MANAGEMENT’S DISCUSSION AND ANALYSIS
The Management’s Discussion and Analysis (MD&A) section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. 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 highlights our mission as set forth in our Agency Strategic Plan. We identify the major programs we administer and provide a brief explanation of our organization.

The Overview of Our Fiscal Year 2016 Goals and Results provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2016 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and objectives, and discuss how we plan to address the challenges we face.

The MD&A also addresses our financial performance in the Highlights of Financial Position. 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 subsection with a summary of our progress in addressing improper payments.

Finally, Systems and Controls describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection 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

We are entrusted with the enormous responsibility of administering the Nation’s largest safety net and providing benefits to millions of Americans. We support our customers through every step of life’s journey and offer them compassionate, world-class service during some of the most vulnerable times in their lives. In fiscal year 2016, we paid approximately $80 billion to almost 66 million beneficiaries each month. About 9 out of 10 individuals age 65 and older receive Social Security benefits. Our nation-wide service and our dedicated employees combine to make Social Security one of the most successful, large-scale Federal programs in our Nation’s history.

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

OLD-AGE AND SURVIVORS INSURANCE PROGRAM

Today, most people plan their retirement based on the date they can receive their Social Security benefits. The Old-Age and Survivors Insurance program (which provides what most people think of as their Social Security benefit), created in 1935, provides retirement and survivors benefits to qualified workers and their families. Working and paying Social Security taxes earns workers credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify for retirement benefits.

A person qualifies for full retirement benefits between the ages of 65 and 67, depending on the year he or she was born. Reduced retirement benefits are payable as early as age 62. Certain members of retired workers’ families may also receive benefits. Spouses (including divorced spouses), minor children, and children who became disabled before age 22 may also be eligible for benefits.

Social Security also provides income for families of workers who die. Congress added survivor’s benefits in 1939 and benefits for disabled widows and widowers in 1968. Widows, widowers (and divorced widows and widowers), dependent parents, and children may be eligible for survivor’s benefits. In fact, 98 out of every 100 children of working parents could get benefits if a working parent dies. Social Security pays more benefits to children than any other Federal program.

DISABILITY INSURANCE PROGRAM

Social Security Disability Insurance provides benefits to people who cannot work because they have a severe medical condition expected to last at least one year or result in death. People who have worked long enough and paid Social Security taxes and certain members of their families can qualify for Social Security Disability Insurance benefits. The disability program began in 1956 as a benefit for disabled workers between the ages of 50 and full retirement. The program expanded in 1960 to include disabled workers of all ages.
SUPPLEMENTAL SECURITY INCOME PROGRAM

The Supplemental Security Income (SSI) program, established in 1972, is a Federal program providing monthly payments to people with limited incomes and resources who are aged, blind, or disabled. Adults and children under the age of 18 can receive payments based on disability or blindness.

General tax revenue, not workers’ Social Security taxes, funds the SSI program.

HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2016

• A combined total of around $968 billion was paid in Social Security and SSI benefits;
• About 88 percent of the American population age 65 and over received Social Security benefits;
• Among elderly Social Security beneficiaries, 21 percent of married couples and 43 percent of unmarried individuals relied on Social Security for 90 percent or more of their income;
• About 96 percent of individuals age 20-49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
• On average each month, more than 1.2 million blind or disabled children under age 18 received SSI benefits.

HOW WE SERVED AMERICA IN FISCAL YEAR 2016

• Issued 16 million new and replacement Social Security cards;
• Performed over 2 billion automated Social Security number verifications;
• Posted over 267 million earnings items to workers’ records;
• Handled over 37 million calls on our National 800 Number;
• Assisted 43 million visitors in field offices;
• Mailed nearly 350 million notices;
• Registered over 5.8 million users for my Social Security, a personalized online account;
• Processed over 121.9 million online transactions;
• Completed 2,688,977 initial disability claims;
•Received approximately 5.1 million retirement, survivor, and Medicare applications;
• Completed 666,948 reconsideration disability claims;
• Through data exchange partnerships with the Centers for Medicare and Medicaid Services, we identified over $22.7 million in estimated incorrect payments;
• Provided online access to the Social Security Benefit Statement, allowing beneficiaries to access their statements online more than 40.5 million times;
• Completed approximately 159,000 Appeals Council requests for review; and
• Completed 652,241 requests for hearings.
Serving the American public requires a vast network of facilities, technology, and skilled staff. Every day, more than 65,000 Federal and State employees provide service to our customers. Nationwide, we have a network of more than 1,500 offices, including regional offices, field offices, Social Security card centers, teleservice centers, processing centers, hearing offices (including satellite offices and National Hearing Centers), the Appeals Council, and our headquarters in Baltimore, Maryland. Internationally, we deliver services in U.S. embassies in hundreds of countries.

Customers receive in-person service mainly at our field offices and Social Security card centers. Our teleservice centers primarily handle calls to our National 800 Number. Employees in our processing centers typically handle Social Security retirement, survivors, and disability payments. These employees also provide a wide range of other services, including handling telephone calls to our National 800 Number. To locate your nearest local office, visit the Social Security Office Locator (www.secure.ssa.gov/ICON/main.jsp).

