

Auditor's Reports



SOCIAL SECURITY

Inspector General

November 10, 2003

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2003 and 2002 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements*, *Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance 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 2003 financial statements. PwC also audited the FY 2002 financial statements, presented in SSA's Performance and Accountability Report for FY 2003 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2003 and 2002 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 2003 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 7, 2003, 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.

Sincerely,



James G. Huse, Jr.

REPORT OF INDEPENDENT AUDITORS

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

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

- The consolidated balance sheets of SSA as of September 30, 2003 and 2002, and the related consolidated statements of net cost, of changes in net position, of financing and the combined statements of budgetary resources 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, 2003, 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 (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02;
- 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, 2003 and 2002, and the related consolidated statements of net cost, of changes in net position, of financing and the combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 118 through 139 of this performance and accountability report, present fairly, in all material respects, the financial

position of SSA at September 30, 2003 and 2002, and its net cost, changes in net position, reconciliation of net cost to budgetary resources, and budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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 that (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02. SSA's management is responsible for maintaining effective internal controls. 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, 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, 2003.

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 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 (a) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with Federal accounting standards and the safeguarding of assets against loss from unauthorized acquisition, use or disposition and (b) transactions are executed in accordance with (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements and (ii) any other laws, regulations and governmentwide policies identified in OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2003.

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 consolidated and combined 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 significant progress in addressing the information protection issues raised in prior years. Specifically, during fiscal year 2003 SSA has:

- Implemented “risk models” to standardize platform security configuration settings for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Enhanced the risk models to further strengthen the security settings for new security weaknesses;
- Implemented new tools and procedures to monitor adherence to platform security configuration standards for the Windows NT, Windows 2000, AS 400, Unix and WANG platforms;
- Reduced the number of Windows NT, Windows 2000, AS 400, Unix, and servers with known high risk security weaknesses;
- Maintained strong 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 accuracy) 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;
- Improved and implemented new reports and procedures for enhanced review of security violations on the mainframe; and,
- Continued progress in the area of continuity of operations planning for the Regional Offices (RO)/Program Service Centers (PSC) and state Disability Determination Services (DDS) sites.

Although significant progress has been made regarding logical security controls, we note the need for further progress regarding (a) the review of security access assignments, including vetting of assignments for access to transactions and data, (b) the establishment and full use of dataset naming conventions, (c) the establishment of a dataset dictionary for existing datasets and transactions, and (d) the enforcement of the new dataset naming rules and standards for sensitive systems. We also note the need to test the newly drafted high level procedures to move workloads between RO/PSC and DDS sites to maintain continuity of operations by testing the processes and procedures up to the actual transfer of the workloads. Disclosure of more detailed information about these exposures might further compromise controls and is therefore not provided in this report. Rather, the specific details of weaknesses noted are presented in a separate, limited-distribution management letter.

Management has made concerted efforts to address these issues; however, the completion of the SSPP is a time consuming task that will require substantial resources to complete. Further, the physical controls over the state DDS sites continue to be a challenge because many of the sites are co-located with state agencies, or are housed in buildings with inherent physical security issues.

The need for a strong security program to address threats to the security and integrity of SSA operations continues to grow as the Agency continues to progress with plans to increase dependence on the Internet and Web-based applications to serve the American public. Clear progress has been made towards the implementation of a strong overall security program. However, 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 in the areas of assigning access to transactions and data and physical security over DDS sites.

Recommendations

We recommend that SSA implement the remaining portions of its entity-wide security program. Specifically, we recommend that SSA:

- Continue the SSPP program to ensure that sensitive systems, as defined by the SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, and inclusion in the dataset dictionary;
- Continue to improve physical security controls for the DDS sites; and
- Continue to enhance continuity of operations activities, including testing of newly developed procedures for RO/PSC and DDS sites.

