

Auditor's Reports



SOCIAL SECURITY

November 10, 2004

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) 2004 and 2003 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 2004 financial statements. PwC also audited the FY 2003 financial statements, presented in SSA's Performance and Accountability Report for FY 2004 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2004 and 2003 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 same condition was found in prior year audits. 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 2004 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 8, 2004, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.
Acting Inspector General

REPORT OF INDEPENDENT AUDITORS

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

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

- The consolidated balance sheets of SSA as of September 30, 2004 and 2003, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended 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, 2004, 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 (1) 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 to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or Required Supplemental Stewardship Information (RSSI) and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02;
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2004 and 2003, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended. 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 146 through 167 of this performance and accountability report, present fairly, in all material respects, the financial

position of SSA at September 30, 2004 and 2003, and its net cost of operations, changes in net position, budgetary resources and financing for the 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 (1) 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 to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02 as of September 30, 2004. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal 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.

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 (1) 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 to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2004.

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. Reportable conditions are matters coming to our attention, that in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect SSA's ability to meet the internal control objectives in OMB Bulletin No. 01-02 previously noted. Material weaknesses are reportable conditions 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 errors, fraud or noncompliance in amounts that would be material in relation to the consolidated or combined financial statements or RSSI being audited, or material 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 functions. 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:

During FY 2004, SSA management corrected many of the issues previously noted regarding physical security at the Disability Determination Service (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for Regional Office (RO), Program Service Center (PSC) and DDS sites. Additionally, significant progress was made on the Standardized Security Profile Project (SSPP). During the year:

- Access assignments of operations personnel to access application transactions for all major SSA systems identified and defined by SSA management as critical to operations, were identified, reviewed, adjusted and confirmed;
- Datasets were identified for major systems defined by SSA management as critical to operations;
- New profiles and procedures were created to control access to the datasets within the critical applications identified and defined by SSA management;
- Many of the new profiles for granting update access to the datasets of the critical applications were established and vetted;
- New procedures were implemented to ensure new datasets were named in accordance with naming standards and that these datasets included descriptions to allow users to readily understand their contents; and,
- Procedures and plans were honed to continue the process to ensure controlled access to system datasets, including continuance of the SSPP.

Although significant progress has been made regarding logical security controls, we note the need for continued progress regarding the certification of security access assignments to system datasets within critical applications. Testing disclosed that systems employees still have direct update access to many of the datasets within the critical applications without consistent auditing. Further, at the time of our audit too many employees had been granted update access to allow reasonable review of their activities to be considered an effective control.

We also noted that security configurations had not been developed for all of the servers in use in SSA's distributed processing environment. Additionally, some server security configurations required update and enhancement. Distributed server security configurations represent a key control in ensuring security of the SSA network.

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.

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 progress with plans to increase dependence on the Internet and Web-based applications to serve the American public. Clear, continued and measurable progress has been made towards the establishment of a strong overall security program. However, to more fully protect SSA from risks associated with the loss of data, loss of other resources or compromised privacy of information associated with SSA's enumeration, earnings, retirement and disability processes and programs, SSA must further strengthen its security program. Specifically, further progress is needed in the area of access assignments to application systems data and programs by systems personnel, including the continual review of systems access, and in the assurance that security configuration standards for distributed servers are established, kept current, and enforced.

Recommendations

We recommend that SSA continue its efforts to enhance information protection by continuing to implement the remaining portions of the SSPP and through the establishment, refinement and enforcement of procedures to ensure standard security configurations for distributed servers. 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.

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS AND RSSI

With respect to internal control relevant to data that support reported performance measures on pages 42 to 65 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.

In addition, we considered SSA's internal control over RSSI by obtaining an understanding of SSA's internal control, determined whether these internal controls had been place in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 1 to 2 and 7 to 80, Required Supplementary Information (RSI) included on pages 172 to 173, and Required Supplementary Stewardship Information (RSSI) included on pages 174 to 192 of this performance and accountability report, are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A, RSI and RSSI. 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 Schedule of Budgetary Resources, included on page 172 of this performance and accountability report, is not a required part of the consolidated or 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 168 to 171 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the consolidated or combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.

