

A Message from the Commissioner

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



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

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

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

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

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

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

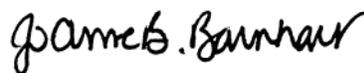
To strategically manage and align staff to support the mission of the Agency. I am proud of the exceptional dedication of the men and women of Social Security. Our employees share a deep commitment to finding better ways to be even more responsive to those who depend on our service and sound fiscal stewardship.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

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

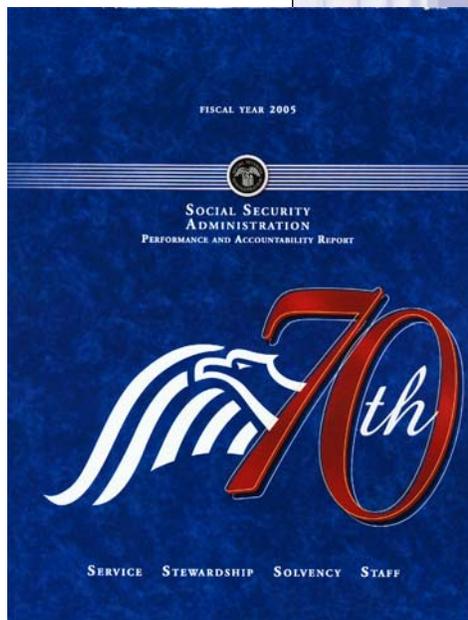
President's Management Agenda. Social Security is steadfast in its commitment to the goals and objectives as set forth by the President's Management Agenda. We are dedicated to achieving immediate, concrete and measurable results that benefit the public by maximizing our service to program beneficiaries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

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

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



Jo Anne B. Barnhart
November 7, 2006



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Executive Director, AGA

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

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

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

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

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

In addition to discussing program performance, the MD&A also addresses our financial performance. The major sources and uses of SSA's funds, as well as the use of these resources in terms of both program and function, are explained.

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

MANAGEMENT'S
DISCUSSION
AND
ANALYSIS



Overview of the Social Security Administration

Mission

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

The Social Security Programs and How They Benefit the Public

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

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

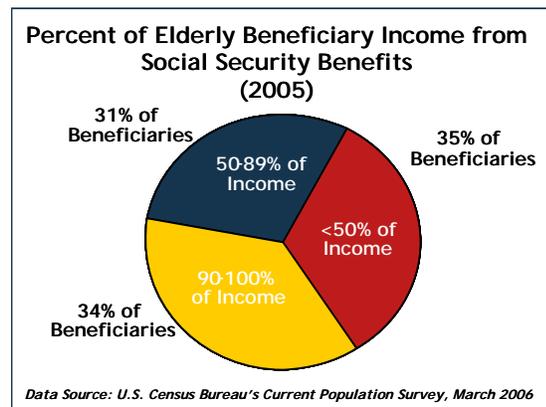
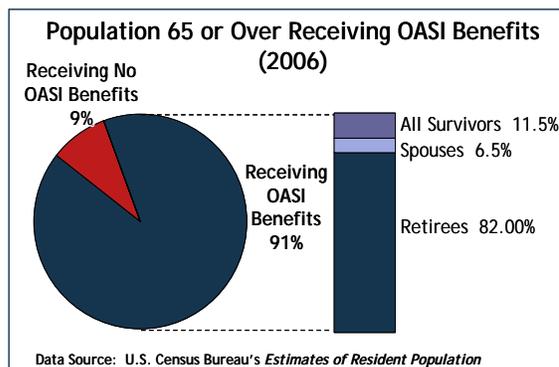
¹Sum of OASI, DI, and SSI only

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

Old-Age and Survivors Insurance (OASI) Benefits

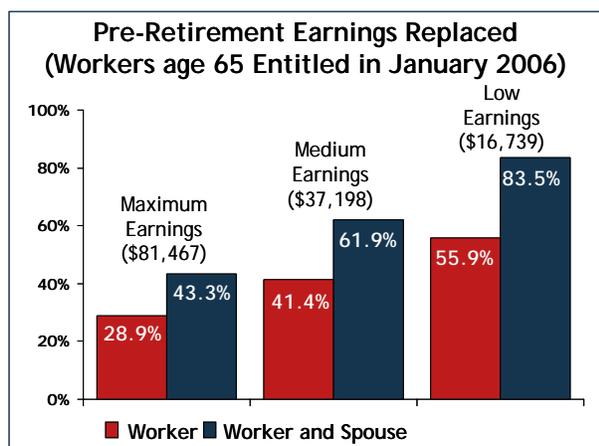
These benefits are financed by the OASI Trust Fund. To qualify for OASI benefits, a worker must have worked in Social Security covered employment or self-employment and paid Social Security taxes (Federal Insurance Contributions Act and/or Self-Employment Contributions Act) for at least 10 years (or 40 credits) over the course of his or her lifetime, with the exception of those workers born before 1929 who need fewer credits to qualify. Working Americans can count on benefits when they retire, with reduced benefits payable as early as age 62. Benefits are also paid to certain members of retired workers' families and to their survivors.

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



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

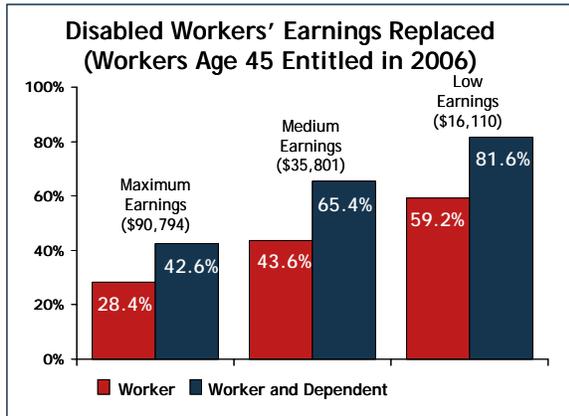
The chart, *Pre-Retirement Earnings Replaced*, shows the earnings replacement rate in 2006 for single workers and couples (e.g., worker with a spouse age 62 or older who is not insured) at various earnings levels. These levels represent average earnings over the worker's career, which are wage-indexed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



Disability Insurance Benefits

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

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



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

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

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

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

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

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

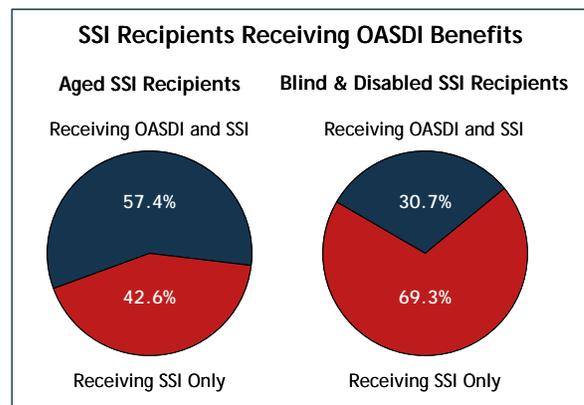
³ Based on a 65-year-old retired worker.

