayments, rather than merely detecting additional overpayments. For example, for FY 2002 SSA estimates that matching wage data from OCSE would result in an estimated \$110 million in improper payment savings, and identifying nursing home admissions would result in estimated savings of \$20 million. Further, SSA planned to perform SSI redeterminations on one of every three SSI recipients in FY 2002, and was requesting funds to increase the number of redeterminations in FY 2003.

SSA Needs to Continue to Address this Challenge

Some improper payments are inevitable because SSA is not permitted to stop or adjust payments until due process related to the beneficiary's right to appeal an action is completed.² Also, SSI payments are paid at the beginning of the month under the assumption that the recipient's circumstances (such as income and asset levels) will remain the same during the month for which payment is rendered. However, SSA needs to continue pursuing all cost-effective avenues to identify, recover, and prevent those improper payments that are not inevitable.

Improper payments, including those to deceased beneficiaries, students, and individuals receiving State workers' compensation benefits, continue to drain the Social Security Trust Fund and general Federal funds. For example, based on SSA's own study after our 1998 and 1999 audits on benefits involving workers' compensation, the Agency estimated that the total past and future errors for two subsets of our workers' compensation population could reach \$1.3 billion in under- and overpayments. Another example of continued attention in this area pertains to our October 2002 report³ on benefit payments after death—where we estimated \$12 million in Social Security funds were improperly paid.

In addition to our own work, both the Social Security Advisory Board (SSAB) and GAO continue to recognize improper payments as a management challenge for SSA. The SSAB's March 2002 report, *SSA's Obligation to Ensure that the Public's Funds are Responsibly Collected and Expended*, concluded that SSA should be moving much more effectively and aggressively to collect overpayments if it is to properly discharge its stewardship responsibilities. Also, GAO has testified before Congress and issued a number of reports in FY 2002 on the need for improvement in the SSI program in relation to improper payments.⁴

² 42 USC 423(g).

³ *Old-Age, Survivors and Disability Insurance and Supplemental Security Income Payments to Deceased Beneficiaries and Recipients* (A-06-02-12012), October 30, 2002.

⁴ GAO Testimony, *Supplemental Security Income: Status of Efforts to Improve Overpayment Detection and Recovery* (GA-02-962T), July 25, 2002. GAO Report, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems* (GAO-02-749), August 2002. GAO Report, *Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, But Management Attention Should Continue* (GAO-02-849), September 2002.

Systems Security

As technology advances and our reliance on technology increases, the need for a strong information infrastructure becomes even more important. Along with the explosive growth in computer interconnectivity comes the ability to disrupt or sabotage critical operations, read or copy sensitive data, and tamper with critical processes. Those who wish to disrupt or sabotage critical operations have more tools than ever.

Presidential Decision Directive 63, issued in 1998, requires Federal agencies to identify and protect their critical infrastructure and assets. One of SSA's most valuable assets is the information it has been assigned to use to complete its mission. SSA is relying on technology to meet the challenges of ever-increasing workloads with fewer resources and rising customer expectations. A physically and technologically secure Agency information infrastructure is a fundamental requirement.

SSA Has Taken Steps to Address this Challenge

SSA's current information security challenge is to understand system vulnerabilities and how to mitigate them. SSA must ensure its critical information infrastructures, such as the Internet and access to the networks, is secure. By improving systems security and controls, SSA will be able to use current and future technology more effectively to fulfill its customers' needs.

SSA has addressed critical information infrastructure and systems security in a variety of ways. It created a Critical Infrastructure Protection work group that continually works toward compliance with Presidential Decision Directive 63. The work group has created several components Agency-wide to handle systems security, and has begun vulnerability analyses of what have been identified as its most critical assets. SSA also routinely sends out security advisories to its staff and has hired outside contractors to provide expertise in this area—including benchmarking the strength of its security program relative to other organizations.

SSA Needs to Continue to Address this Challenge

To further strengthen its controls to protect SSA information and systems and prepare for further challenges, SSA needs to address the following issues.

- Weaknesses in SSA's overall information protection control structure identified by PricewaterhouseCoopers, including (1) improving physical access controls at non-Headquarters locations, including SSA's regional offices, program service centers, and selected DDSs; (2) implementing and monitoring of technical security configuration standards governing systems housed in the National Computer Center and off-site house systems; and (3) monitoring security violations and periodic review of user access.

- Need to more clearly define and report on all systems and subsystems to improve Agency-wide coordination and implementation of systems security.
- Internal control weaknesses that provide opportunity for unauthorized access to sensitive information.
- Limited review and analysis of system intrusion data performed at SSA facilities.
- Risks associated with providing customer service over the Internet that include authenticating individuals when receiving their information.