The other accompanying information included on pages 3 to 6, 81 to 145, 193 to 194 and 200 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 management and the Inspector General of SSA, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

PriceWaterhouseCoopers LLP

November 8, 2004



SOCIAL SECURITY

The Commissioner

November 1, 2004

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

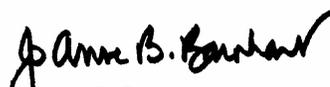
Ladies and Gentlemen:

We reviewed the draft combined report containing the Fiscal Year 2004 Report of Independent Auditors, Opinion on the Financial Statements, 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 states that the Social Security Administration (SSA) corrected many of the issues previously noted as part of a reportable condition regarding physical security at the Disability Determination Services (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for regional office, program service center and DDS sites. We are also pleased that you recognized the significant progress made on reviewing and confirming systems access assignments during the year. Your findings confirm the continued improvement in 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 work with you to enhance information protection.

If members of your staff have any questions, they may contact Jeffrey C. Hild 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) 2004
Report of Independent Auditors, Opinion on the Financial Statements, 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 Auditors, Opinion on the Financial Statements, 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, 2004 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 major weaknesses were found. We are also pleased that you believe that SSA has made sufficient progress to support the removal of two of the three elements of the reportable condition from FY 2003. We worked very hard during the year to improve security controls.

As you recognized in the report, SSA corrected many of the issues previously noted as part of the reportable condition regarding physical security at the Disability Determination Services (DDS) sites and enhanced continuity of operations activities, including testing of newly developed continuity procedures for regional office, program service center and DDS sites. We are also pleased that you recognized the significant progress made on reviewing and confirming systems access assignments during the year. As noted, new profiles and procedures were created to control access to the datasets within the critical applications identified and defined by SSA management and many of the new profiles were established and vetted. The access assignments of operations personnel were also identified, reviewed, adjusted and confirmed. Datasets were identified for major systems defined by SSA management as critical to operations and new procedures were implemented to ensure new datasets were named in accordance with naming standards. The datasets included descriptions to allow users to readily understand their contents.

Your findings confirm the continued improvement of the security over SSA's systems security environment. Over the last year SSA continued to address the highest risk elements of our sensitive systems. 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. We appreciate your evaluation of our controls and will continue to work with you to improve their effectiveness.

The following specific comments are provided.

Recommendations

We recommend that SSA continue its efforts to enhance information protection by continuing to implement the remaining portions of the Standardized Security Profile Project (SSPP) and through the establishment and refinement of procedures to ensure standard security configurations for distributed servers.

- **SSA Comment (Continuing to implement SSPP)**

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. We will continue to identify, review, adjust and confirm systems access assignments as we have done during the past year. SSA will also pilot processes to limit Office of Systems' programmer update access to an as needed basis that will expire within a severely limited time frame. Access activity will also be reviewed. We will keep you informed on the status of this pilot and, after an appropriate period, we will determine the procedures most advantageous to the Agency.

- **SSA Comment (Ensure standard security configurations for distributed servers)**

We will continue to strengthen the security configurations already prepared by reviewing and updating them on a recurring basis and develop security configuration documents for the platforms mentioned in the review. We will also evaluate your recommendations to develop security configuration models for specific servers identified. We recognize that distributed server security configurations represent a key control in ensuring security of the SSA network and will do everything we can to improve in that area.

Inspector General Statement on SSA's Major Management Challenges



SOCIAL SECURITY

November 10, 2004

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000 (Pub. L. No. 106-531)*, which requires that Inspectors General provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirement to include this statement in the *Social Security Administration's Fiscal Year 2004 Performance and Accountability Report*.

In September 2003, we identified six significant management issues facing the Social Security Administration for Fiscal Year 2004.

- **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**

I congratulate you on the progress you have made during Fiscal Year 2004 in addressing these challenges. I look forward to working with you in continuing to improve the Agency's ability to meet its mission efficiently and effectively. Our assessment of the status of these six management challenges is enclosed.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.
Acting Inspector General

Enclosure

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

A-02-05-15092



November 2004

Social Security Number Integrity and Protection

In FY 2004, the Social Security Administration (SSA) issued over 17.5 million original and replacement Social Security number (SSN) cards, and SSA received approximately \$545 billion in employment taxes. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