We have created strong partnerships with State agencies, and we depend on State employees in 54 State and territorial disability determination services offices to make disability determinations. Administrative law judges in our hearing offices and the administrative appeals judges at our Appeals Council decide appeals involving Social Security and SSI issues. For more information about our components and their functions, visit our Organizational Structure webpage (www.socialsecurity.gov/org).

The following chart illustrates our organizational structure:
OVERVIEW OF OUR FISCAL YEAR 2016
GOALS AND RESULTS

HOW WE MANAGE PERFORMANCE

Our Performance Framework: The Government Performance and Results Modernization Act of 2010 (GPRMA) describes how agency strategic plans and goals should align with presidential terms and broader Federal efforts.

Setting goals and measuring our performance is vital to our success. We define our performance framework in the Fiscal Year (FY) 2014-2018 Agency Strategic Plan (www.socialsecurity.gov/asp). Our Agency Strategic Plan (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

- Strategic Goal 1: Deliver Innovative, Quality Services;
- Strategic Goal 2: Strengthen the Integrity of Our Programs;
- Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program;
- Strategic Goal 4: Build a Model Workforce to Deliver Quality Service; and
- Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services.

Our Planned Performance: In February 2016, we published our Annual Performance Plan for FY 2017, Revised Performance Plan for FY 2016, and Annual Performance Report for FY 2015 (www.socialsecurity.gov/agency/performance) as a part of the President's FY 2017 Budget Request (www.socialsecurity.gov/budget/). Collectively, we refer to this combined document as our Annual Performance Report (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP and finalizes our performance commitments for FY 2016.

Each September, a draft of the APR accompanies our budget submission to the Office of Management and Budget (OMB). The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the FY 2016 Operating Plan (www.socialsecurity.gov/budget/).

Our Actual Performance and Program Results: We accumulate much of our performance data based on an operating month, rather than a true calendar month. An operating month cuts off on the last Friday of the calendar month. Each fiscal year contains 52 weeks. Every 5 or 6 years, the fiscal year contains 53 weeks because the year is not equally divisible by 7 days. FY 2016 is a 53-week fiscal year. Throughout this report, we list our 53-week performance. A comparison chart of our 52-week versus 53-week performance results is included in the appendix of our APR.

We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR, containing our actual FY 2016 results, in February 2017. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).
This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2016. The following table shows our operating expenses by Strategic Goal.

**FY 2016 Operating Expenses by Strategic Goal**

<table>
<thead>
<tr>
<th>Strategic Goal</th>
<th>Dollars in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver Innovative, Quality Services</td>
<td>$ 3,120</td>
</tr>
<tr>
<td>Strengthen the Integrity of Our Programs</td>
<td>$ 2,456</td>
</tr>
<tr>
<td>Serve the Public through a Stronger, More Responsive Disability Program</td>
<td>$ 6,426</td>
</tr>
<tr>
<td>Build a Model Workforce to Deliver Quality Service</td>
<td>$ 469</td>
</tr>
<tr>
<td>Ensure Reliable, Secure, and Efficient Information Technology Services</td>
<td>$ 1,107</td>
</tr>
</tbody>
</table>

**Our Priorities:** In support of the GPRMA, we established four Agency Priority Goals (APG). We routinely review our progress and take actions to improve our outcomes, stimulate innovation, and deliver favorable results.

Our four APGs for FY 2016 and FY 2017 are:

- **APG 1:** Improve customer service and convenience by increasing online transactions by 25 million each year;
- **APG 2:** Increase customer satisfaction with our services;
- **APG 3:** Improve the integrity of our programs by increasing our Supplemental Security Income (SSI) payment accuracy rate to 95 percent; and
- **APG 4:** Improve customer service by reducing the wait time for a hearing decision.

Our APGs are aggressive 24-month goals and reflect the performance improvement priorities of our executive leadership, as well as those of the Administration. You can find additional information on our APG performance by visiting Performance.gov (www.performance.gov/agency/social-security-administration?view=public).

Established by GPRMA, Cross-Agency Priority (CAP) goals accelerate progress on presidential priority areas. Multiple agencies actively collaborate to achieve results in these areas.

OMB established CAP goals based on input from Federal agencies and congressional committees. These goals reflect the President’s second-term priorities.

There are three mission-oriented and six management-focused CAP goals. Each CAP goal has two senior leaders – one within the Executive Office of the President and one within a key delivery agency. The Social Security Administration and OMB co-lead the Customer Service CAP goal.

Additional information about CAP goals and our participation in them is available on Performance.gov (www.performance.gov/clear_goals).
This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2016. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on our full budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

Final data for 3 of the 10 performance measures and targets we highlighted in the Management’s Discussion and Analysis was not available at the time we published this report. We will include those overall results in our FY 2017 Agency Financial Report. We met our targets for six of the seven performance measures with available data.