Service Delivery

SSA is faced with increased workloads brought about by an aging Baby-boom generation, a projected retirement wave and other attrition through 2010 of over half of its workforce, and technological advances that affect both citizens' expectations and SSA's ability to meet them. While SSA is committed to providing, world-class service and has an established reputation for quality service, maintaining this service will be a major management issue facing SSA as workloads continue to increase, large numbers of employees retire, and service expectations rise.

SSA Has Taken Steps to Address this Challenge

SSA has recognized the challenges it faces in maintaining quality service delivery and has developed a long-term *Service Vision*. This 10-year plan is based on the premise that the convergence of the forecasted trends will provide SSA with the opportunity to (1) reshape its business processes, (2) reform its management of technology, and (3) deliver the service the American public demands. SSA will rely on electronic government (E-government) solutions to increase its productivity and allow it to bridge the resource gap that will be created by the expected explosive growth in its workloads. Key activities SSA is implementing to support these goals are providing (1) individuals access to one-stop shopping with single-points-of-entry, such as via the Internet or automated telephone service; (2) business partners the opportunity to switch from paper and magnetic tape to the Internet for the earnings reporting process; and (3) information sharing with Federal and State government partners to serve the American public better. Additionally, SSA continues to implement its Future Workforce Plan, as we discuss under the Human Capital Management Challenge.

SSA Needs to Continue to Address this Challenge

While SSA met most of its goals related to service in FY 2002, it should continually explore innovative ways to address service delivery problems to maintain existing service levels. As the SSAB reported, SSA has already—and should expect to continue to provide—uneven service. While those filing for retirement or survivor benefits are likely to be satisfied with the service provided, individuals with complicated cases—such as Disability Insurance (DI) or SSI—may encounter problems. As workloads increase, the dimensions of SSA's problems can be expected to grow. If these challenges are left unattended, the public will be faced with crowded reception areas, long waiting times, inadequate telephone service, and reduced quality of work.

SSA is facing some daunting challenges to provide world-class service that it must immediately address. One is an incredible swell in workload volumes. Beginning around 2008, the 76 million "baby boomers" will begin to move into their disability-prone years and begin to retire. SSA anticipates that by 2010, applications for DI will increase by as much as 32 percent over 2000 levels and applications for retirement benefits by 31 percent over 2000 levels. Along with this workload increase, demands for the way services will be delivered are also expected to change, with citizens wanting different modes of accessibility. For example, the public will want to use the Internet and "one-stop shopping" for access to services and programs through one interaction with the Government. Future service delivery challenges include providing customers electronic services over the Internet and telephone, 24 hours a day, 7 days a week. It will be the norm for business transactions to be processed electronically at the first point of

contact. Due to the critical importance of this issue, *Expanded E-government* was included as a Government-wide initiative in *The President's Management Agenda* issued August 2001. The Agenda stated that "The federal government can secure greater services at lower cost through E-government, and can meet high public demand for E-government services".

Further, in May 2002, GAO testified⁵ that SSA's future success in managing workloads and meeting customer demands is linked to effectively managing information technology initiatives. While SSA's vision is to rely heavily on technology, GAO noted weaknesses in how SSA would successfully manage and meet the goals it has established. Some of the weaknesses included the following.

- Investment proposals may not provide the most cost-effective solutions and achieve measurable and specific program-related benefits—ensuring high-quality service delivered on time, within cost, and to the customer's satisfaction.
- Internet and web-based customer environments are not aligned with the Agency's information technology environment—ensuring key elements to deliver service are aligned with SSA's information technology environment.
- Improvements in customer service dependent on software-intensive systems—ensuring that SSA delivers quality software on schedule and within cost estimates.

To address these challenges, the Commissioner initiated a new emphasis on quality that seeks to balance five elements: accuracy, timeliness, productivity, cost, and customer service. To accomplish these challenges, the Commissioner is taking action to place the resources where they are needed to do the job right the first time. SSA also plans to rely heavily on information technology. However, both GAO and we have reported that some of the Agency's past experiences have shown mixed success. SSA will need to continually focus on these important challenges.

⁵ GAO Testimony, *Social Security Administration: Agency Must Position Itself Now to Meet Profound Challenges* (GAO-02-289T), May 2, 2002.

Human Capital

Strategic Management of Human Capital is a Government-wide management reform included in the *President's Management Agenda* and has been designated by GAO⁶ as a Government-wide high-risk area. SSA has recognized the importance of this issue because of both anticipated increased workloads and employee retirements. SSA reported that it faces explosive workload growth as the baby boom generation ages, becomes more prone to disabilities, and retires. At the same time, SSA will experience a “retirement wave” that projects the loss of more than 38,000 employees over the next decade.

