MANAGEMENT’S DISCUSSION AND ANALYSIS
The Management’s Discussion and Analysis (MD&A) is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration (SSA). The MD&A describes who we are, what we do, and how well we meet our established goals.

The Overview of the Social Security Administration section highlights our mission as set forth in the Agency’s Strategic Plan. In this section, we identify the major programs we administer and provide a brief explanation of our organization.

The next section, Overview of Our Fiscal Year 2012 Goals and Results, provides a discussion of our goals and offers performance measure results that track our progress toward achieving our mission. This section links our agency-wide Strategic Goals with our Priority Goals, displays our fiscal year 2012 operating expenses by Strategic Goal, highlights how our results contribute to achieving our Strategic Goals and Objectives, and discusses how we plan to address the challenges we face. We also discuss the integrity of our data, highlight audits of our performance indicators, and describe our efforts to provide reasonable assurance that reported performance information is reliable and complete.

In addition to discussing program performance, the MD&A also addresses our financial performance in the Highlights of Financial Position section. We provide an overview of our financial data, and explain the major sources and uses of our funds, as well as the use of these resources, in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds. We end this section with a summary of our progress toward addressing improper payments.

Finally, the Systems and Controls section of the MD&A provides a discussion of the actions we have taken to address our management control responsibilities. The Management Assurances section provides our assurances related to the Federal Managers’ Financial Integrity Act and the determination of our compliance with the Federal Financial Management Improvement Act. We also address the results of the audit of our financial statements and compliance with the Federal Information Security Management Act.
## OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

### Our Mission

*Deliver Social Security services that meet the changing needs of the public*

### Social Security Benefits America

Few government agencies touch the lives of as many people as we do. The programs we administer provide a financial safety net for millions of Americans, and many people consider them the most successful large-scale Federal programs in our Nation’s history.

Social Security initially covered retired workers. Later program expansions added dependent and survivor benefits, as well as Disability Insurance (DI). We also administer the Supplemental Security Income (SSI) program, a Federal needs-based program financed through general revenue funds.

### Old-Age, Survivors, and Disability Insurance Program

#### Retirement Insurance Program

The basic benefit structure of retirement benefits has remained essentially unchanged since 1939. When people work and pay Social Security taxes, they earn credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify. Social Security taxes fund the Old-Age, Survivors, and Disability Insurance Trust Funds that we use to pay Retirement, Survivors, and Disability Insurance benefits.

#### Survivors Insurance Program

Survivors benefits provide income to family members of workers who die. Survivors eligible for benefits include widows or widowers, minor or disabled children, and surviving divorced spouses. In 1939, we began paying survivors benefits. Disabled widows and widowers benefits began in 1968.

#### Disability Insurance Program

In 1956, Social Security expanded to include a benefit program for disabled workers ages 50-65. The program expansion included benefits for disabled adult children of retired or deceased insured workers. In 1960, disabled workers of all ages could apply for DI benefits. We pay benefits to people who cannot work because they have a medical condition expected to last at least one year or result in death.
**Supplemental Security Income Program**

SSI is a means-tested program designed to provide a monthly payment to aged, blind, or disabled people with limited income and resources. Adults, as well as children, can receive payments based on disability or blindness.

For more information on all of our programs and benefits, please visit our Understanding The Benefits webpage (www.socialsecurity.gov/pubs/10024.html).

**How Social Security Benefits America for Fiscal Year 2012**

- Over 61 million Social Security beneficiaries and SSI recipients received a combined total of about $810 billion;
- 90 percent of the American population age 65 and over receive Social Security benefits;
- Among elderly Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried individuals rely on Social Security for 50 percent or more of their income;
- About 96 percent of persons aged 20-49 who worked in covered employment had survivors protection for their young children or a surviving spouse caring for the children; and
- Over 1.3 million blind and disabled children under age 18 received SSI payments.

**How We Served America in Fiscal Year 2012**

- Issued 16 million new and replacement Social Security cards;
- Performed 1.5 billion automated Social Security number verifications;
- Posted 220 million earnings items to workers’ records;
- Completed more than 56 million transactions on our National 800 Number;
- Assisted 45 million visitors;
- Registered 2.2 million users for MySocialSecurity our online Social Security Statement;
- Received nearly 5 million retirement, survivor, and Medicare applications;
- Received about 3.2 million initial disability claims;
- Reconsidered 808,521 denied disability applications;
- Completed approximately 2.6 million SSI non-disability redeterminations;
- Completed 443,233 full medical continuing disability reviews;
- Completed nearly 3.2 million overpayment actions;
- Completed 166,020 Appeals Council reviews;
- Conducted 672,352 hearings;
- Completed about 12,300 new Federal court cases;
- Oversaw approximately 5.9 million representative payees; and
- Distributed over $1.3 billion in fees to appointed representatives.
Our Organization

We have about 65,000 employees and deliver services through a nationwide network of about 1,500 offices. We also have a presence in several United States embassies around the globe.

Our field offices and card centers are the primary points of contact for in-person interaction with the public. Our teleservice centers primarily handle telephone calls to our National 800 Number. Employees in our processing centers primarily handle Social Security retirement, survivors, and disability payments, but also perform a wide range of other functions, which include answering telephone calls to our National 800 Number. We depend on State employees in 54 State and territorial Disability Determination Services to make disability determinations. The administrative law judges in our hearing offices and the administrative appeals judges in our Appeals Council make decisions on appeals of denied Social Security and SSI claims. For more information about our components and their functions, visit our current organizational structure webpage (www.socialsecurity.gov/org).
OVERVIEW OF OUR FISCAL YEAR 2012 GOALS AND RESULTS

How We Manage Performance

The Government Performance and Results Act of 1993 (GPRA) established the framework for agencies to communicate progress in achieving their missions. The GPRA Modernization Act of 2010 revised agency strategic plans to align with presidential terms and ensured that agency goals align with broader Federal efforts. We use a performance management framework detailed in our Agency Strategic Plan for Fiscal Year (FY) 2013 - FY 2016 (www.socialsecurity.gov/asp/index.html) to associate our Strategic Goals with underlying objectives, relevant issues, strategies, and key performance measures. Our Strategic Goals are:

1. Deliver Quality Disability Decisions and Services;
2. Provide Quality Services to the Public;
3. Preserve the Public’s Trust in Our Programs; and
4. Strengthen Our Workforce and Infrastructure.

Each year, we publish our Annual Performance Plan (APP), which outlines our current-year tactical plans for achieving the goals and objectives outlined in our Agency Strategic Plan. Our integrated budget and APP shows the connection between funding and planned performance. The President’s FY 2013 Budget Request (www.socialsecurity.gov/budget) included our Annual Performance Plan for FY 2013 and Revised Final Performance Plan for FY 2012 (www.socialsecurity.gov/performance/), which outlined our performance commitments for FY 2012.

The Performance and Accountability Report completes the cycle by showing the connection between our expenditures and achieving our mission, comparing our results to planned performance for each measure contained in the APP, and providing a discussion of the program evaluations we conducted. The chart below reflects our operating expenses by Strategic Goal.

<table>
<thead>
<tr>
<th>FY 2012 Operating Expenses by Strategic Goal (Dollars in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver Quality Disability Decisions and Services</td>
</tr>
<tr>
<td>Provide Quality Services to the Public</td>
</tr>
<tr>
<td>Preserve the Public’s Trust in Our Programs</td>
</tr>
<tr>
<td>Strengthen Our Workforce and Infrastructure</td>
</tr>
</tbody>
</table>

Throughout this document, we identify our three Priority Goals. We developed these goals in response to the President’s challenge for Federal agencies to cut waste, save money, and deliver better service. To deliver a higher-performing government, we set aggressive Priority Goals that we expect to achieve within a 24-month period without new legislation or additional funding.

1. Priority Goal 1: Faster hearing decisions;
2. Priority Goal 2: Reduce Supplemental Security Income (SSI) overpayments; and
3. Priority Goal 3: Increase use of our online services.
Fiscal Year 2012 Performance At-A-Glance

The following tables provide an overview of our performance for our 35 performance measures included in our Annual Performance Plan for FY 2013 and Revised Final Performance Plan for FY 2012 (www.socialsecurity.gov/performance/). We list the measures based on the Strategic Goals and Strategic Objectives they support, note our Priority Goals (PG), mark new measures (NEW), and indicate when final FY 2012 data is not available (TBD).

### Strategic Goal 1: Deliver Quality Disability Decisions and Services

<table>
<thead>
<tr>
<th>Strategic Objective 1.1: Reduce the Wait Time for Hearing Decisions and Eliminate the Hearings Backlog</th>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1a</td>
<td>Complete the budgeted number of hearing requests</td>
<td>875,000</td>
<td>820,484</td>
<td>No</td>
<td>56</td>
</tr>
<tr>
<td>1.1b</td>
<td>Achieve the budgeted goal for SSA hearings case production per workyear</td>
<td>114</td>
<td>111</td>
<td>No</td>
<td>57</td>
</tr>
<tr>
<td>1.1c</td>
<td>Minimize average wait time from hearing request to decision</td>
<td>321 days (September only)</td>
<td>362 days (September only)</td>
<td>No</td>
<td>58</td>
</tr>
<tr>
<td>1.1d</td>
<td>Eliminate the oldest pending hearing requests</td>
<td>Less than 0.5% of pending hearing requests 725 days or older</td>
<td>169 of 113,593 cases remained pending (.15%)</td>
<td>Yes</td>
<td>59</td>
</tr>
<tr>
<td>1.1e</td>
<td>Reduce the percentage of Appeals Council cases pending 365 days or over</td>
<td>Less than 20% of Appeals Council cases pending 365 days or over</td>
<td>18,978 of 161,070 Appeals Council cases remained pending (12%)</td>
<td>Yes</td>
<td>60</td>
</tr>
</tbody>
</table>

PG indicates the measure also supports a Priority Goal.
NEW indicates new performance measure for FY 2012.