Supplemental Security Income Program

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

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

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

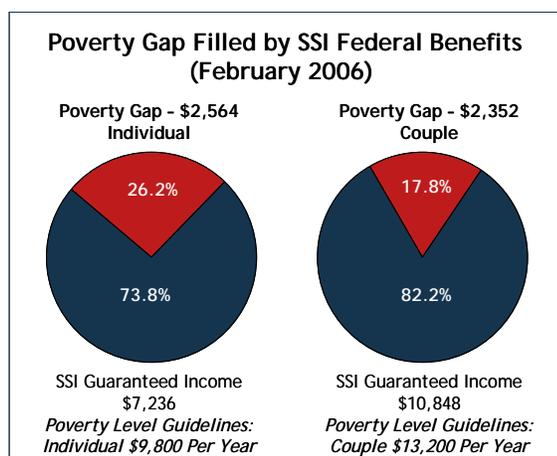


How Social Security Benefits the American Public

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

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

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

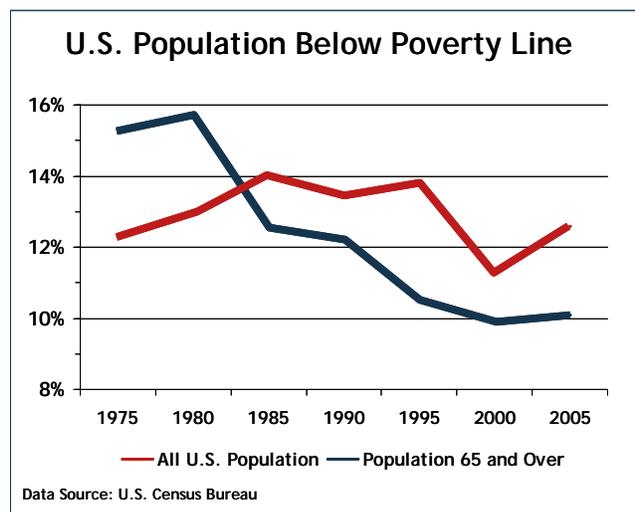


The chart, *Poverty Gap Filled by SSI Federal Benefits*, shows that SSI recipients with little or no income may receive the full SSI Federal benefit, which is 73.8 percent of the Federal poverty level for an individual and 82.2 percent for a couple. The portion of the poverty gap not filled by Federal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

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

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

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



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

Workloads

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

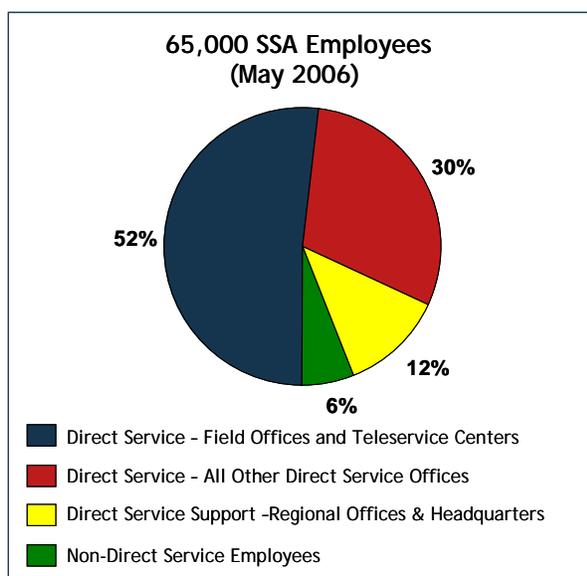
- Paying benefits to over 53 million people every month;
- Making decisions on nearly 1.2 million hearings and appellate actions;
- Issuing over 17 million new and replacement Social Security cards;
- Processing over 265 million earnings items for crediting to workers' earnings records;
- Handling nearly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

Agency Organization

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

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

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



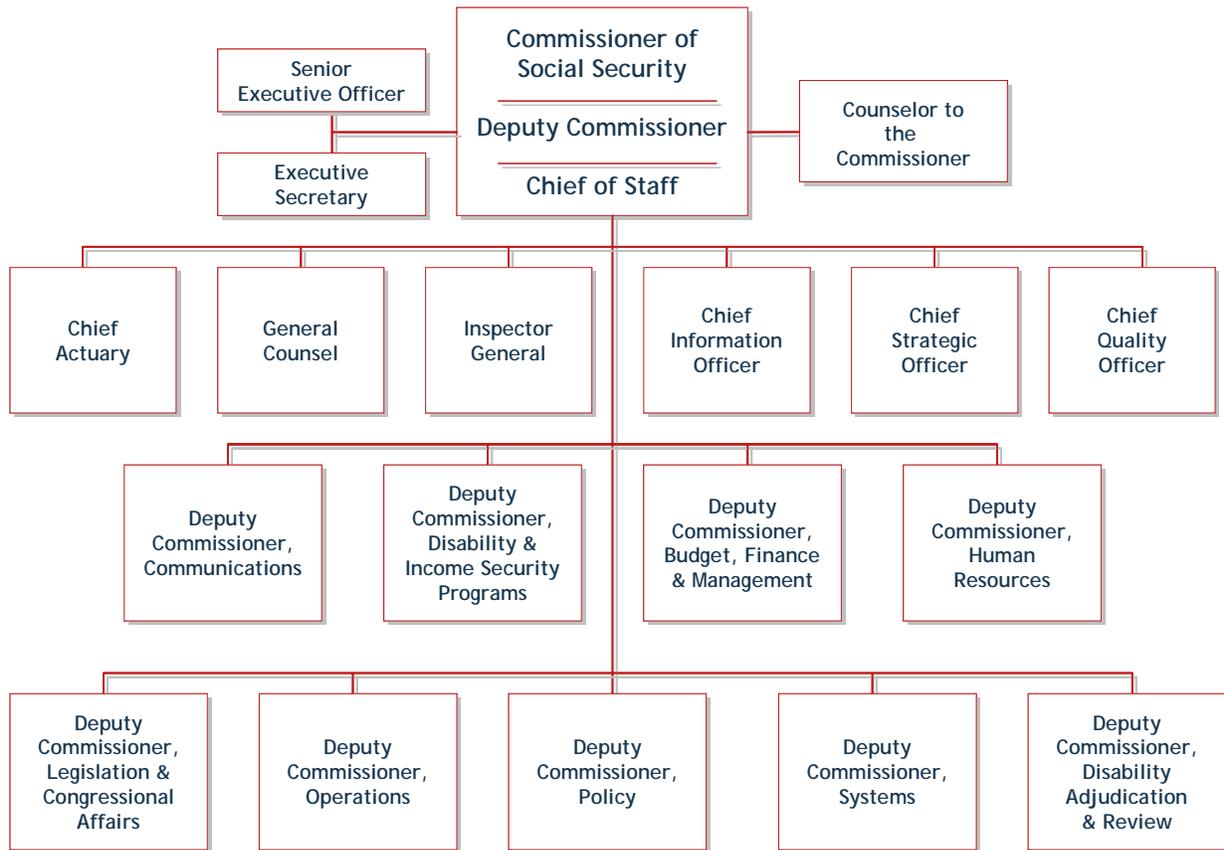
As shown on the chart, 65,000 SSA Employees, approximately 61,000 of SSA's 65,000 employees deliver direct service to the public or directly support the services provided by the Agency's front-line workers. The public is most familiar with the almost 34,000 employees in SSA's 1,318 Field Offices (including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