SSA Has Taken Steps to Address this Challenge

SSA has established a multi-faceted response to the human capital challenge focused on (1) replenishing the workforce, (2) broadening the capabilities of current employees, (3) continuing strong management and executive development programs, and (4) improving workforce retention. SSA developed a Future Workforce Transition Plan, which is a 5-year effort to guide SSA from the workforce of today to the workforce of tomorrow. The Agency has identified positions that will incur the most serious losses due to retirement and has developed a succession plan. Additionally, the Agency has established a wide range of action items and target dates intended to meet SSA's future workforce needs by expanding its employees' capabilities and improving employee retention and recruitment. For instance, SSA's plan contains initiatives to implement and test new training technologies, develop a marketing plan for recruiting new employees, initiate actions to increase employee retention, and hire in advance of losses to ensure institutional knowledge of experienced employees is transferred to new employees. SSA further reports it will continually assess its workloads and other responsibilities to ensure its critical staffing needs are met.

SSA Needs to Continue to Address this Challenge

The combined effect of employee attrition and increased demand for services will impose a significant challenge to SSA's management of its human capital. SSA estimates its workforce retirements will peak between 2007 and 2010—when about 2,500 employees will retire annually. Further, between 2000 and 2010, about 72 percent of SSA's managers and senior executives, about 60 percent of its supervisors, about 34 percent of claims representatives, and about 29 percent of the Agency's computer specialists are projected to retire.

To provide the kind of service that has been the Agency's hallmark, SSA recognizes it must maintain a highly skilled, high performing, and highly motivated workforce. A key requirement is also to have the right number of staff with the correct skills. According to the SSAB in its March 2002 report *SSA's Obligation to Ensure That the Public's Funds are Responsibly Collected and Expended*, many SSA employees believed there were not enough staff to accomplish all mandated tasks. The report further noted that SSA had appointed a work group to identify workloads in field offices that are underfunded. The objective was to develop short-term tools for identifying these workloads so they would be considered when the budget is

⁶ GAO Report, *High-Risk Series: An Update* (GAO-01-263), January 2001.

formulated. SSAB also noted that this type of analysis was important to the credibility and usefulness of the Agency's budget submissions.

Although SSA has taken initiatives to address its human capital challenge, many actions still need to be refined and then successfully carried out. For instance, as part of its effort to increase new hire retention, SSA began a study of why new hires leave. This study will need to be analyzed to determine options SSA can take to meet its goals of increasing retention rates. Similarly, SSA is relying on desktop video training as an important aspect of its program to maintain a skilled workforce; however, this initiative is still in prototype stage, and its success will depend on future funding. SSA will need to continually monitor the effects of these actions and be able to quickly respond to changing employee and client service needs.

Performance, Management and Data Reliability

To effectively meet its mission, manage its programs, and report on its performance, SSA needs sound performance and financial data. Congress, the general public, and other interested parties also need sound and credible data to monitor and evaluate SSA's performance. The *President's Management Agenda* has placed great emphasis on the management and performance of Federal agencies, including the integration of budget and performance. SSA has demonstrated a strong commitment to the Government Performance and Results Act of 1993 (Public Law No. 103-62) by developing strategic plans, annual performance plans and annual performance reports. However, we believe SSA can further strengthen its use of performance information by fully documenting the methods and data used to measure performance and by improving the data sources that appear to be unreliable.

SSA Has Taken Steps to Address this Challenge

Our audits and reviews of SSA's financial statements, annual performance plans and reports, and individual performance measures disclosed that SSA has demonstrated commitment to the production and use of reliable performance and financial management data. SSA is the only Federal agency to receive the *Certificate of Excellence in Accountability Reporting* for its *Performance and Accountability Report* every year since the award program began for FY 1998.

SSA has continually refined its annual performance plans to develop performance measures that more accurately reflect performance and are more outcome-based. In FY 2002, SSA revamped its Tracking Report used by Agency executives to manage key workloads at the national level and made it available to all employees on-line. The revised report tracks key FY 2002 performance measures and provides alerts as to whether performance is significantly different from the goals established. SSA describes its progress in meeting annual performance goals in its performance and accountability reports. SSA took action to address some of the issues we noted could be improved or for which the reliability of the data was questionable. For instance, SSA agreed to review the hearings process from initial in-take through input into the Hearing Office Tracking System after we reported the data from this system were unreliable.

SSA Needs to Continue to Address this Challenge

Our audits of 21 performance measures in FY 2002 found the data for 16 of the measures reviewed were reliable. We were unable to issue an opinion for five of the measures because the data or documentation of the methods used to measure SSA's performance was not available. We have generally found, even for the performance measures found to be reliable, that SSA lacks documentation of the methods and data used to measure its performance.