### Strategic Objective 1.2: Improve Our Disability Policies, Procedures, and Tools

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2a</td>
<td>Minimize average processing time for initial disability claims</td>
<td>111 days</td>
<td>102 days</td>
<td>Yes</td>
</tr>
<tr>
<td>1.2b</td>
<td>Complete the budgeted number of initial disability claims</td>
<td>3,173,000</td>
<td>3,206,869</td>
<td>Yes</td>
</tr>
<tr>
<td>1.2c</td>
<td>Disability Determination Services cases production per workyear</td>
<td>322</td>
<td>324</td>
<td>Yes</td>
</tr>
<tr>
<td>1.2d</td>
<td>Complete the budgeted number of disability claims at the reconsideration level</td>
<td>787,000</td>
<td>808,521</td>
<td>Yes</td>
</tr>
<tr>
<td>1.2e</td>
<td>Achieve the target number of initial disability claims pending</td>
<td>861,000</td>
<td>707,700</td>
<td>Yes</td>
</tr>
<tr>
<td>1.2f</td>
<td>Achieve the target number of disability claims pending at the reconsideration level</td>
<td>184,000</td>
<td>197,788</td>
<td>No</td>
</tr>
</tbody>
</table>
### Strategic Goal 1: Deliver Quality Disability Decisions and Services

#### Strategic Objective 1.2: Improve Our Disability Policies, Procedures, and Tools

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2g Update the medical Listing of Impairments</td>
<td>Publish five rules for public comment and two final rules</td>
<td>Published three rules for public comment</td>
<td>No</td>
<td>67</td>
</tr>
<tr>
<td>1.2h Increase the percentage of disability cases evaluated using health Information Technology</td>
<td>500% above FY 2011 performance (37,500)</td>
<td>263% above FY 2011 performance (22,671)</td>
<td>No</td>
<td>68</td>
</tr>
<tr>
<td>1.2i Number of Disability Insurance and Supplemental Security Income disability beneficiaries, with Tickets assigned, who work</td>
<td>119,466</td>
<td>Data available July 2013</td>
<td>TBD</td>
<td>69</td>
</tr>
<tr>
<td>1.2j Improve Disability Determination Services decisional accuracy rate for initial disability decisions</td>
<td>97%</td>
<td>Data available January 2013</td>
<td>TBD</td>
<td>70</td>
</tr>
</tbody>
</table>

#### Strategic Objective 1.3: Expedite Cases for the Most Severely Disabled Individuals

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3a Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances</td>
<td>5.5% (September only)</td>
<td>5.8% (September only)</td>
<td>Yes</td>
<td>71</td>
</tr>
</tbody>
</table>

TBD indicates final FY 2012 data not available.
### Strategic Goal 2: Provide Quality Services to the Public

#### Strategic Objective 2.1: Increase the Use of Our Online Services

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1a PG NEW</td>
<td>Increase the percentage of claims filed online</td>
<td>42% (Last quarter only)</td>
<td>44% (Last quarter only)</td>
<td>Yes 72</td>
</tr>
<tr>
<td>2.1b</td>
<td>Complete the budgeted number of retirement, survivors, and Medicare claims</td>
<td>100% (4,918,000)</td>
<td>102% (5,001,092)</td>
<td>Yes 73</td>
</tr>
</tbody>
</table>

#### Strategic Objective 2.2: Increase Public Satisfaction with Our Telephone Services

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2a</td>
<td>Achieve the target speed in answering National 800 Number calls</td>
<td>285 seconds</td>
<td>294 seconds</td>
<td>No 74</td>
</tr>
<tr>
<td>2.2b</td>
<td>Achieve the target busy rate for National 800 Number calls</td>
<td>6%</td>
<td>5%</td>
<td>Yes 75</td>
</tr>
<tr>
<td>2.2c</td>
<td>Maintain the percent of people rating our services as “excellent,” “very good,” or “good”</td>
<td>83.5%</td>
<td>80.9%</td>
<td>No 76</td>
</tr>
</tbody>
</table>

#### Strategic Objective 2.3: Expand the Use of Video Services

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3a NEW</td>
<td>Complete the planned number of video hearings</td>
<td>140,000</td>
<td>153,592</td>
<td>Yes 78</td>
</tr>
</tbody>
</table>

#### Strategic Objective 2.4: Improve the Clarity of Our Notices

There is no performance measure for this objective.
### Strategic Goal 3: Preserve the Public’s Trust in Our Programs

#### Strategic Objective 3.1: Increase Efforts to Accurately Pay Benefits

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1a Complete the budgeted number of Supplemental Security Income non-disability</td>
<td>2,622,000</td>
<td>2,624,170</td>
<td>Yes</td>
<td>79</td>
</tr>
<tr>
<td>redeterminations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1b Complete the budgeted number of full medical continuing disability reviews</td>
<td>435,000</td>
<td>443,233</td>
<td>Yes</td>
<td>80</td>
</tr>
<tr>
<td>3.1c Percent of Supplement Security Income payments free of overpayment and</td>
<td></td>
<td></td>
<td>TBD</td>
<td>81</td>
</tr>
<tr>
<td>underpayment error</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overpayment 95%</td>
<td>Data available</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underpayment 98.8%</td>
<td>Data available</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1d Maintain percent of Old-Age, Survivors, and Disability Insurance payments free of</td>
<td></td>
<td></td>
<td>TBD</td>
<td>83</td>
</tr>
<tr>
<td>overpayment and underpayment error</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overpayment 99.8%</td>
<td>Data available</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underpayment 99.8%</td>
<td>Data available</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Strategic Objective 3.2: Recover Improper Payments

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2a Expand and enhance our debt collection tools</td>
<td></td>
<td></td>
<td>Yes</td>
<td>85</td>
</tr>
<tr>
<td>NEW</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2b Implement Treasury Offset Program for programmatic delinquent debt over 10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>years old</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Strategic Objective 3.3: Maintain Accurate Earnings Records

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3a Reduce the percentage of paper Forms W-2 completed</td>
<td>14%</td>
<td>13%</td>
<td>Yes</td>
<td>86</td>
</tr>
<tr>
<td>3.3b Achieve the target percentage for correctly assigning original Social Security</td>
<td></td>
<td></td>
<td></td>
<td>87</td>
</tr>
<tr>
<td>numbers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Strategic Objective 3.4: Make Our Administrative Operations Even More Efficient

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.4a Receive an unqualified audit opinion on SSA’s financial statements</td>
<td></td>
<td></td>
<td>Yes</td>
<td>88</td>
</tr>
</tbody>
</table>

**PG** indicates the measure also supports a Priority Goal.

**NEW** indicates new performance measure for FY 2012.

**TBD** indicates final FY 2012 data not available.
<table>
<thead>
<tr>
<th>Strategic Goal 4: Strengthen Our Workforce and Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Objective 4.1: Strengthen Our Workforce – Recruit, Train, Develop, and Retain Superior Employees</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1a NEW Recruit and hire veterans and disabled veterans</td>
<td>Veteran Hiring: 26.72%</td>
<td>36.78%</td>
<td>Yes</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td>Disabled Veteran Hiring: 14.59%</td>
<td>15.49%</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>4.1b NEW Employ individuals with targeted disabilities</td>
<td>2%</td>
<td>1.99%</td>
<td>No</td>
<td>91</td>
</tr>
<tr>
<td>4.1c NEW Conduct mandatory employee training on diffusing difficult encounters with the public</td>
<td>Develop the safety and security training curriculum</td>
<td>Identified existing training and developed internal website</td>
<td>No</td>
<td>92</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Objective 4.2: Maintain Secure and Reliable Information Technology Services</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2a NEW Percentage of enterprise-wide systems availability</td>
<td>99.5%</td>
<td>99.9%</td>
<td>Yes</td>
<td>93</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Objective 4.3: Increase Efficiency of Our Physical Infrastructure</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>FY 2012 Target</th>
<th>FY 2012 Actual</th>
<th>Target Achieved</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3a NEW Reduce energy intensity by 30 percent by 2015</td>
<td>7%</td>
<td>Data available January 2013</td>
<td>TBD</td>
<td>94</td>
</tr>
</tbody>
</table>

**NEW** indicates new performance measure for FY 2012.

**TBD** indicates final FY 2012 data not available.
Summary of Fiscal Year 2012 Performance

The following pages highlight the practices and initiatives we used to meet our goals in FY 2012. We discuss key issues that affected our FY 2012 operations and may affect our future operations. We also identify each of our Priority Goals that support our Strategic Goals and Strategic Objectives. We show our overall performance measure results.

**STRATEGIC GOAL 1: DELIVER QUALITY DISABILITY DECISIONS AND SERVICES**

### Strategic Objectives
- Reduce the Wait Time for Hearing Decisions and Eliminate the Hearings Backlog
- Improve Our Disability Policies, Procedures, and Tools
- Expedite Cases for the Most Severely Disabled Individuals

### Priority Goal

**Faster hearing decisions**

**Overall Performance Measure Results**

- Met the target for 8 of 16 measures
- Did not meet the target for 6 of 16 measures
- Final data not available for 2 of 16 measures

For over 50 years, we have helped disabled workers and their families replace income lost due to severe disabilities. Over the last six years, our disability workloads have grown significantly due to the baby boomer population reaching their disability-prone years and a global recession. Since FY 2007, initial disability claim receipts have increased by over 25 percent.

In FY 2012, we received 3,158,421 initial disability claims, the fourth year in a row we received over 3 million claims. Despite this high volume, we decreased our average processing time by seven days compared to FY 2011 (refer to the accompanying chart).

Toward the end of FY 2010, we began experiencing an unanticipated increase in hearings receipts. This trend continued throughout FY 2012 as we received 849,869 requests for hearings, 15,869 more hearings than expected.

The additional administrative law judges (ALJ) we hired and our technology enhancements helped increase our capacity to hear and decide cases. We completed 820,484 hearing requests in FY 2012, over 25,000 more than we completed in FY 2011.

Our annual average of 353 days to issue a hearing decision is over 161 days faster than in FY 2008 (refer to accompanying chart). We remain committed to our goal to reduce the time it takes a person to receive a hearing decision to an average of 270 days, but we need an adequate number of ALJs to reach that goal.
STRATEGIC OBJECTIVE 1.1: REDUCE THE WAIT TIME FOR HEARING DECISIONS AND ELIMINATE THE HEARINGS BACKLOG

In FY 2007, we began implementing our Plan to Eliminate the Hearings Backlog and Prevent its Recurrence (www.socialsecurity.gov/appeals). Since FY 2007, we have adjusted our plan to account for the increase in the number of hearing requests. In FY 2007, we defined an aged case as a case waiting over 1,000 days for a decision. Each year, we lower the threshold for defining an aged case to provide more timely service and eliminate the oldest cases first. We ended FY 2012 with virtually no cases over 725 days old. In FY 2013, our goal is to complete all cases over 700 days old.

Our efforts to reduce wait time for decisions and eliminate our backlog include:

Maximizing Use of National Hearing and Case Assistance Centers: Our National Hearing Centers (NHC) continue to serve as an integral component in eliminating the hearings backlog. These offices conduct all hearings via video conference giving us flexibility to swiftly target assistance to heavily backlogged areas across the country. Our five NHCs have proven to be a cost-effective option to improve service to claimants awaiting a hearing. The NHCs are located in Falls Church, VA; Albuquerque, NM; Baltimore, MD; Chicago, IL; and St. Louis, MO.

Our National Case Assistance Center (NCAC), located in St. Louis, MO, provides decision writing and case preparation assistance to heavily backlogged hearing offices. In FY 2012, the NCAC prepared over 23,000 cases for hearing and wrote over 10,000 decisions. As workloads change, we adjust the NCAC’s work to meet those shifting needs.

Expediting Hearing Decisions: Attorney adjudicators screen cases and, when appropriate, issue fully favorable decisions without the need for an ALJ to conduct a hearing. In FY 2012, we expedited 37,423 fully favorable decisions under this initiative. One component of our screening efforts is our Virtual Screening Unit (VSU). Under the VSU initiative, up to 100 attorney adjudicators review disability hearings cases from some of the most backlogged hearing offices. In FY 2012, we issued 9,639 VSU dispositions.

Reducing the Backlog at the Appeals Council: As we decided more cases at the hearing level, the Appeals Council received more requests for review. Over the past 3 years, the Appeals Council received 179,000 more requests for review than the previous 3-year period, a 62 percent increase. This influx of work resulted in an increase of 35 days to the average wait for an Appeals Council decision in FY 2012 compared to FY 2011. Additionally, we continue to focus on deciding the oldest cases first. We are decreasing the percentage of cases pending over 365 days.

STRATEGIC OBJECTIVE 1.2: IMPROVE OUR DISABILITY POLICIES, PROCEDURES, AND TOOLS

We continue to find ways to improve and modernize our disability process. To provide better service to the public, we are making fundamental changes in the way we request and receive the medical information used to determine disability.