The SSN has become a key to social, legal, and financial assimilation in this country. Because the SSN is so heavily relied on as an identifier, it is also valuable as an illegal commodity. Criminals improperly obtain SSNs by (1) presenting false documentation; (2) stealing another person's SSN; (3) purchasing an SSN on the black market; (4) using the SSN of a deceased individual; or (5) creating a nine-digit number out of thin air.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to lawful aliens only if they can provide evidence of a valid nonwork reason. Our audits have noted a number of issues related to nonwork SSNs, including (1) the type of evidence provided to obtain a nonwork SSN, (2) the reliability of nonwork SSN information in SSA's records, (3) the significant volume of wages reported under nonwork SSNs, and (4) the payment of benefits to noncitizens who qualified for their benefits while working in the country without proper authorization.

Another important part of ensuring SSN integrity is the proper posting of earnings reported under SSNs. Properly posting earnings ensures eligible individuals receive the full retirement, survivor and/or disability benefits due them. 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, SSA's disability programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments.

SSA spends scarce resources correcting earnings data when incorrect information is reported. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and/or SSNs fail to match SSA's records. As of October 2003, the ESF had accumulated over \$421 billion in wages and 244 million wage items for Tax Years (TY) 1937 through 2001. SSA attempts to reduce the amount of items in the ESF through edits and correspondence with employees and employers.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, there are still areas where the Agency can improve its processes. SSA can improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of the Agency's SSN verification programs. SSA also needs to further coordinate with other Federal agencies that have separate, yet related, mandates. For example, the Agency has collaborated with the Internal Revenue Service (IRS) to achieve more accurate wage reporting. In August 2002, SSA provided a list of all employers with more than 100 items in the ESF to the IRS. The IRS later visited a number of these employers to review their employee records.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to strengthen controls in its enumeration process, including establishing an Enumeration Response Team. As a result of the Team's efforts, SSA now performs full collateral verification of all immigration documents before assigning SSNs to noncitizens. SSA requires mandatory interviews for all applicants for original SSNs who are over age 12 (lowered from age 18) and requires evidence of identity for all children, regardless of age. In addition, SSA has established an enumeration center in Brooklyn, New York, that focuses exclusively on assigning SSNs and issuing SSN cards. In FY 2005, SSA will also implement new systems enhancements that will simplify the interpretation of and compliance with the Agency's complex enumeration policies. The system will determine what documents and proofs the SSN applicant must present and will prompt the employee to ask the applicant for mandatory information. SSA has also created an Identity Theft Workgroup in which we participate. Furthermore, the Agency has made enhancements to its Modernized Enumeration System that will interrupt the

issuance of SSN cards when parents claim to have an improbably large number of children, and add an alert to an individual's record when the SSN has been used for the purpose of establishing a fictitious identity.

To address nonwork SSN misuse, SSA has placed greater restrictions on the issuance of nonwork SSNs. SSA also monitors noncitizens who have earnings posted under a nonwork SSN and reports this information to the Department of Homeland Security. Recent legislation should also help address this issue. In March 2004, *the Social Security Protection Act of 2004 (Pub. L. No. 108-203)* was signed into law. This act generally precludes the payment of benefits based on the earnings of noncitizens who have never been issued an SSN indicating authorization to work in the United States. This provision is effective with respect to SSNs issued after December 2003.

SSA has taken steps to reduce the size and growth of the ESF. For example, SSA has piloted the Social Security Number Verification Service, which allows employers to verify the names and SSNs of employees before reporting their wages to SSA. The Agency has also modified its automated processes to better identify the numberholder related to items in the ESF. SSA stated the new processes would use information stored on the earnings and benefits records whereas previous internal edits only used the names and SSNs related to the suspended wages. Through September 2004, SSA reduced the ESF by approximately 7.9 million items, short of its FY 2004 goal of 27.6 million items. SSA reported that the principal reason its goal was not met was due to underestimating the time needed to design and fully implement a new series of very complex matching software routines.

Finally, SSA is establishing an Earnings Data Warehouse (EDW) that can track employer-specific reporting trends. This facility will be able to determine the percent of an employer's payroll that contains name and SSN mismatches and should allow for better targeting of problem employers. The EDW should be able to produce a listing of employers showing their wage reporting accuracy by the end of Calendar Year 2004.