More specific recommendations addressing 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 29 to 54 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 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 Schedule of Budgetary Resources, included on page 144 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, *Form and Content of Agency Financial Statements*. This information, and the consolidating and combining information included on pages 140 to 143 of this performance and accountability report are presented for purposes of additional analysis of the consolidated and combined financial statements rather than to present the financial position, changes in net position, reconciliation of net cost to budgetary resources, and budgetary resources of the individual SSA programs. Such 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.

The required supplementary information included on pages 1 and 2, 6 to 64, 115 to 117 and 145 of this performance and accountability report and the required supplementary stewardship information included on pages 146 to 163 of this performance and accountability report, are not required parts of the financial statements but are 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.

The other accompanying information included on pages 3 to 5, 65 to 114, 164 to 166 and 172 to the end of this performance and accountability report, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has 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.

* * * * *

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

PriceWaterhouse Coopers LLP

November 7, 2003



SOCIAL SECURITY

The Commissioner
October 31, 2003

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

Ladies and Gentlemen:

We have reviewed the draft combined report containing the Fiscal Year (FY) 2003 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 of 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 significant progress in addressing the information protection issues raised in prior years as part of a reportable condition and that no new reportable condition or material weakness was found. We are also pleased that you believe that SSA has made progress to the extent that five of the eight elements of the reportable condition from FY 2002 were removed. This confirms that we continue to greatly improve the security over SSA's systems security environment. Although significant progress has been made, we agree that further improvements are needed. As you recommended, we will continue to strengthen the Agency's security controls and will plan to meet with you soon to work toward a commonly understood goal.

Please direct any questions on our comments to Jeffrey C. Hild, Associate Commissioner for Financial Policy and Operations at (410) 965-0613.

Sincerely,

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) 2003
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**

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, 2003 and your report that SSA has no reportable instances of noncompliance with the laws and regulations tested.

We are pleased that the report indicated that SSA has made significant 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 believe that SSA has made sufficient progress to support the removal of five of the eight elements of the reportable condition from FY 2002. We worked very hard during the year to improve security controls.

As you recognized in the report, SSA implemented and enhanced the risk models to standardize platform security configurations of its systems platforms, implemented new tools and procedures to monitor adherence to platform security configurations and reduced the number of servers with known high-risk security weaknesses. We also maintained strong access-based rule settings and standardized monitoring and logging procedures for firewalls. You acknowledged that SSA continued progress on the Standardized Security Profile Project (SSPP) to ensure proper access assignments to our systems and improved and implemented new reports for enhanced review of security violations of the mainframe and continued progress in the area of continuity of operations for field activities. Concerning dataset naming standards, we believe we have completed improvements in that area. We implemented dataset naming standards for mainframe datasets in February 2003 and automated enforcement of these standards in August 2003. Supporting the standard and its enforcement, a dataset naming dictionary was created, housing not only the new standards, but the existing dataset names, as well.

The report confirms that SSA continues to greatly improve the security over SSA's systems security environment. Over the last year SSA addressed the highest risk elements of our sensitive systems, or will do so in the near term. We agree that work remains, but we also believe that our highest risks have been mitigated, thereby lessening the degree of significance of this finding. As you recommended, we will continue to strengthen the Agency's security controls. We appreciate your evaluation of our controls and will continue to work with you to improve their effectiveness.

SSA agrees with all of the recommendations, but plans a different approach from that recommended in one case. The following comments are provided.

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 the acceleration of the SSPP program to ensure that sensitive systems, as defined by the SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards and inclusion in the dataset dictionary.**

SSA Comment

SSA will continue with its SSPP program to ensure proper access assignments. The objective is to ensure that users have only been granted access to transactions and data necessary to fulfill their job responsibilities and nothing more. As noted earlier, SSA established and enforced dataset naming standards for mainframe application production datasets created after January 2003. The dataset name dictionary with enforcement capability was implemented in August 2003. The Agency's Executive Internal Control Committee will continue to monitor the status of corrective actions for this finding to ensure completion as fast as resources permit.