Efforts to improve our disability policies, procedures, and tools to provide better service to the public include:

Updating Our Listing of Impairments: One of the most effective tools used to make disability decisions is the Listing of Impairments (Listings) (www.socialsecurity.gov/disability/professionals/bluebook/listing-impairments.htm). The Listings allow us to determine if a claimant is disabled when his or her impairment meets specified medical criteria, without the need to consider age, education, or work experience. Using the Rule Making process, we revise the Listings’ criteria on an ongoing basis. When updating a Listing, we consider current medical literature, information from medical experts, disability adjudicator feedback, and research by organizations such as the Institute of Medicine. As we update entire body systems, we also make targeted changes to specific rules as
necessary. We, thus, improve our decisions’ consistency and accuracy throughout all levels of the disability process.

Simplifying the Disability Application Process: We simplified our online disability application process and reduced the amount of information we require if a claimant has a condition on our Compassionate Allowances list. In April 2012, we implemented a new electronic authorization process (eAuthorization) for adults filing online disability applications. Disability applicants are now able to complete the application process in a streamlined online session rather than printing, signing, and mailing paper forms SSA-827, Authorization to Disclose Information to the Social Security Administration, to our offices. We plan to expand eAuthorization for all disability applicants whether they file online, at their local office, or over the telephone.

Developing a Disability Case Processing System: The Disability Case Processing System (DCPS) replaces five different legacy systems in the Disability Determination Services (DDS) and Federal disability units with one unified system. DCPS will support consistent case processing, improve quality, and provide seamless workload sharing across State and Federal components. DCPS will provide additional functionality, lay the foundation for a state-of-the-art disability process, and make it easier to implement other important technological changes.

In FY 2012, we began beta testing the initial version of DCPS in the Idaho DDS and plan future releases of DCPS Beta in the Illinois, Missouri, Nebraska, and New York DDSs.

Increasing the Use of Health Information Technology: Obtaining medical records electronically will play a key role in streamlining the disability determination process. In FY 2012, we increased the exchange of medical records to 14 States through the use of health Information Technology (IT) (www.socialsecurity.gov/hit/index.html).

We see enormous potential for health IT to improve service to the public by reducing claim processing time. In FY 2012, we lowered case processing time by approximately 23 percent for those cases containing medical records obtained through health IT compared to cases without health IT. In FY 2012, we sent 32,754 medical requests to our 14 active health IT partners who provided us with access to over 850 medical sources, resulting in 22,670 medical documents.

Improving Employment Support Programs: We continue to improve our efforts to advance the quality and results of our employment support and work incentives planning programs. Disabled beneficiaries who want to work and attain self-sufficiency may receive services and support under the Ticket to Work and Self Sufficiency Program (www.socialsecurity.gov/OP_Home/handbook/handbook.05/handbook-0519.html) and the Vocational Rehabilitation (VR) Cost Reimbursement Program (www.socialsecurity.gov/work/vocrehabtraining.html).

A Ticket is a paper document that we issue to disabled or blind beneficiaries for participation in the Ticket to Work and Self-Sufficiency programs. The number of Tickets assigned, or in use, increased 67 percent from over 200,000 Tickets on May 1, 2008, prior to revising our regulations, to over 340,000 Tickets in July 2012. From May 1, 2008 to August 1, 2012, the number of beneficiaries with Tickets in use who had benefits suspended or terminated because they successfully returned to work increased 223 percent. In FY 2012, Mathematica Policy Research, Inc. completed an evaluation report covering the effects of the 2008 Ticket to Work regulations. We will use the results of the evaluation to identify how we can continue to improve both the Ticket to Work and VR programs.

Developing an Occupational Information System: We need information about work that exists throughout the nation to determine whether claimants’ impairments prevent them from doing not only their past work, but any other work in the United States (U.S.) economy. We currently use the Dictionary of Occupational Titles (DOT) and its companion volume, the Selected Characteristics of Occupations, as our primary sources of information about jobs and job requirements. However, the Department of Labor last updated the DOT in 1991 and has no plans to conduct further updates. We realize using outdated reference materials to make disability determinations is a serious disservice to the public. We are working with the Bureau of Labor Statistics to develop a
tool to replace the DOT with updated occupational information that addresses our specific needs for vocational information. In FY 2013, we will test the feasibility of using the National Compensation Survey platform as a means to gather the data we need to develop an Occupational Information System (www.socialsecurity.gov/disabilityresearch/occupational_info_systems.html)

**STRATEGIC OBJECTIVE 1.3: EXPEDITE CASES FOR THE MOST SEVERELY DISABLED INDIVIDUALS**

We are committed to providing benefits quickly to claimants whose medical conditions are so serious that they obviously meet our disability standards. Our two initiatives, Quick Disability Determinations (QDD) (www.socialsecurity.gov/disabilityresearch/qdd.htm) and Compassionate Allowances (CAL) (www.socialsecurity.gov/compassionateallowances/), use technology to identify claimants with the most severe disabilities and allow us to expedite decisions on those cases while maintaining accuracy. These fast-track initiatives have been two of our greatest successes in recent years. We can approve some cases in a matter of days instead of weeks or months. We continue to refine our QDD screening model and expand the number of CAL conditions used to identify claimants with the most severe disabilities.

We regularly update our disability policies and procedures to keep up with the rapid advances in medical information. Additionally, we work closely with the Department of Defense (DoD) to expedite decisions for Wounded Warriors.

Our efforts to expedite cases for the most severely disabled individuals include:

**Expanding Quick Disability Determinations:** The QDD process uses predictive modeling and computer-based screening tools to screen initial applications. QDD identifies cases where a favorable disability determination is likely, and medical evidence is readily available (e.g., low birth-weight babies, certain cancers, and end-stage renal disease). In FY 2012, we refined the QDD predictive model to increase the number of claimants served while maintaining the high quality of cases selected.

**Expanding Compassionate Allowances:** The CAL process allows us to quickly target the most obviously disabled applicants based on available objective medical information. We award benefits in nearly all CAL cases if we receive confirmation of the diagnosis with objective medical evidence and the applicant meets our non-disability criteria. In FY 2012, we added 65 new conditions involving the immune system and neurological disorders, bringing the total number of conditions in this expedited disability process to 165 medical conditions. We plan to further expand our list of CAL conditions through consultations with medical, research, and advocacy communities. In FY 2012, we also shortened the disability application process for people with CAL conditions so they do not need to provide work and educational histories.

**Increasing Use of Electronic Records Express:** Electronic Records Express (ERE) helps us provide faster service to people applying for disability benefits. It allows medical facilities and educational institutions to electronically submit health and school records to our secure website instead of mailing paper documents. In FY 2012, we received 4.4 million ERE submissions compared to nearly 3.8 million submissions in FY 2011. More information is available in our Electronic Express leaflet (www.socialsecurity.gov/pubs/10046.html).

**Supporting the Military Casualty/Wounded Warrior Initiative:** We collaborated with the Department of Veterans Affairs (VA) and DoD, along with advocates and military treatment facilities, to inform and assist wounded service members and their families who file for disability benefits. We developed and successfully implemented pilot programs to improve medical information sharing between our agencies. These pilots reduced the total time it takes us to adjudicate claims and reduced the number of consultative exams we ordered, resulting in cost savings.

Our Disability Benefits For Wounded Warriors website (www.socialsecurity.gov/woundedwarriors/) includes a Questions and Answers section, a webinar, helpful publications, and other useful links.
Strategic Goal 2: Provide Quality Services to the Public

Strategic Objectives

- Increase the Use of Our Online Services
- Increase Public Satisfaction with Our Telephone Services
- Expand the Use of Video Services
- Improve the Clarity of Our Notices

Priority Goal

Increase use of our online services

Overall Performance Measure Results

- Met the target for 4 of 6 measures
- Did not meet the target for 2 of 6 measures

Over the next 20 years, nearly 80 million people will start receiving retirement benefits. Providing quality services, while handling significant workload increases, is important to us.

In FY 2012, retirement, survivor, and Medicare claims were 30 percent higher compared to FY 2007 (refer to the accompanying chart). To keep up with the sharp increase in demand for our services, we continue to develop more efficient and effective ways to do business.

Over the past five years, we added and improved our online services. The number of retirement, spouse, and Medicare claims filed online was over 7 times higher, or about 1.5 million claims more, compared to FY 2007 (refer to the accompanying chart). Clearly, doing business with us online is becoming a preferred service channel for the public.

In FY 2012, we developed several new, easy-to-use online services allowing us to better handle the significant increase in claims applications. Our goal was to provide applicants and their representatives with a wide variety of online services, including the ability to apply for a range of benefits, update their records, and access information important to them.

We also made improvements to the telephone services in our field and hearing offices, as well as our National 800 Number infrastructure. In addition, we expanded our use of video technology and used plain language principles to simplify the letters we send to the public.

Strategic Objective 2.1: Increase the Use of Our Online Services

We strive to provide the best online services in the Federal Government. In fact, we have the three highest rated electronic services as measured by the American Customer Satisfaction Index: iClaim – our online benefit application, the Retirement Estimator, and the Extra Help with Medicare Prescription Drug Plan Costs application.
Our website provides helpful information about our programs and services to the public, employers, other government agencies, businesses, and stakeholders. Users can conduct business at their convenience and at their own pace, without traveling to a field office and waiting to meet with one of our representatives.

Use of our online services (www.socialsecurity.gov/lineservices) continues to increase with these easy-to-use tools. We expect to increase the percentage of retirement, disability, survivors, and Medicare claims filed online to 48 percent by the end of FY 2013.

We provide much of our online information in Spanish and 14 other languages. Additionally, most of our Internet documents are accessible to anyone who needs to use screen readers, screen magnifiers, or voice recognition software.

Our efforts to improve online services include:

**Expanding Marketing Efforts:** In FY 2012, we continued to promote our online services with our “Boldly Go” marketing campaign. This campaign features celebrity spokespersons Patty Duke and George Takei in a series of eight “Boldly Go” public service announcements. We aired the series on Social Security TV (SSTV) in approximately 1,200 of our field offices. In FY 2012, hundreds of television stations nationwide aired our “Boldly Go” announcements more than 56,000 times. The public viewed our announcements more than 1.6 billion times.

We issued a national press release and posted a video on our YouTube page showing Patty Duke, who turned age 65, applying online for Social Security retirement and Medicare benefits. We also expanded our use of ads displayed on billboards, buses, and in airport terminals.

We have several social media and website features including:

- “Boldly Go” campaign (www.socialsecurity.gov/boldlygo/index.html);
- Facebook page (www.facebook.com/socialsecurity);
- Twitter page (www.twitter.com/socialsecurity); and
- YouTube page (www.youtube.com/socialsecurityonline).

**Launching Online Social Security Statement:** In May 2012, we launched a secure and easy-to-use online Social Security Statement, Get Your Social Security Statement Online (www.socialsecurity.gov/mystatement). The online Social Security Statement is available to people age 18 and older, and provides access to benefit estimates and earnings history. In five months’ time, more than 2.2 million people went online, created a MySocialSecurity account, and viewed their Social Security Statement. Users rated the online experience with a score of 85 on the American Customer Satisfaction Index. The American Customer Satisfaction Index standards state that any application scoring 80 or better is considered a top performing application in terms of customer satisfaction.

In FY 2012, we mailed paper Social Security Statements to approximately 11.4 million workers nearing retirement age (age 60 and older) and about 1 million workers who are turning age 25.