Additionally, we met our targets for 23 of the 33 total performance measures that we use to track agency progress towards meeting our Strategic Goals and objectives. Final data for 6 of the 33 performance measures and targets was not available at the time we published this report. Data on those performance measures will be published in our Annual Performance Plan for FY 2018, Revised Performance Plan for FY 2017, and Annual Performance Report for FY 2016 in February 2017.
STRATEGIC GOAL 1:
DELIVER INNOVATIVE, QUALITY SERVICES

Strategic Objectives

- Develop and Increase the Use of Self-Service Options
- Enhance the Customer Experience by Completing Customers’ Business at the First Point of Contact
- Partner with Other Agencies and Organizations to Improve Customers’ Experience and Align with the Administration’s One-Government Approach
- Evaluate Our Physical Footprint to Incorporate Improved Service Options

We selected the following performance measures to help demonstrate our progress in delivering innovative, quality services:

IMPRESS CUSTOMER SERVICE AND CONVENIENCE BY INCREASING ONLINE TRANSACTIONS BY 25 MILLION EACH YEAR (APG)

Analysis: We processed over 121.9 million online transactions in FY 2016. In the past few decades, advances in technology have revolutionized the business world, changing the pace of our business processes and increasing our ability to offer innovative service options. We improved access to our services in FY 2016 by increasing the number of citizens who complete their business with us online by more than 40 percent over FY 2015.
INCREASE CUSTOMER SATISFACTION WITH OUR SERVICES (APG)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2012 Actual</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2016 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>82 satisfaction rating with online services</td>
<td>82 satisfaction rating with online services</td>
<td>82 satisfaction rating with online services</td>
<td>83 satisfaction rating with online services</td>
<td>85 satisfaction rating with online services</td>
<td>84.5 satisfaction rating with online services</td>
<td>Met</td>
</tr>
<tr>
<td>Performance</td>
<td>81% satisfaction rating for office and telephone services</td>
<td>80% satisfaction rating for office and telephone services</td>
<td>Data is not available for office and telephone services</td>
<td>79% satisfaction rating for office and telephone services</td>
<td>80% satisfaction rating for office and telephone services</td>
<td>80% satisfaction rating for office and telephone services</td>
<td>Met</td>
</tr>
</tbody>
</table>

Analysis: One of our highest priorities is delivering world-class customer service to all of our customers, whether online, in the office, or on the phone. In FY 2016, 7 of the 8 SSA online applications exceeded the ForeSee E-Government Satisfaction Index with scores of 80 or higher. A score of 80 or higher is considered the threshold for excellence. We also met our target satisfaction rating for office and telephone services despite increasing staff shortages.

Our efforts to deliver innovative, quality services include:

**Expanding Online Access through Social Security Express:** Our new service options expand online service access, including services to customers who may not own a personal computer. Our Social Security Express initiative provides access to our online services in our field offices and in external locations. Using these services helps minimize wait times for visitors who must complete their business with us in person.

We have three major Social Security Express projects underway:

- **Self-help personal computers** are available in 797 offices nationwide. Self-help personal computers allow our customers to access our online services using computers in our offices. Using the computers enables customers to perform some transactions without waiting to see a representative.

- **Social Security Express Desktop Icons** provide a direct link from a public computer or website to most of our online services. These icons are available at external partner sites, such as libraries and senior centers. Users can access the same services that are available through the self-help personal computers in our field offices. If customers have questions or require assistance accessing online services through the icon links, they can call our National 800 Number or visit a field office for help completing their tasks.

  In FY 2015, we designed a process allowing partner sites to download the desktop icon directly to a personal computer or website and launched the site nationally on May 15, 2015. The installation process is now more efficient, and we have added 134 new partners. In FY 2016, we logged almost 86,000 visits.

  In April 2016, we added the Internet Social Security Number Replacement Card to our list of available Desktop Icon services.

- **Customer service stations** are stand-alone units, containing a computer with a touch screen monitor and video access, enabling the user to have real-time contact with a representative.

**Leveraging** **my Social Security:** To date, we have over 45,000 web pages, 20 online services, information in 18 languages, and a presence on several social media sites. We average nearly 12 million visits to our website each month. We are responding as quickly as possible to increased customer demand for online services, while ensuring **my Social Security** (www.socialsecurity.gov/myaccount) remains secure and easy to use.
Current features enable Social Security Disability and SSI beneficiaries to access their benefit verification letters, payment histories, and earnings records instantly. Beneficiaries can also change their addresses and direct deposit information online. Since it launched in 2012, my Social Security has registered more than 26.9 million users and consistently ranks as one of the top 10 in customer satisfaction for all Federal websites.

Work is now underway on a new feature called SMART Claim that will allow our customers to file a claim for retirement, disability, Medicare, and SSI benefits using a single application within my Social Security. We hope to have our first release by the first quarter of FY 2018.

Additional features added to my Social Security and SMART claim in FY 2016 include:

- New secure customer engagement tools, including enhancements to click-to-call back, dynamic help assistance, a secure message center, and alerts and notifications;
- Online continuing disability review notification and response options for beneficiaries; and
- A claims appeal path.

**Implementing Online Social Security Number Card Application:** Replacing Social Security number cards is one of our most requested services. In FY 2016 alone, we issued 11 million replacement cards in field offices and Social Security card centers across the country. We also launched a new feature to select States, enabling certain my Social Security users to apply online for a replacement Social Security number card. Participating States include Michigan, Washington, Wisconsin, Nebraska, Iowa, Kentucky, New Mexico, and the District of Columbia.