SSA needs to have performance goals and measures that address the major management challenges facing the Agency. While the FY 2002 annual performance plan discussed SSA's approach to addressing its major management challenges, performance measures were not established for all the challenges, such as the Earnings Suspense File and the integrity of the representative payee process.

SSA could also improve the extent to which performance measurement is outcome (results) based. The continual reliance on multiple output performance measures makes it difficult to judge the performance of some of SSA's program and key activities. SSA needs to continue focusing its efforts on developing high-quality, outcome-based performance indicators and goals for each of its programs and activities.

SSA also needs to further develop a cost accounting system to better link costs with performance. Since most goals are not aligned by budget account, the resource, human capital, and technology necessary to achieve many performance goals are not adequately described. SSA began to implement a cost accounting system in FY 2002, which will be phased in over the next 3 to 4 years.

Management of the Disability Process

Management of the disability process is a major management challenge for which SSA has established various initiatives to improve processing times and productivity; however, its success has been mixed. SSA administers two programs providing benefits based on disability: DI and SSI. Most disability claims are initially processed through SSA field offices (FO) and DDS offices. SSA's FO staff are responsible for obtaining applications for disability benefits and verifying non-medical eligibility requirements, which may include age, employment, or marital status information. The FO sends the case for a disability evaluation to a DDS, which is a State agency or other responsible jurisdiction funded by SSA to develop medical evidence and render the initial determination on whether the claimant is legally disabled or blind. In FY 2002, 2,376,572 initial disability claims were processed, with an average processing time of 104 days. SSA's goal was to process 2,191,000 initial disability claims, with an average processing time of 115 days.

If a claimant is not satisfied with a DDS' decision, the individual may file an appeal. The Office of Hearings and Appeals is responsible for holding hearings and issuing decisions at two distinct stages in SSA's appeals process—in hearing offices and at the Appeals Council. Administrative law judges hold hearings and issue decisions in hearing offices nationwide. In FY 2002, hearing offices processed 532,106 cases, and the average time a claimant waited for a decision on an appeal was 336 days. SSA's goal was to process 490,000 cases, with an average processing time of 330 days. The Appeals Council is the final level of administrative review for claims filed under SSA's disability programs. The Appeals Council reviews administrative law judges' decisions and dismissals upon the claimant's request for review. In FY 2002, SSA's goal was to process Appeals Council cases with an average processing time of 285 days; actual average processing time was 412 days.

SSA Has Taken Steps to Address this Challenge

SSA has tested several improvements to the disability claims process as a result of concerns about the timeliness and quality of its service. These improvement initiatives have been piloted over the last few years and include all levels of eligibility determinations beginning with DDSs and continuing through the hearings and appeals processes.

Recognizing the lack of significant improvements to the disability determination process time, the Commissioner in FY 2002 announced several decisions on the future of SSA's disability process. The Commissioner's decisions included expanding the Single-Decision Maker nationwide, ending the requirements for the claimant conference, evaluating the elimination of the reconsideration level of the claims process nationwide, making additional improvements to the hearings process, and implementing an e-Dib (electronic disability initiative) by 2003.

SSA Needs to Continue to Address this Challenge

SSA needs to continue its focus on improving the disability process. SSA met three, partially met one, and failed to meet one of its seven disability-related performance goals contained in its FY 2002 performance report. Further, data was not available to measure performance for two other goals. Particularly troublesome is the hearings and appeals process. SSA met two of its eight goals related to the hearings and appeals process, failed to meet five, and the data was not available for one. The disability process continues to be a serious concern given the level of resources SSA has devoted to its disability process improvement initiatives and the lack of substantial improvement to date.

During FY 2002, we reviewed the status of five of SSA's Disability Process Improvement Initiatives: Prototype, Quality Assurance, Disability Claims Manager, Process Unification, and Hearings Process Improvement. We found that Prototype DDSs, DDSs that implemented one or more improvement initiatives, were falling behind in providing timely customer service as processing time at the initial level increased, productivity decreased, and the backlog of cases grew at the DDSs and Office of Hearings and Appeals. In addition, preliminary data from the Prototype raised questions about the program costs of national implementation. We also found that the Hearings Process Improvement initiative did not result in significant improvements in processing times and resulted in decreased productivity. Furthermore, SSA has not fully developed a plan for a more comprehensive and uniform quality assurance system, which is critical to disability claim adjudication.