**Improving Services to Our Spanish-Speaking Customers:** The Census Bureau projects the Spanish-speaking population will nearly triple, from 46.7 million to 132.8 million, between 2008 and 2050. Approximately 5.4 percent of our National 800 Number calls are from the Spanish-speaking population. We have
also seen an increase of Spanish-speaking visitors in our field offices. In early FY 2012, we launched our online Spanish retirement application (iClaim). Our Spanish iClaim application received an American Customer Satisfaction Index score of 95.

In FY 2012, we launched a marketing campaign to promote our entire Spanish Language Suite of Online Services (www.socialsecurity.gov/espanol/donfrancisco). We now offer the following online applications in Spanish:

- **Spanish Retirement Estimator** (www.segurosocial.gov/espanol/calculador/);
- **Spanish iClaim application** (www.segurosocial.gov/espanol/plan/sobreelplan.htm); and
- **Spanish Extra Help with Medicare Prescription Drug Plan Costs application** (www.socialsecurity.gov/prescriptionhelp/index_sp.htm).

In FY 2012, we targeted a series of four public service announcements to Spanish-language stations. Stations nationwide aired these announcements more than 17,000 times. The public viewed the announcements more than 600 million times. We posted Spanish information on various websites as links, tweets, Facebook posts, blogs, and e-newsletters with an audience of over 240,000 people.

**Mandating Online Appeals:** In FY 2012, we simplified our Internet Disability Appeal application (iAppeals) iAppeals (www.socialsecurity.gov/appeals/appeals_process.html) by clarifying the language and consolidating the instructional pages to enhance the user experience. We also added the electronic signature to the medical release form in iAppeals to move the application to a more complete electronic process.

Once we simplified the online application process, we required appointed representatives requesting direct fee payments to file their clients’ appeal requests online using iAppeals. Our outreach efforts to these eligible appointed representatives included issuing letters to over 25,000 representatives, organizing an advocates meeting, producing and distributing educational fliers, and sponsoring an iAppeals webcast. Representatives viewed the webcast over 6,000 times.

**Expanding Online Services for Representatives:** Registered appointed representatives can access their clients’ disability application information online. Appointed representatives who want to electronically submit medical evidence can do so using **ERE (www.socialsecurity.gov/ere/).**

**Supporting Americans Living Abroad:** In FY 2012, we improved our online tools explaining how payments may be affected if a person lives, or plans to live, outside the U.S. These tools include our:

- **Payments Abroad Screening Tool** (www.socialsecurity.gov/international/payments.html) providing information on whether the user will receive benefits if they leave the U.S.; and
- **Nonresident Alien Tax Screening Tool** (www.socialsecurity.gov/international/AlienTax.html) informing the user if we will withhold a nonresident alien tax from their benefit.
STRATEGIC OBJECTIVE 2.2: INCREASE PUBLIC SATISFACTION WITH OUR TELEPHONE SERVICES

Our National 800 Number service (www.socialsecurity.gov/pgm/services.htm) remains the most popular option for conducting business with us. In FY 2012, we processed more than 56 million transactions through our National 800 Number and over 79 million callers dialed the National 800 Number. Callers can speak to a telephone agent during business hours or use our automated services that are available 24 hours a day, 7 days a week.

In FY 2012, we enhanced our telephone services by:

Replacing Our National 800 Number Infrastructure: We continued to enhance our automated telephone services so that more people can successfully complete their business with us by phone. In FY 2012, we began installation of our new National 800 Number telecommunications infrastructure. The new technology helps us forecast call volumes, anticipate staffing needs, and better distribute incoming calls across the network so callers can quickly reach telephone agents.

Streamlining National 800 Number Menus: We used customer satisfaction survey data to identify the points of service that create long wait times and reduce the number of prompts callers must navigate. In FY 2012, we completed the design for a new system which will overhaul the National 800 Number menus and speech recognition system. We will implement the new system as part of the National 800 Number infrastructure in FY 2013.

Providing Real-Time Assistance to Online Visitors: We are exploring the use of web support technologies to improve the level of customer service to our online users. As part of a click-to-communicate (C2C) initiative, we sought input from the public on our plan to use three web support technologies: Click-to-Talk, Screen Sharing, and Instant Messaging. In FY 2013, we will pilot software to assist us in developing a strategy for incorporating web support technologies into our business process. We will begin planning and analysis for C2C in FY 2014, as resources allow.

Completing the Telephone System Replacement Project: In FY 2012, we completed the multi-year project to replace our aged telephone systems and to better manage calls in field and hearing offices across the country.

STRATEGIC OBJECTIVE 2.3: EXPAND THE USE OF VIDEO SERVICES

Video technology is an important part of our efforts to reduce the hearings backlog. We use this technology to help balance workloads across the country, reduce travel for the public and our employees, and better serve remote areas. Video technology also provides an efficient and innovative way to provide service to segments of the public with unique service needs, such as hearing participants, appointed representatives, American Indian Tribal centers, and VA hospitals.

We expanded our video services with the following initiatives:

Increasing Video Hearing Capacity: Video technology reduces the need for our staff to travel between offices and to remote sites to hold hearings, thus decreasing travel costs and allowing more time for our judges to decide cases. Video hearings also give us the flexibility to distribute our hearing workload more efficiently.

In FY 2012, we held 23 percent of our hearings by video – an increase of more than 23,800 video hearings compared to last year. We are confident that this positive trend will continue.
Expanding Representative Video Project: This project allows attorney and non-attorney appointed representatives to participate in hearings from their offices using their own video conferencing equipment. In FY 2012, we had 52 approved representatives hold over 3,800 hearings through the Representative Video Project, an increase of 42 percent from FY 2011. We are adding more sites each year as representatives see the value of this initiative.

Using Video Service Delivery: Video technology allows real-time conferencing between two or more sites. We offer two types of video service delivery (VSD): (1) office-to-office; and (2) office-to-video partner site. An office-to-office connection allows a field office to assist another busy or understaffed office via video. Office-to-video partner enables us to provide service to people located at remote sites, such as American Indian Tribal centers, local community centers, senior centers, hospitals, and homeless shelters, as well as improve service in our busy inner-city offices and rural areas. VSD reduces in-office wait time as well as travel time.

In FY 2012, we had video units in 449 sites, and we held 97,000 interviews using VSD.

Displaying Social Security TV: We use SSTV as a communications tool to improve the public’s experience in our field offices. SSTV displays informational broadcasts in several languages in our reception areas to provide office visitors with information about our programs and services. In FY 2012, we completed SSTV installation in all our field office locations. We have the capability to provide locally tailored messaging, dynamically created content, emergency broadcasts, and public service announcements – all contributing to a more informative, meaningful, and pleasant office experience.

STRATEGIC OBJECTIVE 2.4:
IMPROVE THE CLARITY OF OUR NOTICES

Notices are one of the primary ways we communicate with the public. Our notices communicate decisions, payment amounts, and other important information including a person’s rights and responsibilities under our programs. In FY 2012, we issued approximately 250 million notices to the public explaining the programs that we administer. We also issued about 4 million Spanish notices. In FY 2012, we improved the readability, clarity, and tone of SSI notices explaining payment changes, and notices advising recipients their benefits will stop due to work.

Our notice clearance process ensures all new notice language complies with our notice standards, clear writing guidelines, and the Plain Writing Act of 2010.

Our efforts to improve the clarity of notices include:

Improving Notices: In FY 2012, we improved the readability, clarity, and tone of our work continuing disability reviews due process notices. We also improved the readability, clarity, and tone of the 48 highest volume paragraphs contained in our notices. In addition, we continued to develop a new enterprise communications system that will enable us to produce notices more efficiently and effectively. The new system will provide notices in a number of formats beyond normal print, such as audio, digital photography, Braille, and electronic.

Surveying Notice Options for the Blind or Visually Impaired: Our Special Notice Option (SNO) for the Blind and Visually Impaired (www.socialsecurity.gov/notices) allows people to receive notices in various formats, including follow-up phone calls, Braille, Microsoft Word files on compact discs (CD), large print, and audio CDs.

The FY 2011 SNO survey results showed that, overall, the SNO formats were effective in meeting customer needs. The overall satisfaction rate for all formats combined was 92 percent rating customer satisfaction as “good,” “very good,” or “excellent.”
STRATEGIC GOAL 3:
PRESCRIBE THE PUBLIC’S TRUST IN OUR PROGRAMS

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Priority Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase Efforts to Accurately Pay Benefits</td>
<td>Reduce Supplemental Security Income overpayments</td>
</tr>
<tr>
<td>• Recover Improper Payments</td>
<td></td>
</tr>
<tr>
<td>• Maintain Accurate Earnings Records</td>
<td>Overall Performance Measure Results</td>
</tr>
<tr>
<td>• Make Our Administrative Operations Even More Efficient</td>
<td>• Met the target for 5 of 8 measures</td>
</tr>
<tr>
<td></td>
<td>• Final data not available for 3 of 8 measures</td>
</tr>
</tbody>
</table>

We pay over $65 billion in benefits each month. Our most important responsibility is to accurately and promptly pay these benefits to entitled individuals. To preserve the public’s trust in our programs, we must continue to invest in enhanced program integrity activities. Together, our stewardship and service missions serve a common purpose – making our programs more effective and efficient.

We make few errors in the administration of our retirement and survivors programs, with an overpayment accuracy rate in recent years between 99.7 percent and 99.9 percent (refer to the accompanying chart). Our disability insurance (DI) program is more complex, and the improper payments that occur are generally related to the complexity of these programs. Our DI program overpayment accuracy rate has been between 98.5 and 99.3 percent over the past several years.

Our SSI program provides payments to disabled adults and children with limited income and resources. SSI payments can change from month to month based on changes in a recipient’s income, resources, and living arrangements. Our SSI overpayment accuracy reflects this complexity. To demonstrate our commitment to payment accuracy, we made SSI overpayments a Priority Goal.

We are improving our SSI overpayment accuracy. FY 2012 was the third year in a row we conducted over 2.4 million redeterminations. In FY 2008, we conducted just 1.2 million redeterminations.

Redeterminations are a review of SSI recipients’ income and resources to ensure they are receiving the correct monthly benefit payment. This focus on redeterminations has helped improve SSI overpayment accuracy, which rose from 89.7 percent in FY 2008 to 92.7 percent in FY 2011 (refer to the accompanying chart).

For more information on overpayments, major causes, and corrective actions, please refer to the Improper Payments Information Detailed Report located in our Other Accompanying Information section of this report.
STRATEGIC OBJECTIVE 3.1:
INCREASE EFFORTS TO ACCURATELY PAY BENEFITS

This Strategic Objective aligns with our second Priority Goal to reduce SSI overpayments. We have demonstrated our program integrity tools have a positive effect on our program accuracy.

Some of our most effective program integrity tools are:

- Conducting continuing disability reviews;
- Conducting SSI Redeterminations;
- Using Predictive Modeling in the SSI Redetermination Process;
- Expanding the Access to Financial Institutions Initiative;
- Promoting the Use of the SSI Telephone Wage Reporting System;
- Expanding the Use of Electronic Death Data Exchange with Foreign Governments; and
- Using Electronic Data Exchanges.

For details on these program integrity efforts, please refer to the Improper Payments Information Detailed Report located in our Other Accompanying Information section of this report.

STRATEGIC OBJECTIVE 3.2:
RECOVER IMPROPER PAYMENTS

Although we strive to pay benefits accurately and timely, the complexity of our programs can lead to improper payments. When we identify an overpayment, we work to collect the debt. In FY 2012, we recovered $3.26 billion of Social Security and SSI overpayments from overpaid beneficiaries. We use benefit withholding to recover overpayments from debtors currently receiving payments. When overpaid individuals are no longer receiving benefits, we offer them the opportunity to repay the debt via monthly installment payments. If the debtor does not agree to an acceptable repayment plan or defaults on an established agreement, we use our external collection techniques to recover the overpayments.