- **Continue to improve physical security controls for the Disability Determination Services (DDS) sites.**

SSA Comment

SSA will continue to improve physical security controls for the DDS sites. In September 2003, SSA updated the DDS Security Document addressing most of the findings and recommendations contained in the FY 2003 management letters and will continue to look for ways to improve that security control guidance to the DDSs. SSA is addressing the recommendations for improving physical security at the specific sites visited and is also looking for possible nationwide

improvements in physical security. The capabilities for addressing physical security weaknesses identified by the auditor depend on many factors, such as fund availability, State requirements, lease requirements, etc. Therefore, in many cases SSA is forced to deal with physical security weaknesses on a site by site basis.

- **Continue to enhance continuity of operations activities, including testing of newly developed procedures for regional office/program service center and DDS sites.**

SSA Comment

In August 2003 SSA released an appendix to SSA's Continuity of Operations Plan (COOP) that documented who is responsible for reconstitution of each type of office within the Agency's field structure and who is responsible for determining if workloads would need to be redistributed and how. This document reflects the procedures followed by the Agency in the past.

Although you recommended that these newly documented procedures be tested, we believe that they have been exercised through SSA's reaction to real life emergencies. In the past, we have continued to operate effectively and serve the public in all situations, whether it is a local event that shuts down a single office or a major event such as the recent Northeast power blackout that affected three regions. We have been able to meet these challenges by the appropriate executives following the documented procedures, assessing the situation and taking the necessary corrective action. After such major events, we also conducted post-mortems, shared the lessons learned and made appropriate changes to regional COOPs. Our real-world experiences afford us ample opportunity for review and practical application of the COOP.

SSA also continued developing and updating contingency and recovery plans for individual Agency activities and organizations. These plans currently exist and are being improved over time. SSA will continue to work to improve its contingency plans.

Inspector General Statement on SSA's Major Management Challenges



SOCIAL SECURITY

Inspector General

November 6, 2003

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) 2003 *Social Security Administration's Performance and Accountability Report*.

In February 2003, we identified 10 significant management issues facing the Social Security Administration for FY 2003. Since that time, we have recategorized some issue areas. Our assessment will focus on the following six challenges.

- **Social Security Number Integrity and Protection**
- **Management of the Disability Process**
- **Improper Payments**
- **Budget and Performance Integration**
- **Critical Infrastructure Protection and Systems Security**
- **Service Delivery**

The areas formerly entitled Homeland Security, Social Security Number Integrity and Misuse and Integrity of the Earnings Reporting Process have been combined under Social Security Number Integrity and Protection. The Human Capital, E-Government, and Representative Payee issue areas are now combined under the Service Delivery issue area. The Fraud Risk issue area has been removed, and we have noted that each challenge contains elements of fraud risk.

I congratulate you on the progress you have made during FY 2003 in addressing these challenges. I look forward to working with you in continuing to improve the Agency's ability to meet its mission in an efficient and effective manner. Our assessment of the status of these six management challenges is enclosed.

Sincerely,

A handwritten signature in blue ink, appearing to read 'James G. Huse, Jr.'.

James G. Huse, Jr.

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

A-02-04-14034



NOVEMBER 2003

Social Security Number Integrity and Protection

In Fiscal Year (FY) 2003, the Social Security Administration (SSA) issued over 17 million original and replacement Social Security number (SSN) cards. In FY 2003 SSA received over \$533 billion in employment taxes. Protecting the SSN and properly posting the wages are critical to ensuring eligible individuals receive the full retirement, survivors and/or disability benefits due them.