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

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

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

Organization of the Social Security Administration



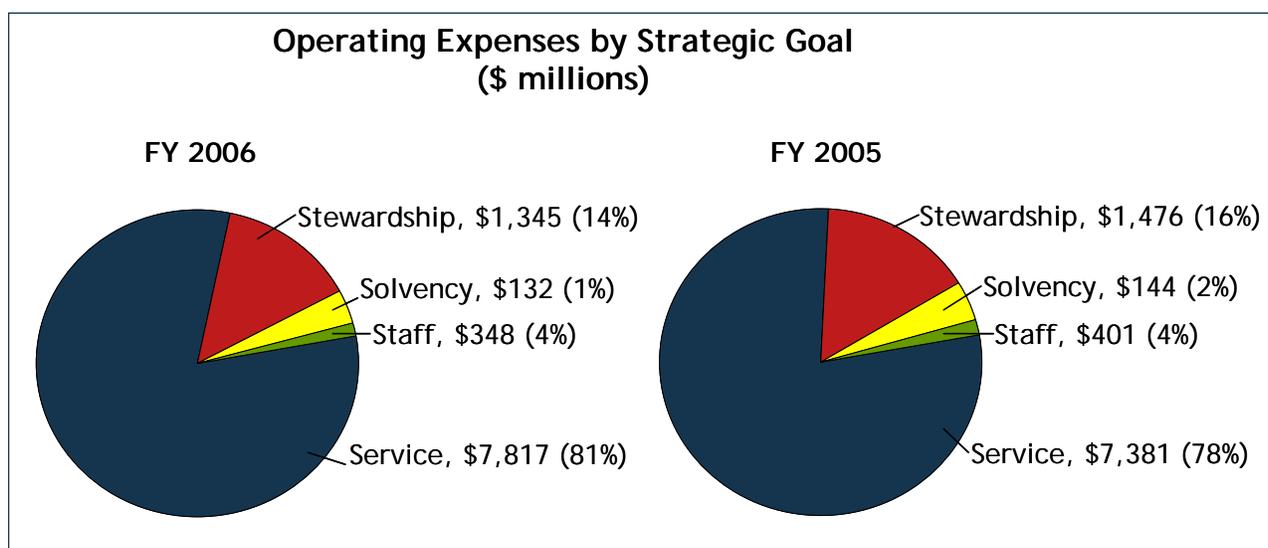
Overview of Key Performance Indicators, Goals and Results

FY 2006 Overview of Performance

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

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

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



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

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

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

A list of all 39 performance measures and goals can be found in the *Performance Section* of this report beginning on page 67. In the full FY 2006 PAR, historical information for each performance measure, where applicable, is shown, along with a narrative about Agency performance for each measure.

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

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

The following tables, showing actual performance levels, group the FY 2006 KPIs according to the strategic goal they support—**SERVICE, STEWARDSHIP, SOLVENCY** or **STAFF**. Page numbers listed in the following tables correspond to page numbers for the full FY 2006 PAR.

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

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

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

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

¹ More detailed information can be found in the *Performance Section* of the full FY 2006 PAR on the pages cited in the chart above.

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

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

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

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

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

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

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

¹ More detailed information can be found in the *Performance Section* of the full FY 2006 PAR on the pages cited in the chart above.

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

Strategic Goal 4: STAFF

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

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

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

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

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

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

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

Performance Factors

President's Management Agenda

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

Program Assessment Rating Tool (PART)

The PART is an Office of Management and Budget (OMB) developed diagnostic tool used to examine different aspects of program performance to identify the strengths and weaknesses of a given Federal program. The

¹ More detailed information can be found in the *Performance Section* of the full FY 2006 PAR on the pages cited in the chart above.

Disability Insurance and Supplemental Security Income (SSI) programs have been evaluated with PART and were rated “moderately effective,” the second highest rating. Per the OMB definition, a program rated moderately effective has set ambitious goals and is well-managed. A PART evaluation of the Agency’s Old-Age, Survivors, and Insurance program is underway for the FY 2008 President’s budget.

Financial and Performance Integration

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

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

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

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

Major Management Challenges

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

Data Quality

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

Social Security Data Integrity Systems and Controls

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

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

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

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

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

Performance Report

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

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

Role of Social Security's Office of the Inspector General

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

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

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

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

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

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

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

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

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

Audit of SSA's FY 2006 Financial Statements

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

Agency Challenges

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

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

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

¹ Program Initiative

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

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

Agency Challenges by Strategic Goal

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

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

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

SERVICE Challenges

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

SERVICE Strategic Objectives that Address the Challenges

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

President's Management Agenda Initiative Related to SERVICE

- Expanded Electronic Government

Addressing the Service Challenges Through Changes to the Disability Process

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

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

Disability Service Improvement Process

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

Changes Included in the DSI Process

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

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

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

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

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

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

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

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

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

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

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

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

Electronic Disability Processing

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

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

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

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

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

Other Initiatives

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

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

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

SSA's Success In Increasing Employment Will:

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

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

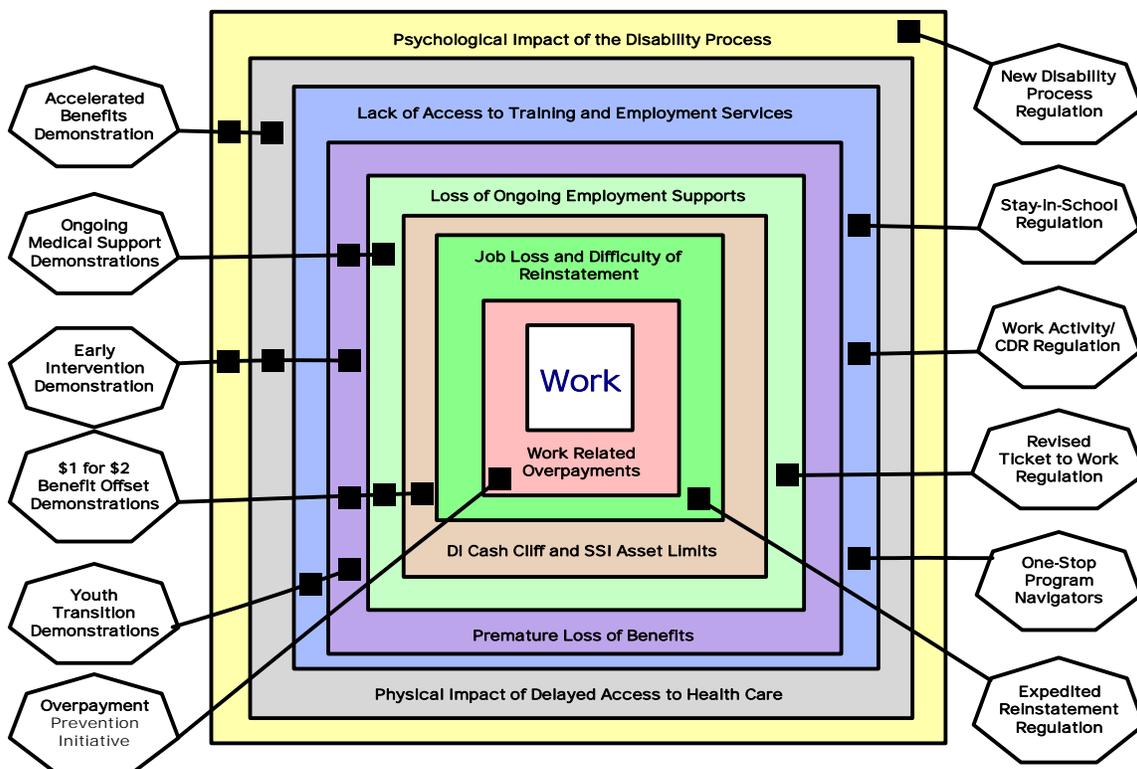
- Lack of access to training and employment services;
- Loss of ongoing employment supports;
- Loss of employment and difficulty with benefit reinstatement;
- Premature loss of benefits;
- Work related overpayments;
- Cash cliff (abrupt discontinuation of disability insurance benefits after an earnings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

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

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

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

Comprehensive Work Opportunity Initiative: Overcoming Multiple Barriers to Employment



Ticket to Work Program

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

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

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

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

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

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

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

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

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

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

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

Demonstration Projects

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

Initiatives Included in Disability Service Improvement

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

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

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

Other Ongoing Employment Support

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

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

Other Initiatives

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

Legislative and Regulatory Changes

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

Automation Initiatives

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

Addressing the Service Challenges Through Use of Technology

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

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

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

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

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

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

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

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

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

Electronic Service Delivery That Benefits the Public

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

Specific strategies and activities for improving service delivery

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

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

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

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

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

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

Accomplishments in Electronic Service Delivery

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

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

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

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

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

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

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

Electronic Service Delivery That Benefits Other Agencies

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

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

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

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

Current Data Exchanges

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

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

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

Electronic Service Delivery That Benefits Employers

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

Strategies for Improving Service Delivery to Employers

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

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

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

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

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

STEWARDSHIP Challenges:

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

STEWARDSHIP Strategic Objectives that Address the Challenges:

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

PMA Initiatives Related to STEWARDSHIP:

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

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

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

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

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

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

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

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

Detection and Prevention Activities

Pre-Effectuation Review

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

Medical Continuing Disability Review (CDR)

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

eWork System

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

SSI Non-Disability Redeterminations

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

eRZ

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

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

Computer Matching Activities

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

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

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

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

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

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

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

Unreported Wages as a Source of Improper Payments

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

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

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

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

Automation of the Federal Fugitive Felon Database

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

Access to Financial Information

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

Residency Violations

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

Cooperative Disability Investigation

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

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

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

Agency Strategies for Recovering Overpayments

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

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

Agency Strategies for Debt Collection

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

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

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

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

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

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

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

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

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

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

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

Ways SSA Strengthens The Integrity Of The SSN

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

Improving Automated Systems Processes

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

Automated Processes

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

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

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

Introducing New Policy Initiatives

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

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

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

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

Enhancing Verification Services

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

Verification Process Changes

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

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

Combating ID Theft

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

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

Collaborating with other Agencies in Support of National Security

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

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

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

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

Addressing the Stewardship Challenges Through Ensuring the Accuracy of Earnings Records

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

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

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

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

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

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

Employee Verification Programs

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

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

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

Employers may verify requests of:

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

Basic Pilot

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

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

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

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

Other Initiatives

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

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

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

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

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

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

Management Information Improvements

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

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

The Agency's Security Plan

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

Major Areas of Continuous Security Control

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

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

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

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

Contingency Planning and Disaster Recovery

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

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

Safety and Physical Security Practices

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

The Agency Information Technology Infrastructure

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

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

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

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

Strategic Goal 3: SOLVENCY

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

For many years, Social Security's trustees have called for timely changes to be made to Social Security to protect future generations. As the *Required Supplementary Information: Social Insurance* section of the Performance and Accountability Report (see page 160 of the full FY 2006 PAR) shows, there is a present value shortfall of \$4.6 trillion over the 75-year period, which means that \$4.6 trillion today earning interest would be sufficient to cover the 75-year shortfall. In 2017, Social Security benefit payments will exceed income and tax revenues to the program. By 2040, if no changes are made, the OASDI Trusts Fund will be exhausted and benefits would have to be cut by 26 percent in that year.