We enhanced our debt collection program by using established external debt collection tools. These tools include Tax Refund Offset and Administrative Offset administered through the Treasury Offset Program (TOP) at the Department of the Treasury (Treasury). Our participation in TOP allows us to offset Federal tax refunds, Federal annuities, and Federal salaries to collect our delinquent debts. We also report delinquent debts to credit bureaus and use Administrative Wage Garnishment, which allows us to garnish a debtor’s private sector wages.

We will continue improving our debt collection program by:

Maximizing Our Use of Proven Debt Collection Tools and Techniques: Referral of delinquent debts to TOP is an effective recovery method for individuals who are no longer entitled to program benefits. From our initial implementation in 1992 through FY 2012, we recovered approximately $2.158 billion through TOP. In 2009, Treasury enhanced TOP by amending its regulations to allow for collection of legally enforceable, non-tax debts beyond the prior 10-year statute of limitation. In FY 2011, we published regulatory changes authorizing us to refer delinquent debts over 10 years to TOP. In FY 2012, we implemented systems changes, began notifying our debtors, and, as a result, started referring their debts to Treasury for collection.

Implementing New Tools for Debt Collection: We have statutory authority to offset eligible State payments due to debtors as a way to collect delinquent debts. To offset the payment, the issuing State must have previously entered into a reciprocal agreement with Treasury. In FY 2011, we published the regulatory changes
authorizing us to offset eligible State payments issued by participating States. In FY 2013, development will begin to implement systems enhancements to employ State payment offset and increase our TOP collections.

For details on recovering improper payments, please refer to the Improper Payments Information Detailed Report located in our Other Accompanying Information section of this report.

**STRATEGIC OBJECTIVE 3.3: MAINTAIN ACCURATE EARNINGS RECORDS**

The Social Security number (SSN) allows us to properly credit a worker’s earnings. In FY 2012, we completed more than 5 million original and 11 million replacement Social Security card applications. We also verify SSNs more than 1.5 billion times a year through a variety of secure electronic exchanges with public and private organizations. In FY 2012, we completed and posted more than 220 million items to workers’ records.

Maintaining accurate earnings records is resource intensive and highly complex. We base Old-Age, Survivors, and Disability Insurance (OASDI) benefit payments on a worker’s lifetime earnings, so it is critical that we maintain accurate earnings records and credit the correct amount of earnings to the right person.

Some of our key efforts to promote accurate earnings records are:

**Increasing Electronic Wage Reports:** Paper wage reports are more error-prone, labor intensive, and expensive to process. We are working to eliminate paper wage reports. In FY 2012, we reduced the amount of paper received by nearly 400,000 paper wage reports and over 3 million paper Forms W-2 compared to FY 2011.

We encouraged employers and third party submitters to use our Business Services Online (www.socialsecurity.gov/bso/bsowelcome.htm) Electronic Wage Reporting Suite of Services to electronically file Forms W-2 for their employees and customers. We continued to keep employers informed about our online Electronic Wage Reporting through promotional materials, payroll conferences, articles and trade publications, and direct contact.

**Strengthening the Social Security Number Application Process:** The SSN Application Process (SSNAP) is a web-based system we use to record information and evidence people submit during the interview for an SSN. In FY 2012, we revised SSNAP to guide users through the mandatory in-person interview for applicants who are age 12 or older and applying for their first SSN. SSNAP helps technicians locate a previously assigned SSN to prevent us from assigning multiple SSNs to the same person.

**Supporting E-Verify:** We worked with Department of Homeland Security (DHS) to make its E-Verify program more efficient and easier to use. E-Verify is a voluntary DHS program that allows registered employers to electronically verify the eligibility of newly hired employees to work in the U.S. Our responsibility is to verify whether the information employers submit in E-Verify matches our records. In addition, our field office and National 800 Number staff help resolve issues with SSA records when the data provided by an employer does not match our records.

In FY 2012, we assisted DHS in processing 22.9 million verifications of eligibility for employment in the U.S. More information is available on the U.S. Citizenship and Immigrations Services E-Verify website (www.dhs.gov/E-Verify).

**STRATEGIC OBJECTIVE 3.4: MAKE OUR ADMINISTRATIVE OPERATIONS EVEN MORE EFFICIENT**

We are committed to sound management practices. As responsible stewards, we continually review our business processes and use technology to make our operations more efficient. We continue to seek new ways to increase our efficiency.
In accordance with Executive Order 13589, *Promoting Efficient Spending*, we examined the key administrative areas targeted by the Executive Order and identified ways to cut costs where possible and eliminate practices that are outdated or unnecessary. Even prior to the issuance of the Executive Order, we took steps to reduce expenditures in many administrative areas, identifying opportunities to promote efficient and effective spending.

We made our administrative operations more efficient by:

**Increasing Use of Technology as Alternatives to Travel:** We significantly increased the use of video hearings to reduce travel expenses while simultaneously handling more hearings, transferring workloads between locations, and providing better service to claimants in remote areas. In FY 2012, we reduced training travel costs through Distance Learning Technology, an initiative that replaces some face-to-face training with video training.

**Conducting Onsite Security Control and Audit Reviews:** We continue to conduct ongoing Onsite Security Control and Audit Reviews (OSCAR) in our offices. The OSCAR process ensures our offices follow established security policies and procedures and that management controls are in place to deter and detect waste, fraud, and abuse. We require office managers to submit a corrective action plan providing details on the actions they will take to correct any deficiency cited during the review. We monitor these corrective action plans to ensure we address and resolve each deficiency.

**Refreshing Our Open Government Plan:** In April 2012, we published our online [Open Government Plan 2.0](http://www.socialsecurity.gov/open/story-2012-04-09-open-government-plan2.html), an updated version of our original 2010 plan. The Open Government Plan is our framework for incorporating the principles of transparency, participation, and collaboration into our plans for achieving our mission. The new plan highlights successful completion of planned actions from our previous plan and reflects our commitment to increased transparency.

**Saving on Acquisitions:** We spend about $1 billion annually to obtain mission essential goods and services. We saved approximately $155 million in FY 2012 primarily through negotiations and by requesting discounts from vendors with established ordering vehicles (e.g., General Services Administration (GSA) schedule contracts, Blanket Purchase Agreements).
STRATEGIC GOAL 4: STRENGTHEN OUR WORKFORCE AND INFRASTRUCTURE

Strategic Objectives

- Strengthen Our Workforce – Recruit, Train, Develop, and Retain Superior Employees
- Maintain Secure and Reliable Information Technology Services
- Increase Efficiency of Our Physical Infrastructure

Overall Performance Measure Results

- Met the target for 2 of 5 measures
- Did not meet the target for 2 of 5 measures
- Final data not available for 1 of 5 measures

The landscape of the Federal workplace and its workforce continues to change, as do the needs of the public that we serve. We must be prepared to meet business demands by having a diverse, highly skilled, and agile workforce. Technological advances have changed the way the public conducts business with us. Technology has not only changed our service delivery methods, but it has also changed our physical workplace. The advent of portable electronic work is changing our traditional business models.

Our dedicated employees and State DDS partners enable us to sustain compassionate public service. One of our challenges continues to be the loss of institutional knowledge from the retirement of our employees. To strengthen our workforce, we recruit, train, develop, and retain superior employees. Our recruitment and retention efforts attract a multi-generational, multi-cultural workforce with the competencies needed for our mission critical positions.

Our rich talent pool exists because we embrace diversity. For example, in FY 2012, we received the President’s Veterans Employment Initiative Independent Agency Award for Outstanding Results for our veteran hiring practices. Over a quarter of our new hires, in both FY 2011 and FY 2012, were veterans (refer to the accompanying chart). We have also been successful in recruiting and hiring disabled veterans (refer to the accompanying chart).

Our goal to develop leaders at all levels ensures our continued success. We are often cited as a model for best practices in leadership development. We continually enhance our leadership and career development programs. We remain committed to creating an environment that fosters a learning organization and the development of talent.

Each year since 2007, our employees have ranked us in the top 10 Best Places to Work in the Federal Government (www.bestplacetowork.org/BPTW/rankings/).

While we have a long history of caring employees and high productivity, process improvements alone cannot offset the significant increases in our workloads and loss of staff. To meet our service delivery challenge, we rely on a large and complex IT infrastructure.
This infrastructure includes very sensitive national databases, hundreds of software applications, large back-end computer platforms, thousands of networked computers, printers, telephones, and other devices. Key to our success is maintaining secure and reliable IT services. Ensuring the privacy and security of all personal information is critical to maintain the public’s trust.

In addition, we strive to provide a professional, safe, and secure environment for our workforce and the public while working toward achieving even greater savings by minimizing waste and reducing energy consumption.

**STRATEGIC OBJECTIVE 4.1:**
**STRENGTHEN OUR WORKFORCE – RECRUIT, TRAIN, DEVELOP, AND RETAIN SUPERIOR EMPLOYEES**

Retirements continue to be the primary reason for our loss of employees. By 2015, almost 33 percent of our workforce, including 48 percent of our supervisors, will be eligible to retire. In FY 2012, we lost over 3,600 employees due to retirement and other reasons. Like many Federal agencies, we face the challenge of a diminishing workforce while simultaneously facing an increasing volume of work.

Our strategies to maintain a strong workforce help us achieve our mission. We will continue to strengthen our workforce by:

**Using Diversity and Inclusion:** We have a long-standing record of being one of the most diverse public sector Federal agencies. We continually strive to recruit, promote, and retain a highly skilled, diverse workforce that draws from all segments of society. Women constitute 68 percent of our workforce. Our minority representation stands at 49 percent.

In FY 2012, we instituted a new Diversity and Inclusion Council to implement our agency’s *Diversity and Inclusion Strategic Plan*. The Council includes senior executive level representatives from each of our components, union officials, management association officials, and our eight advisory council chairpersons. The objective of the Council is to develop, define, and disseminate diversity messages and practices throughout the agency. Council members serve as role models to champion diverse perspectives and inclusive behaviors.

**Employing Veterans and Individuals with Disabilities:** We established plans to address the employment of veterans and individuals with disabilities. These plans help integrate proven practices for recruitment, development, support, and retention of veterans and individuals with disabilities into our ongoing human capital strategies.

**Enhancing Career Development Programs:** We have one of the most robust career development programs in the Federal sector. We offer three distinct programs to develop future leaders. These programs include the Senior Executive Service Candidate Development Program, the Advanced Leadership Program, and the Leadership Development Program.

**Improving Learning Opportunities:** We established more innovative training solutions, such as virtual conferences, video conferencing, and training simulations. We also developed a new workshop entitled *Personal Success Strategies* that focuses on such topics as communication, etiquette, teambuilding, listening, and collaboration.

**Implementing Safety and Security Training:** The safety of our employees and visitors to our offices has always been a top priority. We ban from our facilities members of the public who assault or seriously threaten our employees. We provide employees important reminders of our physical security policies and procedures. As our employees must deal with an increasing number of threats, we are developing a safety and security training curriculum to help our employees deal with difficult visitors.

We also provide annual systems security training for our employees and contractors. This training raises the awareness of employees and contractors regarding SSA’s information systems security policies and procedures.
STRATEGIC OBJECTIVE 4.2:
MAINTAIN SECURE AND RELIABLE INFORMATION TECHNOLOGY SERVICES

We are committed to protecting the privacy and security of personal information.