The SSN is the single most widely used identifier for Federal and State governments and the private sector. It has become the de facto national identifier. Given its importance, the possession of an SSN may allow criminals to steal identities and commit other criminal acts. In fact, the lack of protection of the SSN has often led to identity theft and SSN misuse. Being the immediate victim of SSN misuse and/or identity theft may cause an individual years of difficulty and cost financial and commercial institutions a great deal of money. SSN misuse may disguise a dangerous felon or a terrorist as a law-abiding citizen. The possession of an SSN provides a criminal the identification and seeming legitimacy he or she needs to go about nefarious business, perhaps putting dozens, hundreds, or even thousands of lives in jeopardy.

The risks associated with SSN misuse and identity theft have led the Office of the Inspector General (OIG) to develop plans for a SSN Integrity Protection Team (Team). The Team, which will be created pending funding, combines the skills of auditors, investigators, computer specialists, analysts and attorneys. In addition to supporting homeland security initiatives, the Team will focus its efforts on identifying patterns of SSN misuse; locating systemic weaknesses that contribute to SSN misuse; recommending legislative or other corrective actions to ensure the SSN's integrity; and pursuing criminal and civil enforcement provisions for individuals misusing SSNs.

We believe that SSA can take some steps to better protect the integrity of the SSN. Outstanding audit recommendations include the need to establish a reasonable threshold for the number of replacement SSN cards an individual may obtain during a year and over a lifetime and expedite systems controls that would interrupt SSN assignment when SSA mails multiple cards to common addresses or when parents claim an improbably large number of children. Additionally, SSA needs to continue to address identified weaknesses within its information security environment to better safeguard SSNs and educate SSA staff about counterfeit documents.

Another important part of ensuring the integrity of the SSN is the proper posting of earnings reported under SSNs. If earnings information is reported incorrectly or not reported at all, SSA cannot ensure all eligible individuals are receiving the correct payment amounts. In addition, the Disability Insurance (DI) and Supplemental Security Income (SSI) programs depend on this earnings information to determine (1) whether an individual is eligible for benefits and (2) the amount of the disability payment. SSA spends scarce resources trying to correct earnings data when incorrect information is reported.

While SSA has limited control over factors causing the volume of erroneous wage reports submitted each year, there are still areas where SSA can improve its processes. Prior accomplishments may be enhanced by continuing to educate employers on reporting criteria, identify and correct employer reporting problems, and encourage greater use of the Agency's SSN verification programs. SSA also needs to improve coordination with other Federal agencies with separate, yet related, mandates. For example, SSA's ability to improve wage reporting is related to the Internal Revenue Service's sanctioning of employers for submitting invalid wage data and the Bureau of Citizenship and Immigration Services' procedures used by employers to verify eligible employees.

Another issue of concern is SSA's Earnings Suspense File (ESF). The ESF is the Agency's record of annual wage reports that include wage earners' names and SSNs that fail to match SSA's records. Between 1937 and 2000, the ESF grew to represent about \$374 billion in wages, which included about 236 million wage items with an invalid name and SSN combination. As of July 2002, SSA had posted 9.6 million wage items to the ESF for Tax Year (TY) 2000, representing about \$49 billion in wages. We requested updated information on the number and dollar amount of wage items posted to the ESF, but the Agency has not provided them.

SSA Has Taken Steps to Address this Challenge

In our Management Advisory Report entitled *Social Security Number Integrity: An Important Link in Homeland Security*, we concluded that it was critical for SSA to independently verify the authenticity of documents presented by SSN applicants. SSA has taken steps to address this issue, including the establishment of a task force to address the integrity and protection of the SSN. One result of the task force's efforts includes SSA's decision to stop assigning SSNs to non-citizens without first verifying the authenticity of their documents. We are currently assessing the Agency's compliance with these new procedures. SSA also has tightened evidentiary requirements for SSN applicants. SSA requires mandatory interviews for all applicants over the age of 12 for original SSNs and requires evidence of identity for all children, regardless of age. SSA also established a pilot center in Brooklyn, New York that focuses exclusively on enumeration of citizens and non-citizens.