Integrity of the Earnings Reporting Process

SSA's Earnings Suspense File (ESF) represents a major management challenge because its size and rate of growth may impact the calculations of beneficiaries' benefits, results in higher administrative costs, and represents a sizeable portion of Social Security number (SSN) misuse.

The integrity of SSA's process for posting workers' earnings is critical to ensuring eligible individuals receive the full retirement, survivor, and/or disability benefits due them. The ESF primarily consists of reported earnings for which the name and SSN combination does not match validation criteria within SSA's systems. Each year, SSA receives about 21 million wage items that have invalid name and SSN combinations. Through extensive computer matches and manual efforts, this number is reduced to about 6.5 million items, annually. However, about 1 percent of the earnings reported annually cannot be posted to earners' accounts and accumulates in the ESF. Between Tax Years (TY) 1937 and 2000, the ESF grew to about \$374 billion in wages, representing approximately 236 million wage items.

The ESF is further indicative of a nation-wide problem of potential fraud and misuse that not only affects SSA's programs, but also that of other Federal agencies—such as the Internal Revenue Service (IRS) and the Immigration and Naturalization Service (INS). The IRS uses wage data to enforce tax laws and can penalize employers and employees for providing incorrect information. The INS has oversight responsibility for unauthorized noncitizens. The Immigration Reform and Control Act of 1986 (Public Law No. 99-603) made it illegal for employers to knowingly hire or continue to employ unauthorized noncitizens. Employers must request that newly hired employees present documents that establish their identities and eligibility to work.

SSA Has Taken Steps to Address this Challenge

SSA has several initiatives to reduce the ESF's size and rate of growth. For example, SSA is piloting an on-line system called the SSN Verification System—a project designed to assist employers in verifying new hire names and SSNs. This pilot expands the current Employee Verification Service (EVS) for registered employers—a paper and magnetic media process. In addition, in TY 2001 SSA expanded its correspondence with employers when the name and/or SSN submitted did not match SSA's records. Employers were asked to obtain and provide corrected wage information. Finally, SSA is evaluating the results of two other pilot projects that used the databases of other Federal agencies to assist employers in verifying employees' names and SSNs. However, the success of many of these projects and pilots depends on the collaboration with and support from other agencies—such as the IRS, INS, and OCSE.

SSA has also developed other processes to validate the earnings data in the Master Earnings File. SSA recently started mailing Social Security statements to individuals who had earnings and were age 25 or older. In FY 2002, SSA mailed almost 138 million of these statements. However, over 12 million were returned to SSA as undeliverable. If an individual contacts SSA about missing earnings, these amounts are either reinstated from the ESF to the Master Earnings File—if they are in the ESF—or added as new earnings to the Master Earnings File.

SSA Needs to Continue to Address this Challenge

We commend SSA for its efforts, but several factors—both internal and external to SSA—hinder the efforts with the most potential to reduce the ESF’s size and growth. Some of the internal factors include a higher priority placed on other automated system developments and the fact that SSA has not linked available information in its database to identify chronic “problem” employers who continually submit annual wage reports with multiple errors. External factors include other Federal agencies with separate yet related mandates, such as the IRS’s failure to sanction employers for submitting invalid wage data⁷ and the INS’ complicated employer procedures for verification of eligible employees. Further, SSA acknowledges the suspense file most likely will grow as transient workers in certain industries increase.

Recent OIG reviews have found SSA needs to improve communications with employers if it expects to improve the accuracy of reported wages. For example, our August 2002 review, *Effectiveness of the Social Security Administration’s Earnings after Death Process*, found that SSA’s earnings after death edit was not effective in resolving TY 1998 suspended earnings items. While SSA reinstated approximately 6 percent of the suspended items in our sample, another 22 percent of the suspended items could also have been reinstated. In addition, 33 percent of the sample items contained instances where it appears someone else was using the deceased individual’s name and/or SSN. Our review of the earnings after death suspended items for TY 1998 also indicated that 7 of the top 10 contributors to the ESF were from the entertainment industry. Better communication with this industry could reduce the number of suspended items going into the ESF.

Our September 2002 report, *The Social Security Administration’s Employee Verification Service for Registered Employers*, found that very few employers were using SSA’s voluntary EVS for registered users, with only 392 employers out of a potential 6.5 million employers using this service during the last 3 years. In addition, we noted that SSA did not disclose pertinent information that could have assisted registered employers, such as whether the submitted SSN belonged to a deceased individual or the SSN was issued to the individual for nonwork purposes. SSA agreed with our recommendations designed to assist employers and improve the EVS.

⁷ Internal Revenue Code section 6721 authorizes IRS to levy penalties for failure to file properly completed information returns, including Form W-2s.