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 Government Accountability Office (GAO) added modernizing Federal disability programs—including SSA’s—to its 2003 high-risk list. GAO did this, in part, because of outmoded concepts of disability, lengthy processing times, and decisional inconsistencies.

SSA needs to continue its efforts to improve the process used to determine claimant disability by focusing on initiatives that will improve the timeliness and quality of its services. For example, the Office of Hearings and Appeals’ (OHA) average processing time has increased significantly from 297 days in FY 2000 to 391 days in FY 2004. Further, the hearings pending workload for FY 2004 was 635,601 cases, whereas it was 346,756 cases in FY 2000. This represents an 83.3 percent increase in OHA’s pending workload. SSA’s efforts to address its pending workload did not meet the goals established for FY 2004. In FY 2004, SSA processed 497,379 hearings, well below its goal of 538,000.

Another area SSA needs to improve is ensuring the correct benefits are paid to the correct individuals. In a July 2004 report, we estimated that, although SSA identified and assessed about \$1.8 billion in overpayments because of disabled beneficiaries’ work activity, the Agency did not detect an additional \$1.4 billion in improper payments. Our review showed that continuing disability reviews (CDR) are critical to determining whether a disabled beneficiary continues to be eligible for benefits.

Fraud is an inherent risk in SSA’s disability programs. Some unscrupulous people view SSA’s disability benefits as money waiting to be taken. Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements.

SSA Has Taken Steps to Address this Challenge

SSA continues to focus on improving the disability process. In September 2003, the Commissioner proposed a new approach for improving the disability determination process and making the right decision as early in the process as possible. The approach includes several initiatives that emphasize timely and accurate disability decisions. For example, a quick-decision step would initially sort claims based on information provided by claimants to identify people who are obviously disabled. The expedited claims would be processed by expert review units, allowing for both timely decisions and Disability Determination Services (DDS) to focus their resources on more complex claims. Additionally, the Commissioner proposed an in-line quality review process managed by the DDSs. A centralized quality control unit would replace the current SSA quality control system to quickly identify problem areas and implement corrective actions.

The Commissioner views her September 2003 proposal as the first step in a collaborative process eventually leading to a final plan for disability improvements. Concurrent with the new approach, the Commissioner plans to conduct several demonstration projects to help people with disabilities return to work.

In addition to her long-term proposal, the Commissioner has accelerated the Agency’s transition to the electronic disability folder stating it is critical to improving SSA’s disability process. The electronic disability folder will allow for disability claims information to be stored electronically and transmitted between field offices, hearing offices, and DDSs.

SSA is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) program. The CDI program’s mission is to obtain evidence that can resolve questions of fraud in SSA’s disability programs. SSA’s Offices of Operations and Disability Programs, along with the Office of the Inspector General, manage the CDI program. There are 18 CDI units operating in 17 States. Since the program’s inception in FY

1998, CDI efforts have resulted in over \$410 million in projected savings to SSA's disability programs and over \$266 million in projected savings to non-SSA programs. In FY 2004, the CDI units saved SSA over \$132 million by identifying fraud and abuse related to initial and continuing claims within the disability program.

Improper Payments

SSA is responsible for issuing benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. In FY 2003, SSA issued about \$499 billion in benefit payments to about 51 million people. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

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, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with

- a significant volume of transactions,
- complex criteria for computing payments, and
- an overemphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. In August 2001, the Office of Management and Budget (OMB) published the FY 2002 President's Management Agenda (PMA), which included a Government-wide initiative for improving financial performance, including reducing improper payments. In November 2002, the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300) was enacted, and OMB issued guidance in May 2003 on implementing this law. Under the Act, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual *Performance and Accountability Report*. OMB will then work with SSA to establish goals for reducing improper payments in its programs.

SSA and the Office of the Inspector General have discussed such issues as detected versus undetected improper payments and avoidable overpayments versus unavoidable overpayments that 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 its improper payment estimate because those payments can be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate.

In FY 2004, our work in this area focused on improper payments related to disabled beneficiaries who work. As discussed in the preceding section of this report, we found that SSA identified and assessed about \$1.8 billion in overpayments for about 117,320 beneficiaries. However, we estimated the Agency did not detect about \$1.4 billion in overpayments to approximately 63,000 disabled beneficiaries.