The application provides users with a secure, trusted, and legally sufficient, real-time method to request replacement Social Security number cards online and allows our employees more time to process other workloads.

**Providing Real-Time Assistance to Online Users:** Delivering world-class customer service to all of our customers, including our online users, is one of our highest priorities. We use my Social Security to provide online information and help tools. In FY 2016, we released two new communication features behind my Social Security. The first is our secure Message Center, enabling my Social Security users to receive alerts, messages, and agency announcements. We also released click-to-chat, which allows my Social Security users to communicate directly with us to answer their questions.
STRATEGIC GOAL 2: STRENGTHEN THE INTEGRITY OF OUR PROGRAMS

Strategic Objectives

- Transform the Way We Record Earnings to Enhance Data Accuracy
- Protect the Public’s Data and Provide Secure Online Services
- Increase Payment Accuracy

We selected the following performance measures to indicate our progress in strengthening the integrity of our programs:

ENHANCE OUR SECURITY FEATURES AND BUSINESS PROCESSES TO PREVENT AND DETECT FRAUD

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2016 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Using Public Facing Integrity Review data, we were able to create and implement the routing transit number blocking process.</td>
<td>The fraud referral process was transferred to the newly established Office of Anti-Fraud Programs. We use Public Facing Integrity Review data to create and implement the routing transit number blocking process.</td>
<td>Identified and investigated 4,264 claims presenting characteristics indicative of fraud</td>
<td>Identify and investigate at least 500 claims presenting characteristics indicative of fraud</td>
<td>Met</td>
</tr>
</tbody>
</table>

Analysis: We are committed to safeguarding the public’s personal information and their investment in Social Security. We continually strengthen our record protection systems to combat emerging identity threats, as well as other forms of fraud. In FY 2015, we established an Office of Anti-Fraud Programs to provide centralized oversight and accountability of initiatives to prevent, detect, and deter fraud. In FY 2016, we exceeded our target by identifying 4,264 claims presenting characteristics indicative of fraud.
IMPROVE THE INTEGRITY OF THE SSI PROGRAM BY ENSURING THAT 95 PERCENT OF OUR PAYMENTS ARE FREE OF OVERPAYMENT (APG)

Analysis: We attribute most of our improper payments to non-reporting, a lack of access to third-party data, and the complexity of our programs. Our overpayment accuracy for FY 2015 was 93.9 percent. Although it was not a statistically significant increase over FY 2014, it is the highest overpayment accuracy since FY 2003. FY 2016 data is not available until April 2017.

Some of the initiatives we are undertaking to strengthen the integrity of our programs include:

**Expanding the Access to Financial Institutions:** Excess resources in financial accounts are a leading cause of SSI payment errors. The Access to Financial Institutions (AFI) system uses an electronic process to verify bank account balances with financial institutions to help determine SSI eligibility and payment amount. In addition to verifying alleged accounts, the process may detect undisclosed bank account balances by using a geographic search to generate requests to other financial institutions. Along with preventing overpayments, the AFI process will help eliminate ineligible applicants at the beginning of the application process.

The Bipartisan Budget Act of 2015 expanded the use of AFI for waivers. SSI applicants can request that we waive overpayment because they are without fault and unable to repay the amounts overpaid. Generally, applicants must provide us with their authorization to obtain their financial institution records before we waive our right to overpayment recovery. However, the Act allows us to deny the waiver if the applicants refuse to grant authorization. We implemented AFI for waivers nationally on March 14, 2016.

**Implementing Data Exchange and Verification Online:** We have a mission-critical need to share data with partner agencies and organizations to ensure that we have the correct information to administer our various programs. We currently maintain approximately 3,000 electronic information exchange agreements with Federal, State, local, and foreign government agencies, as well as court systems, the medical community, and employers. We use the two-way data exchanges to help make essential eligibility and entitlement decisions.

To enhance these exchanges, we implemented the Data Exchange and Verification Online application. The new system is more efficient and enables us to respond more quickly to data requests and new legislative mandates. We also implemented the Data Exchange and Verification Online web service, which provides Social Security number verifications online.

We are working to develop the following data exchanges:

- An exchange with the Department of Homeland Security to identify people who become ineligible for SSI payments by leaving the United States for a month or longer;
- An exchange with the Department of State to share real-time passport verification data; and
- An exchange with the Department of Labor to identify Federal Employees’ Compensation Act beneficiaries who are also receiving disability benefits.

We also recently completed developing a new exchange with the Office of Child Support Enforcement.

In FY 2016, we re-engineered our data exchange and verification processes. We also developed modernized business rules and policy to govern the data exchanges with partner agencies.
Deploy Management System for Personally Identifiable Information and Federal Tax Information:
We developed the Enterprise Test Data Management System to manage and purge personally identifiable information and Federal tax information in our test and training systems. Our test and training systems are well controlled and have a low risk of exposing sensitive public data. When fully implemented, the Enterprise Test Data Management System will provide sanitized test data (data modified to conceal a person’s identity) to our test environments (development, validation, integration, and training). This will further minimize our risk of unnecessarily exposing public data.