Social Security Number Misuse and Privacy Concerns (Identity Theft)

In FY 2002, SSA issued over 18 million original and replacement SSN cards. As use of the SSN has grown, so has its misuse. Because the SSN is so heavily relied upon as an identifier, it is a valuable commodity for criminals. It can be obtained illegally in many ways: presenting false documentation to SSA, stealing another person's SSN, purchasing an SSN card on the black market, using the SSN of a deceased individual, and simply creating a nine-digit number. As we have learned through numerous investigations, even a legally obtained SSN can be used to facilitate an unlawful act. Failure to protect the SSN's integrity can have enormous consequences for our Nation and its citizens. Given the magnitude of SSN misuse, we believe SSA must employ effective front-end controls in its enumeration process. Likewise, additional techniques, such as data mining, biometrics, and enhanced systems controls are critical in the fight against SSN misuse.

SSA Has Taken Steps to Address this Challenge

In response to the terrorist events of September 11, 2001, SSA formed an executive level Enumeration Task Force to explore and track the Agency's progress toward completing policy and procedural initiatives to further enhance the SSN's integrity. Among the Task Force initiatives are:

- provide refresher training on enumeration policy and procedures, with emphasis on enumerating noncitizens, for all involved staff;
- convene a joint task force between SSA, INS, Department of State and Department of Health and Human Services' Office of Refugee Resettlement to resolve issues involving enumeration of non-citizens, including procedures for verifying INS documents before SSN issuance; and
- eliminate driver's licenses as a reason for a nonwork number.

Of eight Task Force initiatives, SSA has implemented three, and five are ongoing. Other Agency initiatives include (1) agreements to enable INS and Department of State to collect enumeration data from aliens entering the United States, (2) a work-group to study the feasibility of limiting the number of replacement SSN cards, (3) obtaining on-line access to State vital records so FOs can verify all United States birth certificates presented in support of SSN applications, (4) verifying INS documents submitted by noncitizens who apply for an SSN, (5) a workgroup to identify enhancements in the Modernized Enumeration System to address certain fraud-prone situations, and (6) partnering with INS and OIG to open Enumeration Centers in large metropolitan areas to ensure that only qualified individuals with valid documents will receive SSNs.

SSA Needs to Continue to Address this Challenge

To ensure SSN integrity in a post September 11th environment, we believe SSA must focus on three stages of protection: (1) upon issuance of the SSN card, (2) during the life of the SSN holder, and (3) upon that individual's death. For example, all birth records, immigration records, and other identification documents presented to SSA must be independently verified as authentic before SSA issues an SSN. We continue to encourage full and expedited implementation of a joint Enumeration at Entry program. While this may subject the enumeration process to delays, such delays in service may be necessary to ensure the integrity of the SSN.

Once SSA issues an SSN and it becomes an integral part of the number-holder's life, it becomes difficult to give the SSN the degree of privacy it requires. Businesses and government agencies nationwide rely on the SSN as a convenient means of record keeping. By doing so, these entities collect, store, and, sometimes share a lifetime of personal information associated with the number. With this information, a criminal can commit financial fraud, and, in some cases, camouflage other crimes. The challenge for SSA and the Congress is to find a balance between ensuring the SSN's privacy and ensuring that businesses and Federal and State agencies are not unduly limited in the process. Despite this challenge, the following are important steps SSA can take:

- limit the SSN's public availability to the greatest extent practicable, without unduly limiting commerce;
- prohibit the sale of SSNs, prohibit their display on public records, and limit their use to valid transactions; and
- enact strong enforcement mechanisms and stiff penalties to further discourage SSN misuse.

Finally, SSA must do more to protect the SSN after the SSN holder's death. SSA receives death information from a wide variety of sources and compiles a Death Master File, which is updated monthly, transmitted to various Federal agencies, offered for sale to the public, and available for access over the Internet. Accuracy in this area is critical to SSA in the administration of its programs, to the financial services industry, and to the American people.

Full implementation of ongoing and planned initiatives and continued vigilance in this area is necessary to ensure the SSN's integrity. We understand the Agency has a difficult task in balancing service and security. However, SSA must continuously review its systems and processes for opportunities to prevent the possibility that individuals misuse SSNs to commit or camouflage criminal activities.

Integrity of the Representative Payee Process

Congress granted SSA the authority to appoint representative payees to receive and manage OASDI and SSI payments for beneficiaries deemed incapable of managing or directing the management of their finances. A representative payee may be an individual or an organization. Representative payees are responsible for managing these payments in the recipients' best interest, and organizational representative payees may receive a monthly fee from beneficiaries for their service. There are about 5.4 million representative payees who manage the benefits of about 7.6 million beneficiaries. SSA has experienced problems with representative payees who have misused beneficiary funds, and we have identified weaknesses in the selection, monitoring and accountability of representative payees.