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

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

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

Strategic Goal 4: STAFF

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

STAFF Challenge:

- Human Capital

STAFF Strategic Objective that Addresses the Challenge:

- Recruit, Develop and Retain a High-Performing Workforce

PMA Initiative Related to STAFF:

- Strategic Management of Human Capital

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

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

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

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

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

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

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

Recruitment

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

Diversity

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

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

Retention

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

Strategic Competencies and Knowledge Management

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

Training

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

Reaching Out to Staff

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

Providing Employees with Better Tools

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

Leadership and Succession Planning

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

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

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

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

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

Performance Culture

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

The President’s Management Agenda

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

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

The Five Key Government-Wide Initiatives

Strategic Management of Human Capital

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

Competitive Sourcing

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

Improved Financial Performance

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

Expanded Electronic Government

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

Budget and Performance Integration

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

SSA's Program Initiative - Eliminating Improper Payments

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

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

SSA's Scorecard

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

SSA's President's Management Agenda Scorecard

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

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

Highlights of Financial Position

Overview of Financial Data

SSA's financial statements and footnotes appear on pages 123 through 173 of the full FY 2006 Performance and Accountability Report (PAR). The financial statements presented in SSA's full FY 2006 report received an unqualified opinion from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate funds which are financed by payroll taxes, interest on investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

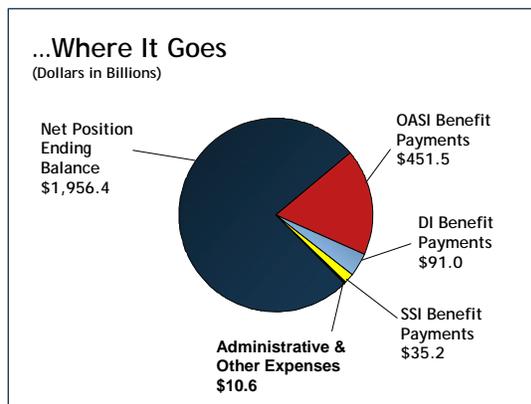
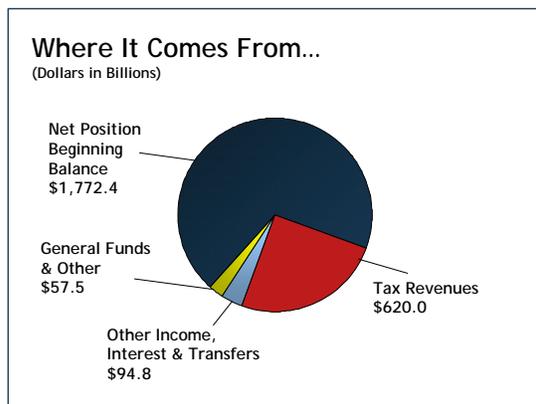
Balance Sheet: The Balance Sheet reflects total assets of \$2,036 billion, a 10.2 percent increase over the previous year. Approximately 98 percent of assets are investments. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The \$185.9 billion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

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

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

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

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



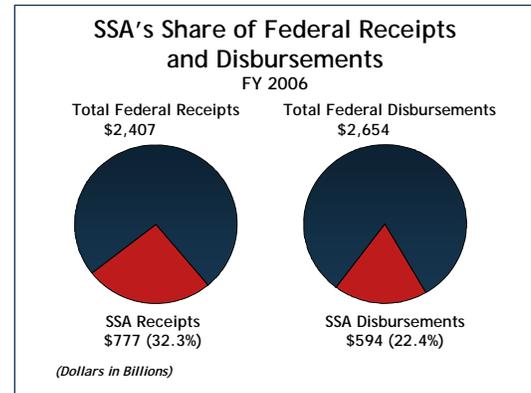
Statement of Budgetary Resources: This statement shows that SSA had \$630.9 billion in budgetary resources of which \$1.8 billion remained unobligated at year-end. SSA recorded total net outlays of \$585.5 billion by the end of the year. Budgetary resources grew \$25.5 billion, or 4.2 percent from 2005,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

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

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

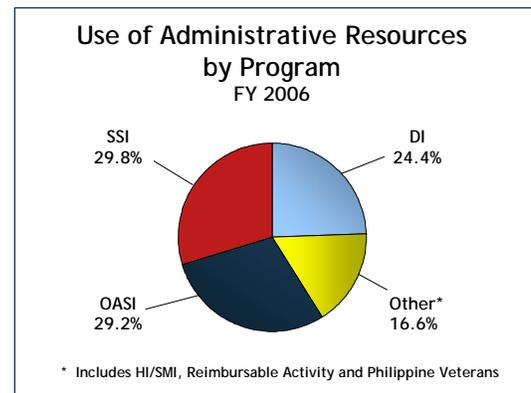
SSA's Share of Federal Operations

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



Use of Administrative Resources

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



OASI and DI Trust Fund Solvency

Pay-as-you-go Financing

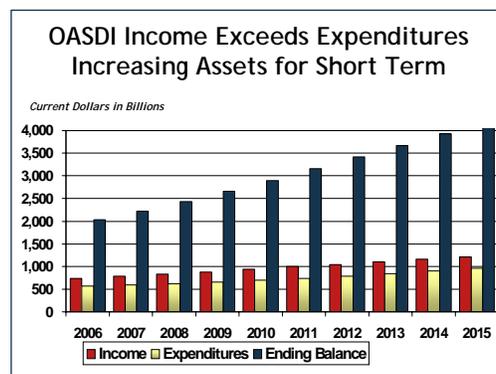
The OASI and DI Trust Funds are deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund assets. In recent years, current income has exceeded program obligations for the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

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

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

Short Term Financing

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



Long Term Financing

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

For more information, pages 158 through 173 of the full FY 2006 PAR contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

Limitation on Financial Statements

The basic financial statements beginning on page 124 of the full FY 2006 PAR have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of SSA in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

Systems and Controls

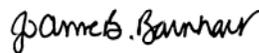
Management Assurances

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

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

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

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



Jo Anne B. Barnhart
November 7, 2006

Federal Managers' Financial Integrity Act Program

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

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

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

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

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

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

Management Control Review Program

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

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

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

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

Financial Management Systems (FMS) Review Program

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

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

Federal Financial Management Improvement Act

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

Financial Statement Audit

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

Federal Information Security Management Act

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

Financial Management

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

Goals and Strategies

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

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

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

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

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

Financial Management Systems Framework

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

Program Benefits

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

Debt Management

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

Financial/Administrative

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

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

Improper Payments Information Act of 2002

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

Background

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

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

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

Since OMB guidance on IPFA requires the evaluation of all payment outlays beyond the OASI, DI and SSI programs that SSA administers, SSA has performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments. More information on the evaluation of improper payments is provided in the *Appendix* of the FY 2006 PAR.

Recovery Auditing

In FY 2005, SSA conducted an internal recovery audit of contractor payments in accordance with Section 831 of the Defense Authorization Act for Fiscal Year 2002 which requires agencies that enter into contracts with a total value in excess of \$500 million in a FY initiate a program to identify and recover payment errors. Using its own resources, SSA established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer assisted auditing techniques are utilized to identify possible duplicate payments. Results from the audit do not indicate any susceptibility to significant improper payments nor any problems with recovery activity. The recovery audit program scope included a review of administrative contractor payments for FY 2005 totaling \$1.4 billion. Of that amount, about .01 percent or \$178,199 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments. Please refer to the *Appendix* in the FY 2006 PAR for a detailed report on SSA's recovery auditing initiative.