We released the basic system infrastructure in FY 2014. In FY 2016, we maintained and worked on developing many improvements, including:

- Procuring a third-party tool that will help sanitize name and address information;
- Developing requirements for enhancing a third-party tool to help sanitize name and address information;
- Designing, developing, and implementing enhancements to the existing system to improve performance and usability; and
- Beginning analysis and design for future requirements and enhancements.

Using Predictive Modeling in Continuing Disability Review Enforcement Operation: The Work Continuing Disability Review Smart Process (Work Smart) identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. A continuing disability review is a routine review we perform to make sure that the beneficiaries receiving Social Security and SSI benefits are still disabled and entitled to those benefits. The Work Smart process provides us with quarterly work alerts based on beneficiaries’ quarterly earnings up to one year earlier than our previous review process. By receiving work alerts earlier, we will be able to reduce work-related overpayments.

We also developed and piloted a predictive model to identify cases that have a high likelihood of receiving overpayments. We prioritize these cases for work-related reviews. These reviews determine if beneficiaries’ work status or earnings make them ineligible for disability benefits. Eighty percent of the cases we identify using the predictive model are likely to result in benefit termination. By prioritizing the work-related reviews, we identify and avoid potential overpayments more quickly.

In FY 2016, we opened approximately 217,000 cases using the predictive model and completed about 123,000 work-related reviews. Subsequently, about 63,000 cases resulted in cessation of benefits because beneficiaries’ work status or earnings made them ineligible to receive disability benefits.
STRATEGIC GOAL 3: SERVE THE PUBLIC THROUGH A STRONGER, MORE RESPONSIVE DISABILITY PROGRAM

**Strategic Objectives**

- Improve the Quality, Consistency, and Timeliness of Our Disability Decisions
- Maximize Efficiencies throughout the Disability Program
- Enhance Employment Support Programs and Create New Opportunities for Returning Beneficiaries to Work

We selected the following performance measures to demonstrate our efforts to serve the public through a stronger, more responsive disability program:

**ENSURE THE QUALITY OF OUR DECISIONS BY ACHIEVING THE DISABILITY DETERMINATION SERVICES NET ACCURACY RATE FOR INITIAL DISABILITY DECISIONS**

Analysis: While our customers expect us to make timely decisions, they also expect us to make accurate decisions. We have consistently met our target for this measure since FY 2010. In FY 2015, we ensured the quality of our decisions by achieving the disability determination services (DDS) net accuracy rate of 98 percent for initial disability decisions, exceeding our target of 97 percent. FY 2016 data is not available until January 2017.

**INCREASE OUR ABILITY TO PROVIDE TIMELY DECISIONS BY REDUCING THE PERCENTAGE OF PENDING APPEALS COUNCIL REQUESTS FOR REVIEW 365 DAYS OLD OR OLDER**

Analysis: From FY 2007 through FY 2016, we experienced a tremendous increase in requests at the hearing level. As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions. In FY 2016, we once again exceeded our target of reducing aged cases at the Appeals Council.
**IMPROVE CUSTOMER SERVICE BY REDUCING THE WAIT TIME FOR A HEARING DECISION (APG)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016 Actual</th>
<th>2016 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>98%</td>
<td>Decide 99% of the cases that begin the fiscal year 430 days old or older</td>
<td>Met*</td>
</tr>
</tbody>
</table>

Analysis: *Our budget assumptions for the universe of hearings pending and administrative law judge (ALJ) hiring did not materialize and substantially impacted our ability to achieve the FY 2016 target. In light of our substantial progress in reducing the aged case pending, we consider this target met for FY 2016. We will continue to focus on this critical workload.

Our efforts to deliver quality disability decisions and services include:

**Conducting Inline Quality Reviews:** Performing inline quality reviews of hearing level claims promotes consistency and continuous improvement in case processing by ensuring that:

- Case files are properly prepared and scheduled;
- Records are adequately developed; and
- Draft decisions are legally sufficient.

Inline quality reviews identify errors and correct those errors before an ALJ issues a decision. This improves the quality of the decisions and reduces the number of errors that can later result in an ALJ having to reconsider a decision. Since FY 2011, our inline quality review initiative has provided data to help us improve our processes. In FY 2016, we conducted 12,727 reviews (2.43 percent of all hearing decisions).

**Reducing the Pending at the Appeals Council:** As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions.

In FY 2016, we focused on decreasing the percentage of pending Appeals Council requests for review over 365 days old. We were able to decrease the number of pending requests for review from 149,147 in FY 2015 to 127,134 in FY 2016.

**Hire Sufficient Administrative Law Judges to Ensure Public Access to Agency Services:**

From FY 2008 to FY 2010, the Office of Disability Adjudication and Review made significant progress in reducing the number of claimants waiting for an ALJ hearing. However, our inability to hire ALJs in sufficient numbers due to the Office of Personnel Management delays coupled with budget constraints caused a public service crisis. Now more than 1.1 million claimants are waiting for a hearing, more than any other time in history.