We developed privacy policies for social media tools and emerging technology. These policies are essential for maintaining the public’s trust as they interact with us through social media.

The American Recovery and Reinvestment Act provided us with $500 million in administrative funding for our National Support Center. This new facility will ensure that we protect and maintain our vital IT infrastructure.

The GSA plans to complete the construction and final building commissioning in FY 2015. More information is available on our American Recovery and Reinvestment Act webpage (www.socialsecurity.gov/recovery/).

We maintained secure and reliable IT services by:

**Enhancing Our Infrastructure:** We completed infrastructure changes to restore national IT operations within one day in the event of a disaster affecting either of our two data centers. In FY 2012, we implemented several technologies including high-speed disk replication and dynamic load balancing with high bandwidth connectivity between data centers. We also increased data center capacity and automatic failover and staging systems.

We continue to test our critical system recovery processes on an annual basis.

**Protecting Our Systems and Data:** We deployed tools and implemented techniques to maintain privacy and protection of our data, systems, and business processes. We continue to strengthen our information security program to meet the standards and requirements of the Federal Information Security Management Act of 2002 by training our employees and implementing effective cyber security technologies.

**Improving IT Cost and Performance:** We used proven new technologies to lower IT costs and improve performance. As part of our capital planning and investment control processes, we evaluated the cost of IT projects to their return on investment. We appropriately adopt new technologies, which provide stable and high performing environments. In FY 2012, we implemented Service-Oriented Architecture technology to enhance code reusability and to reduce development costs.

**Modernizing Older Software Applications:** We incrementally modernize our older software applications based on business opportunity and technical risk. We evaluate current software applications by how they meet strategic business goals and conform to our Enterprise Architecture plans. We are increasing the number of open source software applications in use.

In FY 2012, our modernization efforts included the following enhancements:

- Converted Client Server applications to more modern web technologies;
- Renovated a portion of the Earnings process to implement next-generation database technology;
- Developed a strategy for converting our existing database architecture; and
- Converted the Representative Payee database from a legacy database to a modernized database.

**Maintaining Systems Performance While Transitioning to Our New Data Center:** As we prepare for the move to our new National Support Center in 2015, we are implementing several infrastructure enhancements to ensure continued system performance. These enhancements include: isolating our pre-production and network environments from our core computing environment; reducing the number of operating systems we support; implementing additional virtualization technologies wherever technically feasible and cost-effective; and configuring tiered architectures to meet application cost and performance requirements.
STRATEGIC OBJECTIVE 4.3:
INCREASE EFFICIENCY OF OUR PHYSICAL INFRASTRUCTURE

We have a responsibility to the public to conduct business in an efficient, economical, and environmentally sound manner. We are reviewing our current office structure to identify opportunities to consolidate offices and reduce our carbon footprint. Facility closures or consolidations resulted in cost savings of nearly $6.1 million in FY 2012. Cancellations of previously planned lease acquisitions resulted in cost avoidance of approximately $5.5 million in FY 2012. We are working to achieve even greater savings by minimizing waste and reducing energy consumption.

In an effort to meet this responsibility, we recycled and purchased energy efficient lighting, electronics, and appliances. We continued to provide sustainable acquisition language in our contracts. We began these practices before release of Executive Order 13423, Strengthening Federal Environment, Energy, and Transportation Management, which directed Federal agencies to improve their environmental, energy, and transportation processes.

In FY 2012, to further increase the efficiency of our physical infrastructure we:

- Installed two white cool roofs with high quality insulation to reduce energy costs;
- Installed a solar parking canopy, with four electric vehicle charging stations;
- Reduced the amount of time the lights stayed on by one and a half hours every weekday at the headquarters facility; and
- Turned off the heating, ventilation, and air conditioning equipment in the building in the evenings to save on heating and cooling costs while the buildings have little to no occupancy at the headquarters facility.

In support of Executive Order 13423, we replaced 100 percent of our gasoline vehicles eligible for replacement with alternative fuel or low greenhouse gas emissions vehicles. As a result of our actions, we rank fifth in reducing petroleum and second in increased alternative fuel usage among 21 Federal agencies. We continue to find new and innovative ways to expand our “green” programs and use “green” solutions to improve our environment.

We increased the efficiency of our physical infrastructure by:

**Greening Excess Property:** We continue to participate in the “green” initiative that provides an environmentally sound way to reuse excess equipment and furniture. In FY 2012, we donated over 8,400 central processing units and over 1,200 monitors to local schools or to the Computers for Learning program. In addition, we sent over 8,200 equipment items and over 800 furniture items to the GSA for potential reuse.

**Greening Our Fleet:** One hundred percent of our new vehicle purchases are alternative fuel vehicles. Nationwide, we converted over 70 percent of our light-duty vehicles to alternative fuel vehicles, and at our headquarters, we converted 94 percent of these vehicles. We will continue to increase consumption of alternative fuels by 10 percent and reduce petroleum consumption by 2 percent annually. To expand our “green” programs in FY 2012, we purchased more renewable energy for our headquarters buildings, helping us to further reduce our greenhouse gas emissions.

**Recycling and Redesigning Waste:** In FY 2012, we improved our recycling process at our headquarters’ complex to increase the amount of recyclable materials we divert from waste. We also deployed new recycling stations in high visibility areas with more foot traffic than our previous recycling centers. We are exploring the possibility of composting cafeterias’ waste from several of our facilities.
Purchasing and Managing Environmentally Sound Electronics: We purchased desktop computers, laptops, and monitors that are silver-rated or better by the Electronic Product Environmental Assessment Tool. We implemented power management on desktop and laptop computers, which allows computers to revert to the “sleep” mode during periods of inactivity, reducing power usage and greenhouse gas emissions.

Converting to Sustainable, “Green” Energy Sources: We continued to explore sustainable energy sources, like solar and wind, and to use alternative sources where economically feasible. We also monitored our offices to ensure we met energy efficiency standards.
Looking Forward – Facing Our Challenges

While we continue to make progress in achieving our Strategic Goals and Objectives, we have significant challenges ahead. Due to the economic downturn and the aging of the baby boomers, our workloads remain high. Addressing this workload boom, while reducing our improper payments, is clearly our biggest challenge. In FY 2012, we received over 565,000 more initial disability claims and over 260,000 more hearing requests compared to FY 2008, representing increases of 22 percent and 44 percent, respectively.

The retirement wave and the disproportional number of our employees at or near retirement age will test our ability to handle these growing workloads. We ended FY 2012 with over 6,500 fewer SSA and DDS employees than we had at the beginning of FY 2011. Our challenges will be exacerbated if we are not properly funded in FY 2013 and beyond.

Sound planning and our employees’ hard work have served us well as we continue to take on these challenges. To help States with mounting disability claims, we will continue to utilize our Extended Service Teams. The Extended Service Teams are located in DDSs that have a history of good quality and high productivity. These centralized DDS teams will help us reduce the initial claims backlog as we electronically shift claims to them from the hardest hit DDSs. In FY 2012, the Extended Service Teams completed over 65,000 claims.

From a more long-term perspective, we continue developing our Disability Case Processing System. This system will merge the current State and Federal DDSs systems into one unified system. In September 2012, we began a pilot test in the Idaho DDS. During FY 2013, we will test in the Illinois, Missouri, Nebraska, and New York DDSs before we roll out nationally.

Reducing improper payments remains one of our biggest challenges. The President’s FY 2013 budget includes several legislative proposals that will simplify and streamline how we do our work, allowing us to avoid many of the improper payments that occur today. The Work Incentives Simplification Pilot proposal will allow us to conduct a pilot project that examines the effects of replacing complex Disability Insurance work incentive provisions with a clear, simple, unified process that is both easier to understand and easier to administer. Another proposal related to workers’ compensation will allow us to develop and implement a system to collect information on workers’ compensation recipients from States and private insurers. We will use this information to adjust benefits as appropriate to prevent improper payments.
How We Ensure Our Data Integrity

We remain committed to providing clear, reliable, and valid data for management decision-making and oversight. We have internal controls in place to ensure that our data are quantifiable, verifiable, and secure. Our internal systems and controls include:

- Audit trails;
- Integrity reviews;
- Separation of duties;
- Restricted access to sensitive data;
- Reviews at all levels of management; and
- Validation and verification in our System Development Lifecycles (SDLC).

We designed these controls to safeguard the integrity and quality of our vast data resources and provide assurances that our data contain no material inadequacies. These same controls support the Commissioner’s Federal Managers’ Financial Integrity Act Assurance Statement. Refer to the Systems and Controls section of this report on page 47 for more information about the Federal Managers’ Financial Integrity Act.

DATA INTEGRITY SYSTEMS AND CONTROLS

We gather data for our performance measures using automated management information and other workload measurement systems.

In FY 2010, we initiated a new data quality program designed to assess, measure, and monitor the quality of performance data. We evaluate the data in terms of four quality dimensions:

- Accuracy – measuring how well data adheres to specification (e.g. definitions, rules, and policies);
- Consistency – measuring consistency in internal and external reporting of data;
- Completeness – measuring missing occurrences or attributions of the data; and
- Timeliness – measuring the currency of the data (i.e., data are up-to-date and reporting occurs on time).

We conduct these quality evaluations based on established internal methodologies. As we introduce new performance measures, we perform a comprehensive assessment of management information data using these four quality dimensions. After the initial assessment, we continuously monitor the data to make sure we are maintaining high quality performance data. Continuous monitoring allows us to follow trends in data quality and proactively remediate potential data quality issues.

In FY 2012, we evaluated and verified data for the following three performance measures under this quality program:

- 1.1a: Complete the budgeted number of hearing requests;
- 1.3a: Achieve the target percentage of initial disability cases identified as Quick Disability Determinations or Compassionate Allowances; and
- 2.1a: Increase the percentage of claims filed online.

Also, the data for several accuracy and public satisfaction measures come from surveys and work samples, which provide confidence levels of 95 percent or higher.
The Audit Trail System (ATS) enables us to execute our fiduciary responsibility by ensuring we protect Social Security records and OASDI Trust Fund monies from improper use. ATS collects and maintains electronic transactions entered into our programmatic systems allowing us to retrieve transactions for the purpose of deterring, detecting, and investigating instances of fraud and abuse.

In addition, we have the Comprehensive Integrity Review Process (CIRP), which serves as our primary oversight tool to protect against waste, fraud, and abuse of our information systems. CIRP is one of the ways we fulfill our obligation to comply with Federal laws, such as the Federal Managers’ Financial Integrity Act, that mandate a system of internal controls. CIRP proactively identifies suspect and potentially fraudulent cases for management review.

The SDLC is a process used to develop information systems. The SDLC documents required activities and outlines a consistent set of development tasks for Project Managers to follow. These tasks help support the integrity of our data by ensuring systems are built using the tools and methodologies that have been established as industry and our best practices.

### AUDIT OF OUR FY 2012 FINANCIAL STATEMENTS

The Chief Financial Officers Act of 1990 requires the Office of the Inspector General (OIG), or an independent external auditor that it selects, to audit our financial statements. The OIG selected Grant Thornton, LLP to conduct the FY 2012 audit. The audit concluded that our financial statements present fairly, in all material respects, our financial position. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Both the OIG’s transmittal letter and the Grant Thornton, LLP audit report appear in the Auditor’s Reports section of this report.