SSA has taken steps over the past year to reduce the size and growth of the ESF. SSA has expanded its Employee Verification Service to include an on-line service called the Social Security Number Verification Service, which allows an employer to verify the name and SSN of employees prior to reporting their wages to SSA. The Agency has also modified its systems to help identify the number holder related to suspended items. Whereas previous internal edits used only the name and SSN related to the suspended wage, SSA stated that the new processes would use information stored on the earnings and benefits records. Furthermore, SSA has established a performance goal to remove 30 million items from the ESF by 2005.

SSA also increased the number of "no-match" letters—or educational correspondence—sent to employers who submitted W-2s containing name and/or SSN information that did not agree with SSA's records. While we found this to be an encouraging step, SSA announced a new policy change effective for TY 2002 wage reporting that reduced the number of "no-match" letters sent to employers. As a result of this change, SSA estimates that it will send 129,000 letters to employers for TY 2002, or about 820,000 fewer letters than were sent for TY 2001.

Management of the Disability Process

SSA needs to improve critical parts of the disability process—determining disabilities, the accuracy of disability payments, and the integrity of the disability programs. In January 2003, the General Accounting Office (GAO) added the modernizing of Federal disability programs including SSA's to its 2003 high-risk list.

Fraud is an inherent risk in SSA's disability programs. Some unscrupulous people view SSA's disability benefits as money waiting to be taken. A key risk factor in the disability program is individuals who feign or exaggerate symptoms of illness to become eligible for disability benefit payments. Another key risk factor in SSA's disability programs is the monitoring of medical improvements for disabled beneficiaries to ensure that individuals who are no longer disabled are removed from the disability program.

Over the last several years, SSA has tested several improvements to the disability determination process as a result of concerns about the timeliness and quality of its service. The disability improvements combine initiatives that have been tested and piloted over the last few years and include all levels of eligibility determination—beginning with State Disability Determination Services (DDS) and going through the hearings and appeals processes. To date, SSA's initiatives have shown some progress in making improvements to the disability determination process. In FY 2003, average processing time was 97.1 days for initial disability claims, 344 days for hearings, and 294 days for decisions on appeals of hearings. In FY 2000, average processing time was 102 days for initial disability claims, 297 days for hearings, and 505 days for decisions on appeals of hearings.

SSA also needs to improve the accuracy of its benefit payments. During FY 2003, we informed SSA that a significant number of disabled DI beneficiaries continued to receive benefits despite having earnings that should have resulted in benefit suspension or termination. As a result of this weakness, we estimated that SSA did not assess overpayments totaling approximately \$791 million for 45,620 disabled beneficiaries.

SSA Has Taken Steps to Address this Challenge

SSA continues to focus on improving the disability process. The Commissioner announced short-term decisions regarding the disability process which included: pursuing the expansion of the Single-Decision Maker authority nationwide, ending the requirements for the claimant conference in sites testing the prototype disability process, evaluating the elimination of the reconsideration level of the claims process nationwide, making additional improvements to the hearings process, and implementing an Electronic Disability System by 2004. According to SSA, the Electronic Disability System is expected to improve processing times, reduce costs, improve productivity, lower backlogs, and improve the Agency's capacity to better handle growing workloads. In September 2003, the Commissioner announced long-term initiatives to address the Agency's disability related challenges, which she stated are predicated on the successful implementation of the Electronic Disability System.

According to GAO, SSA's cost-benefit analysis of the Electronic Disability System may have underestimated the costs, while overstating the corresponding benefits. Specifically, GAO reported that the cost-benefit analysis did not fully consider the costs associated with certain critical information technology infrastructure such as scanning, imaging, telecommunications, disaster recovery, and on-site retention and destruction of source documents.