We ended FY 2015 with nearly 1,530 ALJs on duty, about 85 more than we had at the beginning of the year. To combat the expected increase in hearing wait time, we hired 264 ALJs in FY 2016. We lost 109 ALJ’s during the same span.

**Developing the Disability Case Processing System:** We are investing in a modernized Disability Case Processing System to replace the 54 independent legacy systems in use throughout the DDS offices. By consolidating the existing systems into a single system, we will reduce the technical complexities associated with sharing workloads between DDS offices.

The system will also directly incorporate the case analysis functionality currently housed in the Electronic Claims Analysis Tool. The system will provide a single application for case receipt, development, analysis, documentation, and closure activities. The first release will allow us to intake and process new initial and reconsideration cases from start to finish. In December 2016, the first release of the system is deploying to two States.
In FY 2016, we added the functionality for receipt, processing, and closing an initial adult disability claim with medical evidence in the electronic file to support a fully favorable medical decision.

**Using Health Information Technology to Expedite Disability Decisions:** Obtaining medical records electronically from health care organizations increases efficiencies in our disability determination process and dramatically improves service to the public by:

- Reducing the time to obtain medical records;
- Decreasing the time to complete a disability claim;
- Helping offset increasing workloads and staffing constraints; and
- Enabling computerized decision support.

We request more than 10 million medical records from healthcare organizations for approximately 2.6 million initial disability claims annually. Our primary goal is to increase the volume of medical evidence received via health information technology (IT) by expanding existing partnerships and adding new partners.

In FY 2016, we expanded our health IT partner organizations from 48 in FY 2015 to 54, which increased the number of providers to 6,949. We also increased the number of States, plus the District of Columbia, Guam, and Puerto Rico, with participating health IT providers from 33 to 49. We increased the percentage of initial disability claims with health IT medical evidence to 9.61 percent.

We also partnered with the Department of Defense to exchange health information via health IT. As of February 2016, we fully implemented our health IT capability with the Department of Defense, and it is operational nationwide.
STRATEGIC GOAL 4: BUILD A MODEL WORKFORCE TO DELIVER QUALITY SERVICE

Strategic Objectives

- Attract and Acquire a Talented and Diverse Workforce That Reflects the Public We Serve
- Strengthen the Competency, Agility, and Performance of Our Workforce to Align with the Needs of the Public
- Foster an Inclusive Culture that Promotes Employee Well-Being, Innovation, and Engagement
- Enhance Planning and Alignment of Human Resources to Address Current and Future Public Service Needs

The following performance measure demonstrates our efforts to build a model workforce to deliver quality service:

BECOME ONE OF THE TOP 5 BEST PLACES TO WORK AMONG LARGE AGENCIES IN THE FEDERAL GOVERNMENT

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2012 Actual</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2016 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Top 10 Rank</td>
<td>Data available December 2016</td>
<td>Top 5 Rank</td>
<td></td>
</tr>
</tbody>
</table>

Analysis: One of our strategic objectives is to foster an inclusive culture that promotes employee well-being, innovation, and engagement. Our employees are our most valuable asset. Each year since 2007, our employees have ranked us in the top 10 Best Places to Work in the Federal Government. In FY 2015, our employees ranked us as number six among large agencies. For FY 2016, we increased our target to become one of the top five best places to work among large agencies. Data for FY 2016 will not be available until December 2016.

Some of the initiatives we are undertaking to remain an employer of choice for top talent include:

Highlighting the Pathways Programs (for Students and Recent Graduates to Federal Careers):
Our Pathways programs offer opportunities through three specific programs:

- **The Internship program** provides students in high schools, colleges, trade schools, and other qualifying educational institutions with paid opportunities to explore Federal careers while completing their education;
- **The Recent Graduates program** provides developmental experiences to individuals who, within the previous two years, graduated from qualifying educational institutions; and
- **The Presidential Management Fellows program** provides entry-level positions and leadership development for advanced degree candidates and recent advanced degree graduates.

Hiring through these programs enables us to offer participants clear career paths, along with meaningful training and development opportunities. These programs enhance our ability to attract and hire a talented and diverse workforce that reflects the public we serve.
In FY 2016, we hired approximately 15.7 percent of our new employees through the Pathways programs. We will continue participating in the Pathways program to attract new employees as our budget allows.

**Focusing on Career Development Programs:** Our future depends on developing employees’ leadership and management skills throughout their careers. One way we identify and develop potential leaders is through our National Career Development Programs:

- **The Leadership Development Program** prepares employees for General Schedule (GS)-11 through GS-13 leadership positions; and
- **The Advanced Leadership Development Program** prepares employees for GS-14 and GS-15 leadership positions.

These programs target employees with proven leadership potential. We strengthen their leadership skills through developmental assignments and formal training.

To help our experienced managers prepare for senior-level positions, we offer the Senior Executive Service Candidate Development Program. This program is a key element of our succession management strategy for filling future executive-level leadership vacancies.

In FY 2016, participants in the Advanced Leadership Development Program continued their developmental assignments, attended leadership and congressional training, completed individualized training, and completed the other program requirements (e.g., leadership readings, executive interviews, executive shadows). As of September 30, 2016, we promoted 8 of the 34 participants.