Agency Efforts and Future Plans

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

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

OASDI Improper Payment Initiatives

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

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

SSI Improper Payments Initiatives

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

PERFORMANCE
SECTION



Agency Performance

Summary of FY 2006 Performance

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

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

Status of FY 2006 Performance Measures by Goal and Objective

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

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

Agency Performance Summary

Strategic Goal 1: SERVICE

To deliver high quality, citizen-centered SERVICE

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

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

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

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

¹ Detailed information regarding these measures can be found in the full FY 2006 PAR on the page indicated.

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

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

Strategic Goal 2: STEWARDSHIP

To protect the integrity of Social Security programs through superior STEWARDSHIP

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

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

¹ Detailed information regarding these measures can be found in the full FY 2006 PAR on the page indicated.

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

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

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

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

¹ Detailed information regarding these measures can be found in the full FY 2006 PAR on the page indicated.

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

Strategic Goal 3: SOLVENCY*To achieve sustainable SOLVENCY and ensure Social Security programs meet the needs of current and future generations**Strategic Objective 3.1: Through education and research efforts, support reforms to ensure sustainable Solvency and more responsive retirement and disability programs*

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

Strategic Goal 4: STAFF*To strategically manage and align STAFF to support the mission of the Agency**Strategic Objective 4: Recruit, develop, and retain a high-performing workforce*

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

¹ Detailed information regarding these measures can be found in the full FY 2006 PAR on the page indicated.

Program Assessment Rating Tool (PART) Measures

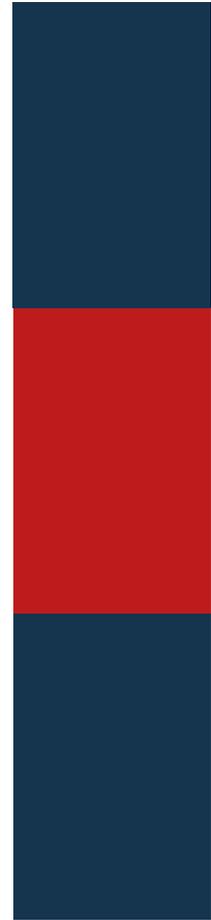
Measure	FY 2006 Goal	FY 2006 Actual	See Page# ¹
Average processing time for initial disability claims	93 days	88 days ²	77
Average processing time for SSA hearings	467 days	483 days	78
DDS net accuracy rate (allowances and denials combined)	97%	96% ² Estimated	79
Number of DI and SSI beneficiaries, with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

¹ Detailed information regarding these measures can be found in the full FY 2006 PAR on the page indicated.

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

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FINANCIAL SECTION



A Message from the Chief Financial Officer

The Social Security Administration (SSA) had many successes in Fiscal Year 2006 and we are proud to be given this opportunity to share our accomplishments in the area of financial management. For the 13th consecutive year, Social Security received an unqualified opinion from the independent auditors on our consolidated financial statements, including the Statement of Social Insurance which was subject to audit for the first time this year. The unqualified (clean) opinion attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the American taxpayers' dollars. We were also the proud recipient of our 8th Association of Government Accountant's Certificate of Excellence in Accountability Reporting for our FY 2005 Performance and Accountability Report, clearly portraying our high standards in demonstrating accountability and communicating results. Social Security is the only Agency to have received this prestigious award each year since its inception.



SSA also received an unqualified opinion concerning SSA's assertion about the effectiveness of the Agency's systems of accounting and internal control with no material weaknesses or reportable conditions reported by the auditors. Throughout FY 2006, SSA worked diligently across all components to ensure compliance with the requirements found in OMB A-123 Appendix A, *Management's Responsibility for Internal Controls*. For each financial reporting process, we identified and extensively documented the key controls and through testing ascertained if the key controls were operating effectively and were designed to mitigate risk. We are proud that we were successful in our endeavors to meet the stringent deadlines of this new requirement and that our SSA management assurance statement could state with reasonable assurance that internal control over financial reporting was operating effectively as of year end.

In FY 2003, SSA implemented SSOARS, a federally certified accounting system. During FY 2006, a user-friendly "front end" for accessing the Agency's financial accounting system data and integrating budget allocations with expenditure data was developed. This functionality makes financial data easily available to all managers throughout the Agency.

I am proud that the Agency continues to meet all the standards for obtaining a "green" score in both status and progress for the President's Management Agenda Improved Financial Performance initiative. The Agency has initiatives to "Get Beyond Green" through the implementation and use of a modernized cost accounting system that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources.

This Agency is strongly committed to excellence in financial reporting and to responsibly managing the assets, resources, and programs entrusted to us. In the coming year, our goal remains to provide timely, reliable and useful financial management information to Congress and to the American public.

A handwritten signature in black ink that reads "Dale W. Sopper". The signature is written in a cursive, flowing style.

Dale W. Sopper
Chief Financial Officer
November 7, 2006

Consolidated Balance Sheets as of
September 30, 2006 and September 30, 2005, Condensed

Assets	(Dollars in Millions)	
	2006	2005
Intragovernmental:		
Fund Balance with Treasury	\$ 4,778	\$ 5,370
Investments	1,995,307	1,809,422
Interest Receivable, Net	25,631	23,472
Accounts Receivable, Net	536	307
Total Intragovernmental	<u>2,026,252</u>	<u>1,838,571</u>
Accounts Receivable, Net	7,654	6,982
Property, Plant and Equipment, Net	1,641	1,419
Other	5	9
Total Assets	\$ 2,035,552	\$ 1,846,981
Liabilities		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,754	\$ 3,642
Accounts Payable	8,033	8,309
Other	93	108
Total Intragovernmental	<u>11,880</u>	<u>12,059</u>
Benefits Due and Payable	66,104	61,272
Accounts Payable	264	394
Other	873	894
Total Liabilities	<u>79,121</u>	<u>74,619</u>
Net Position		
Unexpended Appropriations		1,446
Unexpended Appropriations-Earmarked Funds	57	
Unexpended Appropriations-Other Funds	1,614	
Cumulative Results		1,770,916
Cumulative Results of Operations-Earmarked Funds	1,954,921	
Cumulative Results of Operations-Other Funds	(161)	
Total Net Position	<u>1,956,431</u>	<u>1,772,362</u>
Total Liabilities and Net Position	\$ 2,035,552	\$ 1,846,981

Consolidated Statements of Net Cost for the Years Ended
September 30, 2006 and September 30, 2005, Condensed