Another area in which SSA has taken an active role is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) units. The focus of the CDI process is to obtain evidence that may prevent fraud in SSA's disability programs. SSA's Office of Operations, Office of Disability Programs, and Office of Disability Determinations, along with the OIG, manage the CDI process. There are currently 18 CDI units operating in 17 States. In FY 2003, CDI units saved SSA approximately \$100 million by identifying fraud or similar fault in initial and continuing claims in SSA's disability programs.

Improper Payments

Improper payments are defined as payments that should not have been made or were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, payments for services not rendered, or payments to ineligible beneficiaries. 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 overemphasis on expediting payments. Since SSA is responsible for issuing over \$400 billion in benefit payments per year under the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs to over 50 million individuals, SSA is at-risk of making significant improper payments. Considering the volume and amount of payments SSA makes each month, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. Specifically, in August 2001, the Office of Management and Budget (OMB) published the FY 2002 President's Management Agenda, which included a Government-wide initiative for improving financial performance. In November 2002, the *Improper Payments Information Act of 2002* (Public Law No. 107-300) was enacted.

SSA and the OIG have had on-going discussions on improper payments—on such issues as detected versus undetected improper payments and avoidable overpayments versus unavoidable overpayments which are outside the Agency's control and a "cost of doing business." In August 2003, OMB issued specific guidance to SSA to only include avoidable overpayments in the Agency's improper payments estimate because these payments could be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate. In accordance with the Improper Payments Information Act and OMB's specific guidance, SSA is required to estimate its annual amount of improper payments and report this information in its Performance and Accountability Report for FYs ending on or after September 30, 2004. OMB will use this information while working with SSA to establish goals for reducing improper payments for each program.

One of the ways SSA measures payment accuracy is through its stewardship report. The stewardship review measures payment accuracy based on non-medical eligibility factors. SSA's stewardship report showed the OASDI accuracy rate was 99.87 percent for FY 2002. This accuracy rate translates to an expected \$588.6 million in OASDI overpayments. However, SSA reported actual OASDI overpayments that were newly discovered in FY 2002 to be \$1.6 billion, which included overpayments for benefits paid in FY 2002 as well as benefits paid before FY 2002 but that were discovered as overpayments in FY 2002. Further, over each of the last 5 years, SSA has identified and reported in its financial statements over \$700 million more in overpayments than what the Agency's payment accuracy rate would reflect.

In September 2003, the OIG prepared an issue paper on improper payments—where we analyzed overpayments from SSA, other Federal agencies, and private sector disability insurers. To continue our work in this area, we will initiate a comprehensive and statistically valid review in FY 2004 to quantify the amount of undetected overpayments in SSA's disability programs. Additionally, preliminary results from one of our audits at the end of FY 2003 show significant overpayments related to earnings by disabled beneficiaries went undetected by SSA.

SSA Has Taken Steps to Address this Challenge

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and/or using technology more effectively. In this regard, SSA has initiated new computer matching agreements, obtained on-line access to wage and income data, and implemented improvements in its debt recovery program. Additionally, working with SSA, we have helped the Agency reduce improper payments to prisoners and fugitive felons. These efforts continue.

Budget and Performance Integration

This area encompasses SSA's efforts to provide timely, useful, and reliable data to assist internal and external decisionmakers in effectively managing Agency programs, as well as both evaluating performance and ensuring the validity and reliability of performance, budgeting, and financial data.

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 integration of Federal agencies. 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 its data sources.

Our audits of 18 performance measures in FY 2003 found the data for 13 of the measures reviewed were reliable. We concluded that the data for five of the measures was found not reliable. Although the majority of performance measures were determined to be reliable, our audits found that SSA had inadequate documentation for 5 of its 18 performance measures regarding the methods used to measure its performance. Considering the critical role of the underlying data in all of SSA's performance, financial, and data-sharing activities, it is crucial that the Agency have clear processes in place to ensure the reliability and integrity of its data.