**Supporting Employees through Mentoring:** Our mentoring program is a partnership through which one person (mentor) shares knowledge, experience, and wisdom to foster the personal and professional development of another (mentee). We use mentoring to promote a knowledge-sharing culture that supports our succession-planning efforts, enables skill and competency development, and increases employee engagement.

To support our employees and prepare them for future job requirements, we successfully piloted a mentoring program consisting of both traditional mentoring (one-on-one mentoring relationships) and flash mentoring (one-time event) in FY 2015. According to survey data, participants’ (mentees and mentors) satisfaction rate was 93 percent. Based on the successful results of the pilot, the permanent mentoring program began in September 2016 and is now open to all employees.

**Highlighting Diversity and Inclusion:** Our *Diversity and Inclusion Strategic Plan* highlights proven best practices for attracting, hiring, and retaining a diverse workforce. The plan also fosters a work environment that draws on our collective talents, respects individual differences, and leverages diversity.

To sustain our diversity commitment, we instituted a Diversity and Inclusion Council with representation from all levels of the agency, including senior leadership, labor, management associations, and Advisory Councils. Our Advisory Councils include the:

- American Indian and Alaska Native Advisory Council;
- Black Affairs Advisory Council;
- Hispanic Affairs Advisory Council;
- National Lesbian, Gay, Bisexual, and Transgender Advisory Council;
- National Women’s Advisory Council;
- Pacific Asian American Advisory Council; and
- Veterans and Military Affairs Advisory Council.
Our Advisory Councils work with the Diversity and Inclusion Council to create an inclusive employee environment. The Advisory Councils also provide ideas to improve services and promote our programs in their respective communities.

Each year, we hold up to 12 commemorative programs or exhibits recognizing groups that are under-represented in the Federal Government. In FY 2016, 98 percent of our employees also completed diversity and inclusion training.
STRATEGIC GOAL 5: ENSURE RELIABLE, SECURE, AND EFFICIENT INFORMATION TECHNOLOGY SERVICES

Strategic Objectives

- Maintain System Performance and the Continuity of Information Technology Services
- Enhance and Execute Plans to Modernize Our Systems
- Incorporate Innovative Advances in Service Delivery
- Continuously Strengthen Our Cyber Security Program

We selected the following performance measures to demonstrate our efforts to ensure reliable, secure, and efficient IT services:

PROVIDE UNINTERRUPTED ACCESS TO OUR SYSTEMS DURING SCHEDULED TIMES OF OPERATION

Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to meeting our obligation to the public. If our systems experience problems, our productivity and service immediately decline. Since FY 2012, we have exceeded the target for this measure.
MANAGEMENT’S DISCUSSION AND ANALYSIS

PROVIDE SECURE AND EFFECTIVE SERVICES TO THE PUBLIC BY IMPROVING CYBER SECURITY PERFORMANCE

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2014 Actual</th>
<th>2015 Actual</th>
<th>2016 Actual</th>
<th>2016 Target</th>
<th>Target Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Met</td>
</tr>
<tr>
<td>Homeland Security Presidential Directive 12 Compliance – result 87%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Achieve an average of 97% for the following Cyber Security Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management.</td>
</tr>
<tr>
<td>Information Security Continuous Monitoring – result 98%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trusted Internet Connections Consolidation – result 100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trusted Internet Connections 2.0 Capabilities – result 94%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hardware Asset Management – result 100%</td>
<td>Hardware Asset Management – result 100%</td>
<td>Hardware Asset Management – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software Asset Management – result 100%</td>
<td>Software Asset Management – result 100%</td>
<td>Software Asset Management – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vulnerability and Weakness Management – result 100%</td>
<td>Vulnerability and Weakness Management – result 100%</td>
<td>Vulnerability and Weakness Management – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unprivileged Network Users – result 86%</td>
<td>Unprivileged Network Users – result 86%</td>
<td>Unprivileged Network Users – result 86%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privileged Network Users – result 99%</td>
<td>Privileged Network Users – result 99%</td>
<td>Privileged Network Users – result 99%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anti-Phishing Defense – result 100%</td>
<td>Anti-Phishing Defense – result 100%</td>
<td>Anti-Phishing Defense – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malware Defense – result 100%</td>
<td>Malware Defense – result 100%</td>
<td>Malware Defense – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blended Defense – result 100%</td>
<td>Blended Defense – result 100%</td>
<td>Blended Defense – result 100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis: Continuously strengthening our cyber security is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect the information entrusted to us. Since FY 2013, we have met the Department of Homeland Security cyber security standards and requirements.

Some of our ongoing efforts to maintain secure and reliable IT services include:

**Maintaining Systems Performance While Transitioning to the National Support Center:** The National Support Center has been in continuous operation as a data center since all current production data transitioned there in FY 2015. The National Support Center maintains demographic, wage, and benefit information that enables us to make prompt and accurate benefits payments.