SSA Has Taken Steps to Address this Challenge

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. For example, the Agency is continuing its efforts to prevent improper payments after a beneficiary dies through the use of Electronic Death Registration information. Also, the Agency's CDR process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments. Finally, SSA is implementing eWork—a new automated system to control and process work-related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries.

SSA is also taking action to recover improper payments. The Agency reported that approximately 42 percent of OASDI overpayments and about 54 percent of SSI overpayments were in a collection arrangement.

We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers’ compensation—continue to diminish the Social Security trust funds. Additionally, with the passage of the *Social Security Protection Act of 2004*, SSA has new opportunities and faces new challenges in preventing and recovering improper payments—such as OASDI benefits to fugitives.

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 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 PMA has emphasized the management and performance integration of Federal agencies. SSA has demonstrated a commitment to the *Government Performance and Results Act of 1993* (Pub. L. 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 work has found that SSA has not consistently developed or documented detailed policies and procedures to collect, review, and report information for individual performance indicators. For the indicators we reviewed in FY 2004, SSA did not consistently document the data sources, data interfaces, data modifications, or controls used to ensure performance indicator data were complete, accurate, and valid. Considering the crucial role of the underlying data in all of SSA's performance, financial, and data-sharing activities, the Agency needs clear processes in place to ensure the reliability and integrity of its data.

We audited 16 performance measures in FY 2004 and found the data for 8 of the measures were reliable while the data for 6 of the measures were not reliable. We were unable to determine the reliability of the data used for two of the measures because SSA did not maintain archived copies of the data used to calculate indicator results.

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 continues to work on its Managerial Cost Accountability System (MCAS) and expects some MCAS projects to go into production in FY 2005. SSA is the only Federal agency that has received the *Certificate of Excellence in Accountability Reporting* for its *Performance and Accountability Report* every year since the award program began in FY 1998. Additionally, OMB updated the PMA scorecard in FY 2004, continuing to rate SSA's status in Financial Management as green, and raising the Agency's rating for Budget and Performance Integration from yellow to green.

The Agency has taken steps to better align its ability to match resources to performance. The Commissioner has developed a multi-year Service Delivery Budget Plan, which aligns costs and work years with overarching performance goals in SSA's Strategic Plan. The Plan was developed to demonstrate the resources required to address core workloads; process special workloads; eliminate backlogs of disability claims, hearings and appeals and other operational workloads; and to improve productivity and fiscal stewardship. Additionally, SSA is developing an automated system that will build on the current financial, performance and management information systems and enable the Agency to better project how resource changes affect various workloads, outputs and outcomes. It has also demonstrated a macro budget formulation model which helps estimate what level of performance to expect at different levels of funding and productivity.

Critical Infrastructure Protection and Systems Security

The information technology revolution has changed the way governments and businesses operate. In today's world, every computer system is a potential target. Any disruptions in the operation of information systems that are critical to the nation's infrastructure should be infrequent, manageable, of minimal duration and cause the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures. Protection of these systems is essential to the operation of the telecommunications, energy, financial services, manufacturing, water, transportation, health care, and emergency services sectors.

SSA's information security challenge is to understand and mitigate system vulnerabilities. This means ensuring the security of its critical information infrastructure, such as access to the Internet and the Agency's networks. Since 1997, SSA has had an internal controls reportable condition concerning its protection of information based on weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations. Access to the information, or access control, is the most important of these factors. The reportable condition will not be resolved until SSA employees only have access to the data they need to do their jobs.

While protecting its critical information infrastructure, the Agency is tasked with offering more electronic services to the public. The Expanded Electronic Government, or e-Government, initiative of the PMA calls for the expanded use of the Internet to provide faster and better access to government services and information. Specifically, e-Government calls for the Agency to help citizens find information and obtain services organized according to their needs, and not according to the divisions created by the Agency's organizational chart. SSA needs to ensure that the expansion of its electronic services does not increase the risks to its systems.