### ROLE OF THE OFFICE OF THE INSPECTOR GENERAL

The OIG plays a key role in protecting our programs and operations from waste, fraud, and abuse by conducting independent and objective audits, evaluations, and investigations. The OIG provides timely, useful, and reliable information and advice to agency officials, Congress, and the public.

The OIG’s Office of Audit conducts performance audits of our programs and operations and makes recommendations to make sure we achieve our program objectives. In addition, the OIG conducts audits of our performance indicators to ensure our established performance measures comply with GPRA. In FY 2012, the OIG issued two audits that evaluated three of our GPRA performance indicators (SSI and OASDI payments free of overpayment and underpayment error and individuals who do business with us rating the overall services).

The reports are:


The objectives of these audits were to:

- Comprehend and document our sources of data for the specific performance measure the OIG selected for review;
- Identify and test critical controls (both electronic data processing and manual) of systems that generated the specified performance data;
Test the adequacy, accuracy, reasonableness, completeness, and consistency of the underlying data for the specified performance measure; and

Recalculate each performance measure to ascertain its accuracy.

The OIG did not identify any significant findings related to the internal controls, adequacy, accuracy, reasonableness, completeness, and consistency of the underlying data for the three performance indicators audited.

These and other OIG reports are located on the Office of the Inspector General’s webpage (oig.ssa.gov/audits-and-investigations/audit-reports/2010-10--2012-09).
Overview of Financial Data

We received an unqualified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which 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 benefits. General revenues from the United States (U.S.) Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 109 through 162 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2010 through 2012 (excluding key amounts from our Statement of Social Insurance and Statement of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

<table>
<thead>
<tr>
<th>Table of Key Financial Measures¹ (Dollars in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Position</strong> (end of fiscal year)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Total Assets</td>
</tr>
<tr>
<td>Less Total Liabilities</td>
</tr>
<tr>
<td>Net Position (assets net of liabilities)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position (end of fiscal year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Net Costs</td>
</tr>
<tr>
<td>Total Financing Sources²</td>
</tr>
<tr>
<td>Change in Net Position</td>
</tr>
</tbody>
</table>

¹. Totals do not necessarily equal the sum of rounded components.
². Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position.

**Balance Sheet:** The Balance Sheet displayed on page 110 presents our assets, liabilities, and net position. Total assets for FY 2012 are $2,766.5 billion, a 2.4 percent increase over the previous year. Of the total assets, $2,750.4 billion relates to earmarked funds for the OASI and DI programs, and approximately 98.3 percent are investments. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments increased $64.5 billion over the previous year.

Liabilities grew in FY 2012 by $4.9 billion primarily because of the growth in benefits due and payable, which is attributable to the 3.6 percent Cost of Living Adjustment provided to beneficiaries as of January 1, 2012. The majority of our liabilities (85.3 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. Our net position grew $59.3 billion to $2,665.0 billion, reflecting the higher growth in assets than liabilities.

**Statement of Net Cost:** The Statement of Net Cost displayed on page 111 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of Payments to Social Security Trust Funds appropriations and also contains non-material activities.

In FY 2012, our total net cost of operations increased $40.2 billion to $822.9 billion, primarily due to the first wave of baby boomers attaining retirement age. The OASI and DI net cost increased by 6.3 and 6.0 percent respectively, while SSI’s net cost decreased by 9.4 percent. Operating expenses decreased for each of our 3 major programs by 8.8 percent, 5.5 percent, and 3.4 percent for OASI, DI, and SSI, respectively.

In FY 2012, our total benefit payments increased by $40.9 billion, a 5.3 percent increase. The table below provides the benefit payment information, number of beneficiaries, and the percentage change for these benefit items during FY 2012 and FY 2011 for each of our three major programs. SSI disbursements are generally made on the first day of each month; however, since October 1, 2011 fell on a Saturday, the October 2011 SSI benefit payments were paid in September 2011, as required by law. This timing has resulted in a decrease in SSI benefit payments due to 11 months of activity in FY 2012 versus 13 months in FY 2011.

| Benefit Changes in Our Major Programs During Fiscal Years 2012 and 2011 |
|-----------------------------|-----------------------------|-----------------------------|
|                             | FY 2012  | FY 2011  | % Change |
| OASI                        |          |          |          |
| Benefit Payments            | $630,841 | $593,047 | 6.4%     |
| Average Benefit Payment (per month) | $1,170.42 | $1,118.46 | 4.6%     |
| Number of Beneficiaries     | 45.6     | 44.6     | 2.2%     |
| DI                          |          |          |          |
| Benefit Payments            | $135,454 | $127,471 | 6.3%     |
| Average Benefit Payment (per month) | $964.30 | $926.92 | 4.0%     |
| Number of Beneficiaries     | 10.8     | 10.5     | 2.9%     |
| SSI                         |          |          |          |
| Benefit Payments            | $44,182  | $49,041  | -9.9%    |
| Monthly Maximum Benefit Amount | $698.00 | $674.00 | 3.6%     |
| Number of Beneficiaries     | 8.2      | 8.1      | 1.2%     |

1. Benefit payments and the number of beneficiaries are presented in millions.
2. The average benefit payment per month for OASI and DI programs and the monthly maximum benefit amount for the SSI program are presented in actual dollars.

**Statement of Changes in Net Position:** The Statement of Changes in Net Position displayed on page 112 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. The statement shows an increase of $59.3 billion in the net position of the agency, which is attributable to financing sources in excess of the agency’s net cost. At this time, tax revenues, interest earned, and transfers related to Payroll Tax Holiday legislation continue to exceed benefit payments made to OASI and DI beneficiaries, keeping the agency’s programs solvent. The Payroll Tax Holiday legislation provides employees a reduction in Federal Insurance Contributions Act tax withholdings, reducing rates from 6.2 percent to 4.2 percent for the 2011 and 2012 tax years (January-December). In order to avoid harming the OASI and DI Trust Funds, the legislation also provides the transfer of funds by Treasury from general revenues to the OASI and DI Trust Funds. This activity will result in decreased tax revenues and increased transfers for FY 2012 on the financial statements. We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses is 1.6 percent.
In FY 2012, total financing sources, as shown in the Table of Key Financial Measures on page 38, increased by $33.3 billion to $882.2 billion. The primary sources for this increase are tax revenue and Payroll Tax Holiday transfers received in FY 2012. The $882.2 billion in total financing sources from the Statement of Changes in Net Position will not match the total financing sources in the chart “Where It Comes From…” as seen below. The activity in the chart includes $0.4 billion in exchange revenue, which is reported on the Statement of Net Cost.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2012.

**Statement of Budgetary Resources:** The Statement of Budgetary Resources displayed on page 113 provides information on the budgetary resources available to the agency for the year and shows the status of those resources at the end of FY 2012. The statement shows that we had $985.5 billion in budgetary resources, of which $1.7 billion remained unobligated at year-end. We recorded total net outlays of $821.2 billion by the end of the year. Budgetary resources grew $78.2 billion, or 8.6 percent from FY 2011, while net outlays increased $36.9 billion, or 4.7 percent.

**USE OF ADMINISTRATIVE RESOURCES**

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2012 in terms of the programs we administer or support. Although the DI program comprises only 16.7 percent of the total benefit payments we make, it consumes 24.2 percent of annual administrative resources. Likewise, while the SSI program comprises only 5.5 percent of the total benefit payments we make, it consumes 31.8 percent of annual administrative resources. State Disability Determination Services handle claims for DI and SSI disability benefits and render decisions on whether the claimants are disabled. In addition, we are required to perform continuing disability reviews of many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2011 use of administrative resources by program was 28.4 percent for the OASI program, 24.2 percent for the DI program, 31.0 percent for the SSI program, and 16.4 percent for Other.
SSA’s SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs represented 36.3 percent of the $2.4 trillion in total Federal receipts, a decrease of 0.8 percent over last year. Outlays increased by 1.5 percent to 23.3 percent of Federal outlays as SSA beneficiaries received a 3.6 percent Cost of Living Adjustment increase in FY 2012.

Overview of Social Insurance Data

Table of Key Social Insurance Measures

<table>
<thead>
<tr>
<th>Statement of Social Insurance</th>
<th>Old-Age, Survivors and Disability Insurance</th>
<th>calendar year basis</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of future net cashflows for current and future participants over the next 75 years (open group measure), current year valuation</td>
<td>-$11,278</td>
<td>-$9,157</td>
<td>-$7,947</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of future net cashflows for current and future participants over the next 75 years (open group measure), prior year valuation</td>
<td>-$9,157</td>
<td>-$7,947</td>
<td>-$7,677</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in present value</td>
<td>-$2,121</td>
<td>-$1,211</td>
<td>-$270</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Totals do not necessarily equal the sum of rounded components.

Statement of Social Insurance: As displayed on page 114, the Statement of Social Insurance presents the following estimates:

- The present value of future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age and the future cost of providing scheduled benefits to those same individuals;
- The present value of future noninterest income less future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, plus the assets in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
• The present value of noninterest income to be received from or on behalf of future participants and the cost of providing scheduled benefits to those same individuals; and

• The present value of future noninterest income less future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI Social Insurance program, plus the assets in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of future net cashflows (noninterest income less cost) for all current and future participants over the next 75 years (open group measure) became more negative when changing to the new valuation period. The present value changed from -$9.2 trillion, as of January 1, 2011, to -$11.3 trillion, as of January 1, 2012. Including the combined OASI and DI Trust Fund assets increases this open group measure to -$8.6 trillion for the 75-year valuation period.

The present value of future net cashflows for all current participants over the next 75 years, plus the assets in the combined OASI and DI Trust Fund as of the beginning of the period, is -$21.4 trillion (closed group measure). Including future participants over the next 75 years makes this value less negative and results in an open group measure of -$8.6 trillion.

**Statement of Changes in Social Insurance Amounts:** The Statement of Changes in Social Insurance Amounts displayed on page 115 reconciles the change (between the current valuation period and the prior valuation period) in the present value of future noninterest income less future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

**From January 1, 2011 to January 1, 2012:** The present value as of January 1, 2012, decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2086. Changes in demographic data, assumptions, and methods further decreased the present value of future net cashflows by $0.1 trillion; changes in economic data, assumptions, and methods decreased the present value by $1.0 trillion; and changes in programmatic data, assumptions, and methods decreased the present value of future cashflows by about $0.5 trillion. There was no significant cashflow effect from legislative changes.

**From January 1, 2010 to January 1, 2011:** The present value as of January 1, 2011, decreased (became more negative) by $0.4 trillion, due to advancing the valuation date by one year and including the additional year, 2085. Changes in demographic data, assumptions, and methods further decreased the present value of future net cashflows by $0.7 trillion; changes in economic data, assumptions, and methods decreased the present value by $0.1 trillion; and changes in programmatic data, assumptions, and methods increased the present value of future cashflows by about $0.1 trillion. There was no significant cashflow effect from legislative changes.

**OASI AND DI TRUST FUND SOLVENCY**

**PAY-AS-YOU-GO FINANCING**

The OASI and DI Trust Funds are deemed solvent as long as assets are sufficient to finance program obligations in full, on a timely basis. 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 remained relatively constant at around 42.4 months from the end of FY 2008 to the end of FY 2010, followed by an estimated decline to 41.1 months at the end of FY 2011 and 39.7 months at the end of FY 2012. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to continue in FY 2011 and 2012.
### 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 2012 Trustees Report indicate that the combined OASI and DI Trust Funds are adequately financed over the next 10 years. (Financing of the DI Trust Fund is inadequate, and, without remedial action, the fund is expected to be exhausted in 2016.) Under the intermediate assumptions of the 2012 Trustees Report, OASDI estimated expenditures and income for 2021 are 83 percent and 67 percent higher than the corresponding amounts in 2011 ($736 billion and $805 billion, respectively). From the end of 2011 to the end of 2021, assets are projected to grow by 14 percent, from $2.7 trillion to $3.1 trillion.