SSA Has Taken Steps to Address this Challenge

SSA has recognized the vulnerabilities and weakness with the integrity of the representative payee process. In FY 2000, SSA established a Representative Payee Task Force to address them. The Task Force performed a comprehensive review of the features and vulnerabilities of the Representative Payment Program. The Task Force is comprised of three subgroups: (1) monitoring representative payees; (2) systems support for the Representative Payment Program, and (3) bonding and licensing of representative payees. As a result, SSA developed a representative payee monitoring program, consisting of site reviews of all representative payees receiving a fee, all volume organizational representative payees (serving over 100 beneficiaries), and all individual representative payees serving 20 or more beneficiaries. This routine monitoring system is on a 3-year cycle. In addition, SSA will conduct random reviews of a sample of volume organizational and representative payees receiving a fee. Further, in response to certain "trigger" events, SSA will review organizational representative payees as needed. Such "trigger" events include third-party reports of misuse, complaints from vendors for failure to receive payment, or failure to complete the annual Representative Payee Report. Additionally, SSA annually verifies the required license or bond for all representative payees receiving a fee, and visits payees receiving a fee 6 months after their initial appointment to ensure they fully understand their duties and responsibilities.

In March 2001, we alerted SSA to a condition whereby individuals were serving as representative payees who also had representative payees to manage their own Social Security benefits. SSA subsequently implemented a program to identify and investigate these situations. We also identified 121 representative payees whose own benefit payments were stopped by SSA because they were fugitive felons or parole or probation violators, but who managed over \$1.4 million in Social Security funds for 161 beneficiaries. In response to our audit, SSA agreed to review these cases and reevaluate whether these fugitives are suitable payees. SSA also established a workgroup to develop processing instructions for handling this workload. SSA is also working to make the Representative Payee System—which SSA uses to appoint and monitor representative payees—more reliable.

SSA Needs to Continue to Address this Challenge

Although SSA has recognized the need to strengthen its selection and oversight of representative payees, we continue to identify problems with SSA's oversight of representative payees. Since FY 2001, we have performed 13 financial-related audits of representative payees. Our audits identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in the safeguarding of beneficiary payments; poor monitoring and reporting to SSA of changes in beneficiary circumstances; inappropriate handling of beneficiary-conserved funds; and improper charging of fees. Some of the areas in which SSA needs to take action are.

- *Selection of representative payees* – SSA is exploring ways to strengthen the selection process. SSA awarded a contract to research the feasibility of conducting criminal and/or credit background checks for the corporate officers and fiduciaries in potential fee-for-service representative payees and is considering a contract to investigate the financial soundness of prospective and existing fee-for-service representative payee organizations. However, SSA has not issued any policy changes on the selection of representative payees.
- *Representative Payee System* – We have noted the following weaknesses in the Representative Payee System: (1) system alerts were not always worked because they were given low priority; (2) ineffective tracking of representative payees who do not complete annual Representative Payee Reports; (3) inability of SSA to locate and retrieve completed Representative Payee Reports when needed; and (4) information lacking for some representative payees, and beneficiaries who have representative payees, as required by law.⁸ SSA has said that it is working to correct these deficiencies.
- *Bonding and Licensing of representative payees* – SSA's policy specifies neither the amount of bond necessary to adequately protect beneficiaries nor the type or nature of licenses that are required. To date, SSA has not revised its policy to address these vulnerabilities.

We have also recommended that SSA explore the use of Stored Value Cards⁹ to help address systemic weaknesses in its Representative Payment Program. SSA believes that Stored Value Cards would be time-consuming and labor intensive for representative payees, and that they would not allow SSA to better monitor representative payees. However, SSA is committed to improving the Representative Payment Program and is exploring other innovative approaches for monitoring representative payees.

⁸ The Omnibus Budget Reconciliation Act of 1990 required the development of a system to store data about all representative payees and the beneficiaries for whom they serve.

⁹ A Stored Value Card is a prepaid spending card that can be used everywhere a credit card is accepted. Stored Value Cards do not have a line of credit and can be used to make automated teller machine withdrawals.