	(Dollars in Millions)	
	2006	2005
OASI Program		
Benefit Payments	\$ 451,516	\$ 432,438
Operating Expenses	3,083	2,970
Total Cost of OASI Program	454,599	435,408
Less: Exchange Revenues	8	22
Net Cost of OASI Program	454,591	435,386
DI Program		
Benefit Payments	90,944	89,731
Operating Expenses	2,574	2,419
Total Cost of DI Program	93,518	92,150
Less: Exchange Revenues	9	20
Net Cost of DI Program	93,509	92,130
SSI Program		
Benefit Payments	35,237	36,224
Operating Expenses	3,147	3,083
Total Cost of SSI Program	38,384	39,307
Less: Exchange Revenues	268	303
Net Cost of SSI Program	38,116	39,004
Other		
Benefit Payments	15	16
Operating Expenses	1,753	1,729
Total Cost of Other Program	1,768	1,745
Less: Exchange Revenues	11	17
Net Cost of Other	1,757	1,728
Total Net Cost		
Benefit Payments	577,712	558,409
Operating Expenses	10,557	10,201
Total Cost	588,269	568,610
Less: Exchange Revenues	296	362
Total Net Cost	\$ 587,973	\$ 568,248

Consolidated Statements of Changes in Net Position for the Years Ended
September 30, 2006 and September 30, 2005, Condensed

	(Dollars in Millions)			
	2006		2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances			\$ 1,605,203	\$ 1,489
Earmarked Funds	\$ 1,770,660	\$ 53		
All Other Funds	256	1,393		
Total All Funds	\$ 1,770,916	\$ 1,446	\$ 1,605,203	\$ 1,489
Budgetary Financing Sources				
Appropriations Received				57,874
Earmarked Funds		16,378		
All Other Funds		40,454		
Appropriations Transferred In/Out				0
Earmarked Funds		38		
Other Adjustments			0	(13)
Earmarked Funds	0	(6)		
Appropriations Used			57,904	(57,904)
Earmarked Funds	16,406	(16,406)		
All Other Funds	40,233	(40,233)		
Tax Revenues			588,416	
Earmarked Funds	620,007			
Interest Revenues			92,994	
Earmarked Funds	99,880			
Transfers In/Out Without Reimbursement			784	
Earmarked Funds	(4,868)			
All Other Funds	6,538			
Railroad Retirement Interchange			(3,846)	
Earmarked Funds	(3,959)			
Net Transfers In/Out			(3,062)	
Earmarked Funds	(8,827)			
All Other Funds	6,538			
Other Budgetary Financing Sources-			63	
Earmarked Funds	(50)			
Other Financing Sources (Non-Exchange)				
Transfers In/Out			(2,818)	
All Other Funds	(2,907)			
Imputed Financing Sources			464	
All Other Funds	537			
Total Financing Sources			733,961	(43)
Earmarked Funds	727,416	4		
All Other Funds	44,401	221		
Net Cost of Operations			568,248	
Earmarked Funds	543,155			
All Other Funds	44,818			
Net Change			165,713	
Earmarked Funds	184,261			
All Other Funds	(417)			
Ending Balances			1,770,916	1,446
Earmarked Funds	1,954,921	57		
All Other Funds	(161)	1,614		
Total All Funds	\$ 1,954,760	\$ 1,671	\$ 1,770,916	\$ 1,446

Combined Statements of Budgetary Resources for the Years Ended September 30, 2006 and September 30, 2005, Condensed

	(Dollars in Millions)	
	2006	2005
Budgetary Resources		
Unobligated Balances, Brought Forward, October 1	\$ 1,832	\$ 2,118
Recoveries of Prior Year Unpaid Obligations	539	337
Budget Authority		
Appropriation	796,683	754,724
Spending Authority from Offsetting Collections		
Earned		
Collected	4,224	4,596
Change in Receivable	(16)	9
Change in Unfilled Customer Orders		
Advance Received	1	0
Expenditure Transfers from Trust Funds	9,204	8,779
Subtotal	810,096	768,108
Nonexpenditure Transfers Net	122	0
Temporarily Not Available Pursuant to Public Law	(181,621)	(165,150)
Permanently Not Available	(40)	(7)
Total Budgetary Resources	\$ 630,928	\$ 605,406
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 624,951	\$ 599,028
Reimbursable	4,186	4,546
Subtotal	629,137	603,574
Unobligated Balances		
Apportioned	1,475	1,566
Unobligated Balances - Not Available	316	266
Total Status of Budgetary Resources	\$ 630,928	\$ 605,406
Change in Obligated Balances		
Obligated Balances, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 69,215	\$ 60,455
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(2,091)	(2,191)
Total Unpaid Obligated Balance	67,124	58,264
Obligations Incurred, Net	629,137	603,574
Less: Gross Outlays	(624,755)	(594,477)
Less: Recoveries of Prior Year Unpaid Obligations	(539)	(337)
Change in Uncollected Payments from Federal Sources	22	100
Obligated Balance - End of Period		
Unpaid Obligations	73,058	69,215
Less: Uncollected Payments from Federal Sources	(2,069)	(2,091)
Total Unpaid Obligated Balance, End of Period	70,989	67,124
Net Outlays		
Gross Outlays	624,755	594,477
Less: Offsetting Collections	(13,434)	(13,484)
Less: Offsetting Receipts	(25,809)	(19,653)
Net Outlays	\$ 585,512	\$ 561,340

Consolidated Statements of Financing for the Years Ended September 30, 2006 and September 30, 2005, Condensed

	(Dollars in Millions)	
	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 629,137	\$ 603,574
Less: Offsetting Collections and Recoveries	(13,952)	(13,721)
Obligations Net of Offsetting Collections	615,185	589,853
Less: Offsetting Receipts	(25,809)	(19,653)
Net Obligations	589,376	570,200
Imputed Financing	537	464
Other	(253)	(276)
Net Other Resources Used to Finance Activities	284	188
Total Resources Used to Finance Activities	589,660	570,388
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	(16)	(4)
Resources that Fund Expenses Recognized in Prior Periods	(10)	(714)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	20,158	19,653
Resources that Fund Capitalized Costs	(458)	(399)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(21,633)	(21,900)
Total Resources Not Part of the Net Cost of Operations	(1,959)	(3,364)
Total Resources Used to Finance the Net Cost of Operations	587,701	567,024
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave	3	6
Other	361	1,019
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	364	1,025
Components Not Requiring or Generating Resources		
Depreciation and Amortization	234	211
Other	(326)	(12)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(92)	199
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	272	1,224
Net Cost of Operations	\$ 587,973	\$ 568,248

**Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
as of January 1, 2006, Condensed
(In billions)**

	<u>2006</u>	Estimates from Prior Years			
		<u>2005</u> unaudited	<u>2004</u> unaudited	<u>2003</u> unaudited	<u>2002</u> unaudited
<i>Actuarial present value for the 75-year projection period of estimated future income (excluding interest) received from or on behalf of:</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$16,568	\$15,290	\$14,388	\$13,576	\$13,048
Have attained retirement eligibility age (Age 62 and over)	533	464	411	359	348
Those expected to become participants (Under age 15)	15,006	13,696	12,900	12,213	11,893
All current and future participants	32,107	29,450	27,699	26,147	25,289
<i>Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of:</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	26,211	23,942	22,418	21,015	20,210
Have attained retirement eligibility age (Age 62 and over)	5,866	5,395	4,933	4,662	4,402
Those expected to become participants (Under age 15)	6,480	5,816	5,578	5,398	5,240
All current and future participants	38,557	35,154	32,928	31,075	29,851
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost</i>	-\$6,449	-\$5,704	-\$5,229	-\$4,927	-\$4,562

Additional Information

<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) over cost</i>	-\$6,449	-\$5,704	-\$5,229	-\$4,927	-\$4,562
<i>Combined OASI and DI Trust Fund assets at start of period</i>	1,859	1,687	1,531	1,378	1,213
<i>Actuarial present value for the 75-year projection period of estimated future excess of income (excluding interest) and combined OASI and DI Trust Fund assets at start of period over cost</i>	-\$4,591	-\$4,017	-\$3,699	-\$3,550	-\$3,350

Totals do not necessarily equal the sum of rounded components.

Notes to the Basic Financial Statements, Condensed For the Years Ended September 30, 2006 and 2005 (Presented in Millions)

Summary of Significant Accounting Policies

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources and the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular A-136 *Financial Reporting Requirements*.

The condensed financial statements shown in the FY 2006 PAR Highlights have been derived from the audited basic financial statements. The financial statements in the full FY 2006 PAR have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by OMB in Circular A-136. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds and four general fund appropriations. LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

Fund Balance with Treasury

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities.

Investments

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations

guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issue bonds. Special issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets.

Property, Plant and Equipment

SSA's property, plant and equipment (PP&E) are recorded in the LAE program, but are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is \$100,000. Automated Data Processing and Telecommunications Site Preparation, buildings and other structures are capitalized with no threshold.

The change in PP&E from one reporting period to the next is presented on the Consolidated Statements of Financing's Resources that Fund Capitalized Costs. This line item represents the capital assets purchased by the OASI, DI and Health Insurance/Supplemental Insurance (HI/SMI) Trust Funds that effect budgetary obligations. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' (CMS) financial statements.

Benefits Due and Payable

Liabilities are accrued for OASI and DI benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases.

Benefit Payments

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

Administrative Expenses and Obligations

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the Social Security Act requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate OASI, DI, HI and SMI Trust Fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This is in compliance with OMB's directive to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

Recognition of Financing Sources

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the SSI program and for the OIG and PTF appropriations, which are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

Capitalized expenditures are recognized in the Combined Statements of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

Earmarked Funds

In fiscal year 2006, SSA adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, which requires separate presentation and disclosure of earmarked funds balances in the financial statements. The standard is effective beginning October 1, 2005. Restatement of prior periods is not permitted. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA's earmarked funds are the OASI and DI Trust Funds, PTF and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation.

Reclassifications

Certain FY 2005 balances have been reclassified to conform to FY 2006 financial statement presentations, the effect of which is immaterial. The primary change occurs in the Combined Statement of Budgetary Resources. This change was made in compliance with the revisions required by OMB Circular A-136.

Statement of Social Insurance

Effective for FY 2006, SSA adopted SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, which require that the Statement of Social Insurance be presented as an integral part of SSA's basic financial statements. This statement discloses the actuarial present value for the 75-year projection period of the estimated future income (excluding interest), estimated future cost, and the excess of income over cost for the "open group" of participants. The "open group" of participants includes all current and future participants (including births during the projection period) who are or who will eventually participate in the OASI and or DI Social Insurance programs.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions specified in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) and over the 75-year projection period beginning January 1 of that year. Similar estimates are shown in the statement based on the prior four Trustees Reports.

Estimated future income (excluding interest) consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

Auditor's Report



SOCIAL SECURITY

November 7, 2006

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2006 and 2005 financial statements as presented in SSA's Fiscal Year 2006 Performance and Accountability Report Highlights. PwC's Report includes the firm's opinion on the information set forth in the accompanying condensed consolidated and combined financial statements.

PwC had audited the consolidated balance sheets of SSA as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the fiscal years then ended and the statement of social insurance as of January 1, 2006. In its report dated November 7, 2006, PwC expressed an unqualified opinion on those consolidated and combined financial statements.

PwC's audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In PwC's opinion, the information set forth in the accompanying condensed consolidated and combined financial statements, is fairly stated, in all material respects, in relation to the consolidated and combined financial statements from which the information has been derived.

A handwritten signature in blue ink, appearing to read 'Patrick P. O'Carroll, Jr.'.

Patrick P. O'Carroll, Jr.
Inspector General



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REPORT OF INDEPENDENT AUDITORS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, the consolidated balance sheets of the Social Security Administration as of September 30, 2006 and 2005, and the related consolidated statements of net cost, of changes in net position and of financing and the combined statements of budgetary resources for the fiscal years then ended and the statement of social insurance as of January 1, 2006. In our report dated November 7, 2006, we expressed an unqualified opinion on those financial statements.

As discussed in Note 1 to the financial statements referred to above, SSA adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Earmarked Funds*, effective October 1, 2005. This standard does not permit the restatement of prior periods.

As discussed in Note 17 to the financial statements referred to above, SSA adopted SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and SFFAS No. 26, *Presentation of Significant Assumptions of the Statement of Social Insurance: Amending SFFAS No. 25*, requiring that the statement of social insurance be presented as an integral part of the basic financial statements of the Agency. The statement of social insurance presents the actuarial present value of the Agency's estimated future income to be received from or on behalf of the participants and estimated future costs to be paid to or on behalf of participants during a projection period sufficient to illustrate the long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

In our opinion, the information set forth in the accompanying condensed financial statements and additional information appearing on pages 77 to 86 is fairly stated, in all material respects, in relation to the financial statements referred to above from which it has been derived. In accordance with *Government Auditing Standards*, our report on the financial statements referred to above includes a report on management's assertion about the effectiveness of internal control and a report on compliance and other matters for the year ended September 30, 2006. These reports are integral parts of a financial statement audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PricewaterhouseCoopers LLP

November 7, 2006