We have previously noted that SSA needs to better link costs with performance. In its FY 2003 Annual Performance Plan (APP), SSA acknowledged that costs are specifically aligned with outcome measures for only a few activities. SSA 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 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. For example, SSA has begun development of its new cost accounting system, Managerial Cost Accountability System, and expects development to be completed in FY 2005. 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. Additionally, OMB updated the President's Management Agenda scorecard in FY 2003, changing SSA's status in Financial Management from yellow to green—the highest rating.

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 performance measures and provides alerts as to whether performance is significantly different from the goals established. In FY 2003, SSA released its FY 2004 APP and Revised Final FY 2003 APP to Congress. The plans reflect Commissioner Barnhart's priorities and describe performance levels the Agency is committed to reaching, along with strategies for achieving them. This includes an alignment of strategic goals, performance measures, and budget with major functional responsibilities.

Critical Infrastructure Protection and Systems Security

The information that SSA needs to conduct its mission is one of its most valuable assets. The Agency is depending on technology to meet the challenges of increasing workloads with fewer resources. A physically and technologically secure Agency information infrastructure is a fundamental requirement. Growth in computer interconnectivity brings a heightened risk of disrupting or sabotaging critical operations, reading or copying sensitive data, and tampering with critical processes. Those who wish to disrupt or sabotage critical operations have more tools and opportunities than ever.

SSA has been given responsibility to protect sensitive information for virtually every American. This information includes earnings data the Agency uses to post earnings for 266 million wage items and medical information for millions of claimants filing for disability benefits. Strong systems security and controls are essential to protecting SSA's critical information infrastructure. Although no significant event has occurred to date, the level of risk is so great that should something occur, it could have national security implications.

Since 1997, SSA has had an internal controls reportable condition concerning its protection of information. The reportable condition came about because of weaknesses in the following areas:

- Technical Security Configuration Standards
- Physical Security and Security Policy for DDS Sites
- Security Monitoring Enforcement
- Suitability
- Access Control
- Continuity of Operations

The most important of the issues listed above is access control. As long as access control to SSA's systems is not fully resolved, the reportable condition will remain. The resolution of this reportable condition remains a priority for the Agency. To remedy this issue, SSA needs to perform periodic reviews of everyone who has access to production data and assign data ownership or responsibility.

SSA Has Taken Steps to Address this Challenge

SSA addresses critical information infrastructure and systems security in a variety of ways. The Critical Infrastructure Protection work group, created in FY 2000, continually works toward compliance with Presidential Decision Directive 63. Presidential Decision Directive 63 and other significant legislation, requires Federal agencies to identify and effectively protect their critical systems and the information they hold. SSA has several other components throughout the organization that handle systems security including the newly created Office of Information Technology Security Policy within the Office of the Chief Information Officer. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA has taken some specific steps to address the information protection issues raised in prior years. Specifically SSA has:

- Issued final risk models to standardize platform security configuration settings for the Windows NT, Windows 2000, AS400, and Unix platforms;
- Established and implemented ongoing monitoring tools and procedures to ensure the consistency of platform security configuration standards for Windows NT, Windows 2000, AS400, and Unix platforms;
- Established procedures for shifting and handling Agency workloads;
- Improved the security policy and procedures for DDS sites;

- Continued progress on the Standard Security Profile Project—a full scale comparison of Information Technology user access assignments to job responsibilities;
- Continued progress on the Dataset Naming Standards project including setting naming conventions and determining tools for compliance and enforcement;
- Strengthened physical security controls over SSA offices; and
- Established and implemented procedures for enhanced review of security violations on SSA's mainframe computers.

SSA needs to take additional steps to address its access control weaknesses to remove the reportable condition. Data ownership and individual responsibility must be assigned for the different systems that control and monitor production data. Management must perform periodic reviews of those who have access to sensitive data and ensure that individuals only have access to the data necessary to complete their jobs. SSA is taking steps to address the access control weaknesses, but there is not a specific schedule or timeframe for when the weakness will be resolved.