Appendices

Glossary of Acronyms

A

ACAPS	Appeals Council Automated Processing System
ACIS	Allegation and Case Investigation System
ADP	Automated Data Processing
AeDIB	Accelerated Electronic Disability
AICPA	American Institute of Certified Public Accountants
AIME	Average Indexed Monthly Earnings
ALJ	Administrative Law Judge
ALP	Advanced Leadership Program
APB	Accounting Principles Board
APP	Annual Performance Plan
APR	Annual Performance Report
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

B

BL	Black Lung
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C

CAR	Corrective Action Review
CDI	Cooperative Disability Investigations
CDR	Continuing Disability Review
CMS	Centers for Medicare and Medicaid Services
COTS	Commercial Off-The-Shelf Software
CPI	Consumer Price Index
CPMS	Case Processing and Management Systems
CPS	Current Population Survey
CSRS	Civil Service Retirement System
CY	Calendar Year

D

DDS	Disability Determination Service
DI	Disability Insurance
DOD	Department of Defense
DOL	Department of Labor
DOS	Department of State
DRI	Disability Research Institute

DT Department of Treasury

E

eDIB Electronic Disability
EF Electronic Folder
EIC Executive Internal Control
EME Electronic Medical Evidence
EMIS Executive Management Information System
EMODS Earnings Management Information Operations Data Store
EPE Extended Period of Eligibility
EPOXY Earnings Posted Overall Cross Total/Year-to-Date System
ESF Earnings Suspense File

F

FASAB Federal Accounting Standards Advisory Board
FBI Federal Bureau of Investigation
FECA Federal Employees' Compensation Act
FERS Federal Employees' Retirement System
FFMIA Federal Financial Management Improvement Act
FICA Federal Insurance Contributions Act
FMFIA Federal Managers' Financial Integrity Act
FMS Financial Management Systems
FO Field Office
FY Fiscal Year

G

GAAP Generally Accepted Accounting Principles
GAO General Accounting Office
GDP Gross Domestic Product
GISRA Government Information Security Reform Act
GPRA Government Performance and Results Act
GRS General Record Schedule
GSA General Services Administration

H

HI/SMI Hospital Insurance/Supplemental Medical Insurance
HOTS Hearing Office Tracking System
HS Human Services

I

ID Identification
IG Inspector General
IRA Individual Retirement Account

IT	Information Technology
IVT	Interactive Video Training
K	
KPI	Key Performance Indicator
KY	Kentucky
L	
LAE	Limitation on Administrative Expenses
LDP	Leadership Development Program
M	
MAI	Management Analysis Inc.
MAR	Monthly Activity Report
MBR	Master Beneficiary Record
MCAS	Managerial Cost Accounting System
MC3	Multimedia Customer Contact Center
MCS	Modernized Claims System
MD&A	Management's Discussion and Analysis
MDSI	
MIICR	Management Information Initial Claims Report
MMP	Market Measurement Program
MOURS	Modernized Overpayment and Underpayment Reporting System
MS	Mississippi
MSSICS	Modernized Supplemental Security Income Claims System
N	
NA	Not Available
NCC	National Computer Center
NIST	National Institute of Standards and Technology
NRA	Normal Retirement Age
NSHA	National Study of Health and Activity
O	
OASDI	Old-Age, Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCACT	Office of the Chief Actuary
OCOMM	Office of the Deputy Commissioner for Communications
ODCP	Office of the Deputy Commissioner for Policy
OEO	Office of Earnings Operations
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General

OIG/OA Office of the Inspector General/Office of Audit
OMB Office of Management and Budget

P

PAR Performance and Accountability Report
PCASC Processing Center Action Control System
PDF Portable Document File
PE Postentitlement
PIA Primary Insurance Amount
PIN Personal Identification Number
PKI Public Key Infrastructure
PMA President's Management Agenda
PP&E Property, Plant and Equipment
PPWY Production Per Workyear
PSC Program Service Center
PTF Payments to the Trust Funds
PUMS Public Understanding Measurement System
PwC PricewaterhouseCoopers LLP

Q

QC Quarters of Coverage

R

RO Regional Office
ROAR Recovery of Overpayments, Accounting and Reporting System
RRB Railroad Retirement Board
RRC Retirement Research Consortium
RRI Railroad Retirement Interchange
RSI Retirement and Survivors Insurance
RTW Return to Work

S

SBR Statement of Budgetary Resources
SECA Self-Employment Contributions Act
SF Standard Form
SGA Substantial Gainful Activity
SIPP Survey of Income and Program Participation
SOF Status of Funds
SPI State Partnership Initiative
SSA Social Security Administration
SSDI Social Security Disability Income
SSI Supplemental Security Income
SSN Social Security Number

SSR	Supplemental Security Record
SSPP	Standardized Security Profile Project
SUMS	SSA Unified Measurement System
T	
TOP	Treasury Offset Program
TWP	Trial Work Period
TWSSP	Ticket-to-Work and Self-Sufficiency Program
U	
UI	Unemployment Information
V	
VOIP	Voice Over Internet Protocol
VS	Vital Statistics
W	
WC	Workers' Compensation
WY	Workyear

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