Recent legislation reduced the combined OASDI payroll tax rate for calendar years 2011 and 2012 by 2 percentage points for employees and self-employed workers. These laws provide for reimbursements from the General Fund of the Treasury to make up for the reduction in payroll tax revenue. Therefore, these laws had no direct financial impact on the OASDI program.

### 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. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2033, the combined OASI and DI Trust Fund reserves will be depleted according to the projections by Social Security’s Trustees. Under current law, when either the OASI or DI Trust Fund depletes, full scheduled benefits cannot be paid on a timely basis. Tax revenues are projected to be sufficient to support expenditures at a level of 75 percent of scheduled benefits after the combined OASI and DI Trust Fund exhaustion in 2033, declining to 73 percent of scheduled benefits in 2086.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is $8.6 trillion, which is 2.52 percent of taxable payroll and 0.9 percent of Gross Domestic Product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

1. Increasing payroll taxes;
2. Slowing the growth in benefits;
3. Finding other revenue sources (such as general revenues); or
4. Increasing expected returns by investing the OASI and DI Trust Fund assets, at least in part, in private securities.

#### Table: Number of Months of Expenditures Fiscal-Year-End Assets Can Pay

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>OASI</td>
<td>46.8</td>
<td>47.5</td>
<td>48.0</td>
<td>47.0</td>
<td>46.0</td>
</tr>
<tr>
<td>DI</td>
<td>22.0</td>
<td>19.7</td>
<td>17.1</td>
<td>14.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Combined</td>
<td>42.4</td>
<td>42.5</td>
<td>42.5</td>
<td>41.1</td>
<td>39.7</td>
</tr>
</tbody>
</table>

1. Computed as 12 times the ratio of end-of-year assets to outgo in the following fiscal year.

Note: Values for 2011 and 2012 are estimates that are based on the intermediate set of assumptions of the 2012 Trustees Report.
Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, pages 151 through 162 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

**Limitations of the Financial Statements**

The principal financial statements beginning on page 109 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), 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.

**Summary of Improper Payments Information**

**BACKGROUND**

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. President Obama signed the Improper Payments Elimination and Recovery Act (IPERA) into law on July 22, 2010. IPERA amends IPIA and further increases our accountability, transparency, and reporting of improper payments, as well as reporting on our payment recapture auditing efforts.

OMB guidance on IPIA implementation requires us to report improper payment information for OASI, DI, and SSI programs. We report identified OASI and DI improper payments even though the level of such payments in these programs has continually been well below the threshold cited in IPIA. On April 14, 2011, OMB issued implementing guidance for IPERA.

**RECOVERY AUDIT PROGRAM**

For our OASI, DI, and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. Because of our in-house internal controls for improper payments and the complexity of these programs, we have no immediate plans to contract for a private sector payment recapture auditing firm. This approach complies with IPERA requirements for payment recapture audits.

We also use an existing in-house recovery audit program for administrative contractual payments. In response to OMB guidance, our in-house recovery audit program employs a number of tools to aid in the detection and recovery of improper overpayments. To further enhance internal controls over administrative payments, on November 2, 2011, we awarded a payment recapture audit contingency contract to review our administrative payments. We will report on the results of the audit in our FY 2013 report and our FY 2013 Payment Recapture Audit Report to Congress.
We have multiple efforts underway to prevent, detect, and recover our improper payments. As required by IPERA, effective FY 2012, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, and SSI cases to determine payment accuracy rates. Stewardship review findings provide the data necessary to meet the IPIA reporting requirements, as well as other reports to monitoring authorities. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for current and previous reporting periods.

For the past five years, OASDI payments have been very accurate. However, the sheer magnitude of the payments made in the OASDI program, approximately $717 billion in FY 2011, means that even a small percentage of error will result in substantial dollar error. In FY 2011, the OASDI overpayments accuracy rate was 99.7 percent representing projected overpayments of $2.277 billion, and the underpayment accuracy rate was 99.9 percent, or $0.946 billion, in projected underpayments. Each tenth of a percentage point in payment accuracy represents about $717 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate increased over a five-year period, FY 2007 through FY 2011, from 90.9 percent to 92.7 percent. We based the FY 2011 rate of 92.7 percent on overpaid dollars totaling a projected $3.791 billion. This represents a decrease of 0.6 percentage points over the FY 2010 overpayment accuracy rate of 93.3 percent. In FY 2011, the SSI underpayment accuracy rate was 98.2 percent based on underpaid dollars totaling a projected $0.947 billion. This represents an increase of 0.6 percentage points from the FY 2010 underpayment accuracy rate of 97.6 percent. Neither of these changes is statistically significant. For FY 2011, each tenth of a percentage point in payment accuracy represents about $51.7 million in SSI program outlays.

Below are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provide additional information, as well as other corrective actions we have taken, in the Improper Payments Information Detailed Report in the Other Accompanying Information section.

**EXAMPLES OF OASDI IMPROPER PAYMENT INITIATIVES**

- To address errors because of Substantial Gainful Activity, we developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments.
- We conducted an ongoing match with the Office of Personnel Management to identify Federal retirees receiving a Civil Service Retirement System pension. This initiative addresses accurate computation of beneficiaries’ earnings.
- We modified our Earnings Alert System to allow adjudicators to identify and develop those irregularities on earnings records which, when resolved, will most likely affect the worker’s benefit payment.
- We submitted an FY 2012 President’s Budget legislative proposal requiring State and local governments and private insurers to share Workers’ Compensation payment information with us.
EXAMPLES OF SSI IMPROPER PAYMENT INITIATIVES

- In March 2012, we integrated our Access to Financial Institutions (AFI) bank verification process with our internal SSI systems. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources.

- We experience continued increased usage of the SSI Telephone Wage Reporting (SSITWR) initiative implemented in FY 2008. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via a completely automated system that ensures the wage amounts post timely.

- In FY 2013, we plan to develop a pilot in our field offices to identify undisclosed real property owned by SSI recipients. The pilot will provide information on cost savings and the feasibility of expansion to other field offices.
Management Assurances

**Federal Managers’ Financial Integrity Act (FMFIA) Assurance Statement Fiscal Year (FY) 2012**

Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. We assessed 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 No. A-123, *Management’s Responsibility for Internal Control*. Based on our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012 was operating effectively and that we found no material weaknesses in the design or operation of the internal controls.

In accordance with the *Federal Information Security Management Act* (FISMA) and FMFIA, we are reporting that the financial statement auditor cited a material weakness in our information systems controls in its opinion on internal control and that the Office of Inspector General reported that finding as a significant deficiency under FISMA. As we do with all auditor findings, we are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with the auditor’s conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor’s findings is remote.

In addition, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, 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 OMB Circular No. A-123, Appendix A. The results of this evaluation provide reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2012.

We also conduct reviews of financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2012.

Michael J. Astrue  
Commissioner  
November 8, 2012
We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers’ Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses, and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended, and there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Commissioner’s annual assurance statement.

Our Executive Internal Control committee, consisting of senior managers and chaired by the Deputy Commissioner, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control committee determines if the weakness is a material weakness that they would need to forward to the agency head for final determination.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls, and management reviews the new or changed processes and systems to certify the controls are in place. We test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observation of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance our 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 Office of Management and Budget (OMB) Circular Nos. A-123, A-127, and A-130.

Please refer to the *Summary of Financial Statement Audit and Management Assurances* located in the *Other Reporting Requirements* section for more information.

**MANAGEMENT CONTROL REVIEW PROGRAM**

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State Disability Determination Services. These reviews indicate our management control review program is effective in meeting management’s expectations for compliance with Federal requirements.
FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

OMB Circular No. A-127 requires agencies to maintain a financial management systems inventory and to conduct reviews to ensure financial management systems meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2012, 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 our financial management systems were in substantial compliance with the Federal Financial Management Improvement Act for FY 2012. In making this determination, he considered all the information available, including the auditor’s opinion on our FY 2012 financial statements, the report on management’s assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. He also considered the results of the management control reviews and financial management systems reviews conducted by the agency and its independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the Other Reporting Requirements section for more information.

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2012 financial statements. The auditor found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities.

Grant Thornton cited a material weakness in our information systems controls in its opinion on internal control over financial reporting. We are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with Grant Thornton’s conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor’s findings is remote.

Grant Thornton found deficiencies in our benefit payment oversight, that when aggregated, it considered a significant deficiency, and provided recommendations for the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

The OIG reported Grant Thornton’s finding of material weakness as a significant deficiency under the Federal Information Security Management Act (FISMA). We acknowledge the finding identified by the OIG and reported it in accordance with OMB M-12-20.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

FISMA requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year’s report is due by November 15, 2012. Our report summarizes the results of the agency’s security reviews of major information...
systems and programs, progress on correcting identified weaknesses, and the results of other work performed during the reporting period using OMB’s performance measures. In the FISMA report, the OIG cited Grant Thornton’s finding of a material weakness in our information systems controls as a significant deficiency.

**FINANCIAL MANAGEMENT SYSTEMS STRATEGY**

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve Government-wide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of 12 financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative, and continue the long-term development of our financial management systems following a defined strategy.

In the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we are continuing to pursue enhanced capabilities to collect and resolve program debt.

We developed an External Collection Operation (ECO) system to help recover program overpayments through the Treasury Offset Program (TOP), credit bureau reporting process, and Administrative Wage Garnishment process. We have continued to improve the ECO system through an initial three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. In addition, we have secured information technology resources to embark on Phase III of the ECO enhancements in FY 2013, which will allow us to collect delinquent debts by offsetting applicable State payments through TOP.

In the Financial/Administrative category, we implemented the Social Security Online Accounting and Reporting System (SSOARS), a federally-certified accounting system based on Oracle Federal Financials, as our System of Record on October 1, 2003. In FY 2012, we implemented Oracle Release 12.1.3. This release upgrades the SSOARS to the most current version of the Oracle Federal Financials Software. Release 12.1.3 includes Common Government-wide Accounting Code functionality and sets the stage for implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) in SSOARS. Implementation of GTAS functionality is necessary to comply with new Treasury Department reporting requirements, which mandate GTAS implementation by December 2013.

Release 12.1.3 also provides new Accounts Payable to Accounts Receivable Netting functionality where open receivables and payables exist for the same payee. These receivables and payables are automatically netted prior to issuing payment. This new process will increase efficiency and reduce operational costs by consolidating transactions and preventing overpayments. Additionally, we implemented the Federal Delinquency functionality as part of the new release. This functionality automates manual processes and enhances our ability to recover improper payments more timely.

Building on our previous use of Web Services technology, we integrated the Case Processing and Management System, a web-based system that supports our disability workloads, to automatically transmit medical and vocational expert orders and invoices to the accounting system. These purchase order and accounts payable Web Services interface in real time to SSOARS and provide components with access to their financial data in near real time.
We also implemented Oracle Business Intelligence Applications (BI Apps). BI Apps provides financial management dashboards and includes reports, budget execution, and spending analyses. This functionality will reduce the time required to compile and report on workload performance, and increase transparency for managers to react to changing workloads.
This page was intentionally left blank