SSA Has Taken Steps to Address this Challenge

SSA addresses the protection of its critical information infrastructure and systems security in a variety of ways. For example, it created a Critical Infrastructure Protection workgroup that continuously works toward compliance with various directives, such as the Homeland Security Presidential Directive and the *Federal Information Security Management Act of 2002* (Pub. L. No. 107-347). Further, SSA created the Office of Information Technology Security Policy within the Office of the Chief Information Officer. Additionally, SSA routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA has been working to comply with the security portion of the e-Government initiative of the PMA. Some of the specific steps the Agency has taken in attempt to move from an OMB rating of yellow to green on the e-Government initiative, while maintaining an effective overall security framework, include

- participating in *Forward Challenge 04*, the Government-wide disaster recovery exercise;
- assessing and adjusting the access of about 49,000 operations employees;
- implementing an automated tool to better track security weaknesses and help monitor their resolution;
- revising its Certification and Accreditation process to comply with new National Institute of Standards and Technology guidance; and
- progressing on the Standard Security Profile Project with the objective of eventually removing the reportable condition.

SSA needs to take additional steps to remove the reportable condition. Particularly, the Agency needs to do more to ensure the number of programmers who have access to production data is limited to only those who require the access to perform their jobs and no more, have security configuration models for all its servers and computers, and ensure compliance with the security configuration models. SSA also needs to ensure it continues to sustain and expand the steps taken to date to reach the OMB rating of green for e-Government.

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.

The PMA 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 found that human capital management was a pervasive problem Government-wide and added it to its list of high-risk Federal programs and operations. In addition, Strategic Management of Human Capital was designated as one of five Government-wide initiatives contained in the PMA. The Agency's 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, recruitment efforts, and the effective use of technology, as previously discussed.

The integrity of the representative payee process is another specific challenge in this area. 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. SSA reported that there are about 5.4 million representative payees who manage about \$44.8 billion in benefits for about 6.9 million beneficiaries. While representative payees provide a valuable service for beneficiaries, SSA must continue to ensure representative payees meet their responsibilities to the beneficiaries they serve.

In March 2004, the President signed into law the *Social Security Protection Act of 2004*. This Act provides several new safeguards for those individuals who need a representative payee, while presenting significant challenges to SSA to ensure representative payees meet beneficiaries' needs. For example, it requires that SSA conduct additional periodic, on-site reviews of representative payees. It also authorizes SSA to impose civil monetary penalties for offenses involving misuse of benefits received by a representative payee.

Our audits of representative payees have shown that improved SSA oversight and monitoring of representative payees are needed. We identified deficiencies with representative payees' financial management and accounting for benefit receipts and disbursements; vulnerabilities in safeguarding beneficiary payments; poor monitoring and reporting to SSA of changes in beneficiary circumstances; inappropriate handling of beneficiary conserved funds; and improper charging of fees.

SSA also needs to improve its selection of representative payees. For example, we estimated in one audit report that over 1,700 individuals who had representative payees themselves were selected as representative payees for others. These representative payees with representative payees were responsible for managing \$7.6 million in OASDI and SSI payments over a 1-year period. We have also identified cases where SSA did not establish representative payees for individuals found to need them. We estimated that at least 17,000 beneficiaries were directly paid at least \$342 million that should have been paid through 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. Within the next 5 years, the Agency expects to provide cost-effective e-Government services to citizens, businesses and other government agencies that will give them the ability to easily and securely transact most of their business with SSA electronically. In the past 5 years, the Agency has launched the Internet Social Security Benefit Application, and created on-line requests for Social Security Statements, replacement Medicare cards, proof of income letters (formerly known as Benefit Verification Statements) and change of address. Most recently, the Agency added the Adult Disability and Work History Report, the Childhood Disability Report and the Appeals Disability Report to its on-line services. Within 1 year, the recently launched electronic disability folder will be implemented nationwide.

The Agency has taken steps to meet its future workforce needs. Studies have been conducted to predict staff retirements and attritions for major job positions. Further, SSA planning documents comply with the PMA and achieve expected near-term results related to the strategic management of human capital. SSA's ongoing progress has resulted in the Agency obtaining a green rating for Human Capital on OMB's PMA Scorecard.

SSA has taken steps to address its representative payee process challenge. It has established workgroups to implement each section of the *Social Security Protection Act of 2004*. The Act calls for increased monitoring of representative payees. Accordingly, the Agency is modifying the system selection processes for its site review program so it can review fee-for-service representative payees, volume representative payees (serving 50 or more beneficiaries) who are subject to expanded monitoring, and individual representative payees serving 15 or more beneficiaries, as required by Section 102(b) of the *Social Security Protection Act of 2004*. SSA performs these reviews triennially.