Service Delivery

The Agency's goal of "service" encompasses traditional and electronic services provided to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations including financial institutions and medical providers. SSA's service related goal supports the delivery of "citizen-centered" services through the use of "E-Government," and therefore affords SSA opportunities to advance the level of its service. Given the complexity of the Agency's programs, the billions of dollars in payments at stake, and the millions of citizens who rely on SSA, the Agency is challenged to provide quality, timely, and appropriate services consistently to its clients and the public-at-large. E-Government, Human Capital, and the representative payee process pose significant challenges that impact service delivery.

By 2012, workloads are anticipated to increase to unprecedented volumes. Specifically, DI beneficiaries are expected to increase by 35 percent. Additionally, it is estimated that Old-Age and Survivors Insurance beneficiaries and SSI recipients will increase by 18 and 12 percent, respectively. Along with the workload increase, technological change will have a profound impact on the public's expectations, as well as SSA's ability to meet those expectations.

The President's Management Agenda calls for improved service delivery through the use of E-Government in creating more cost-effective and efficient ways to provide service to citizens. The increased use of E-Government will be vital as the Agency addresses rising workloads associated with the aging of the baby-boom generation.

Another challenge to service delivery is human capital. In January 2001, GAO added strategic human capital management to its list of Federal programs and operations identified as high-risk. The critical loss of institutional skills and knowledge, combined with greatly increased workloads at a time when the baby-boom generation will require its services, must be addressed by succession planning, strong recruitment efforts, and the effective use of technology, as previously discussed. SSA estimates that during this decade over 28,000 of its approximately 65,000 Federal employees will retire and another 10,000 will leave the Agency for other reasons. This is approximately 58 percent of the current workforce. SSA expects that this "retirement wave" will affect its ability to deliver service to the American public.

Another specific challenge in this area is the integrity of the representative payee process. When SSA determines a beneficiary cannot manage his or her benefits, SSA selects a representative payee who manages and solely uses the payments for the beneficiary's needs. There are about 5.3 million representative payees who manage about \$44 billion in benefits for approximately 6.7 million beneficiaries. SSA has experienced problems with the selection, monitoring and accountability of representative payees. While representative payees provide a valuable service for beneficiaries, SSA must continue to ensure representative payees meet their responsibilities to the beneficiaries they serve.

Our audits of representative payees have shown that continued SSA oversight and monitoring of representative payees are needed. Our audits identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in 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. In addition, SSA needs to improve its selection and monitoring of representative payees.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to address its E-Government, Human Capital, and representative payee challenges. By 2005, SSA is expected to have 60 percent of its customer-initiated services available through automated telephone services or the Internet. The Agency recently began allowing the public to file DI claims through the Internet to help achieve its service delivery goals. SSA expects to begin a nation-wide roll-out of its Electronic Disability System in 2004. By 2007, over 80 percent of wage reports will be submitted and processed electronically and employers will be able

to identify and correct wage report errors online. Further, SSA has increased the percentage of W-2s filed electronically from 42.5 percent in FY 2002 to 53.4 percent in FY 2003.

The Agency has taken additional steps to meet its future workforce needs. SSA has developed plans and taken other actions to address the expected increase in its workloads and the concurrent loss of staff due to retirement. Studies have been conducted to predict staff retirements and attritions by year for major job positions. SSA has also developed a document detailing how it envisions functioning in the future. Further, SSA planning documents comply with the President's Management Agenda and achieve expected near-term results related to the strategic management of human capital.

The Agency has taken steps to address its representative payee process challenge. SSA reports it has a number of initiatives underway to improve the selection of organizational representative payees. The Agency also conducts site reviews for approximately 1,800 representative payees, which include fee-for-service representative payees, volume representative payees (serving 100 or more beneficiaries) who are subject to expanded monitoring, and individual representative payees serving 20 or more beneficiaries. These reviews are performed on a triennial cycle.