We track our systems availability rate daily and adjust resources as required to meet the changing needs of the agency and the public. To maintain systems availability, our service level agreement (a standardized service contract) covers:

- The reactive and proactive process we use to achieve the service level goal;
- How we will manage the service process; and
- How we will measure the service goal and process.
In FY 2016, we exceeded our systems availability target of providing uninterrupted access to our systems during scheduled times of operation 99.5 percent of the time by achieving a 99.91 percent availability rate. This availability ensures that the data center is available for the agency and our partners to conduct business and for beneficiaries to use online services.

**Implementing an Information Security Program**: We maintain a comprehensive, agency-wide information security program to protect information and communications assets. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. We are also strengthening the security of our systems by implementing consistent management controls at all of our data facilities.

We achieved the following security outcomes in FY 2016:

- 100 percent secure configuration management: defined by the percentage of the hardware assets with an automated capability to identify deviations from the approved configuration baselines;
- 95 percent unprivileged network users: defined by the percentage of all users who have limited privileges on our network and who are required to use Personal Identity Verification cards or other approved identity verification to access our network; and
- 100 percent privileged network users: defined by the percentage of all users who have elevated privileges on our network and who are required to use Personal Identity Verification cards to access our network.
Generations of Americans have relied on our programs and dedicated employees to help face the challenges of life’s journey. While we celebrate our partnership with and service to the American public, the threat of a funding shortfall now threatens our shared legacy. Without reliable and sustained funding, it will be difficult to meet our performance goals and provide the world-class, compassionate customer service that our customers deserve.

We developed Vision 2025 (www.socialsecurity.gov/vision2025/), our long-range strategic plan, to guide us in our mission to deliver Social Security services that meet the changing needs of the public. Our vision inspired us to transform the way we do business and we now offer services in-person, by telephone, and online. We will continue to use our vision to shape the future of Social Security service delivery and as the framework with which we will approach our current challenges.

We addressed the following major management challenges in FY 2016:

- Improve Customer Service;
- Invest in IT Infrastructure to Support Current and Future Workloads;
- Reduce Improper Payments and Increase Overpayment Recoveries;
- Improve the Responsiveness and Oversight of the Hearings Process;
- Strengthen Planning, Transparency, and Accountability;
- Improve the Timeliness and Quality of the Disability Process;
- Strengthen the Integrity and Protection of the Social Security Number;
- Secure Information Systems and Protect Sensitive Data;
- Prevent Waste, Fraud, and Abuse;
- Have Enough Employees with the Right Skills in the Right Place at the Right Time;
- Innovate the Future of Service Delivery; and
- Keep Pace in the Disability Program with Medicine, Technology, and the World of Work.

Our major management challenges continue to require our immediate attention. IT modernization, in particular, must provide a sturdy foundation upon which we will continue to develop and provide exceptional services. Having adequate and sustained resources and funding for updating our aging IT infrastructure is crucial to our vision’s success. We will also continue to transform the way we do business and strive to protect every taxpayer dollar with our program integrity work and vigorous anti-fraud efforts, while reducing our costs.

Over the past eight decades, we have been there to help our customers during some of the most vulnerable moments in their lives. Our employees dedicate themselves to providing service with compassion, honor, and integrity. We will continue to secure today and tomorrow by providing our customers with financial benefits and information that provide a safety net throughout life’s journey.
Management’s Discussion and Analysis

Highlights of Financial Position

Overview of Financial Data

We received an unmodified opinion on our financial statements from KPMG 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 U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 49 through 106 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2014 through 2016 (excluding key amounts from our Statements of Social Insurance and Statements 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 of Key Financial Measures

(Dollars in Billions)

<table>
<thead>
<tr>
<th>Net Position</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,888.4</td>
<td>$2,856.7</td>
<td>$2,828.9</td>
</tr>
<tr>
<td>Less Total Liabilities</td>
<td>$113.7</td>
<td>$112.4</td>
<td>$107.1</td>
</tr>
<tr>
<td>Net Position (assets net of liabilities)</td>
<td>$2,774.6</td>
<td>$2,744.3</td>
<td>$2,721.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Costs</td>
<td>$982.2</td>
<td>$945.0</td>
<td>$906.8</td>
</tr>
<tr>
<td>Total Financing Sources</td>
<td>$1,012.5</td>
<td>$967.5</td>
<td>$931.1</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>$30.3</td>
<td>$22.5</td>
<td>$24.2</td>
</tr>
</tbody>
</table>

Notes:
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 displayed on page 52.

Balance Sheet: The Balance Sheet displayed on page 50 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2016 are $2,888.4 billion, a 1.1 percent increase over the previous year. Of the total assets, $2,870.7 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.4 percent of our assets, increased $34.3 billion over the previous year.
Liabilities grew in FY 2016 by $1.3 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries. The majority of our liabilities (90.3 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $30.3 billion to $2,774.6 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 51 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 our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2016, our total net cost of operations increased $37.2 billion to $982.2 billion, primarily due to a 2.2 percent increase in the number of OASI beneficiaries. The OASI, DI, and SSI net cost increased by 3.9 percent, 0.1 percent, and 14.4 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 8.3 percent, 9.4 percent, and 13.2 percent, respectively.

In FY 2016, our total benefit payment expenses increased by $35.6 billion, a 3.8 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2016 and FY 2015 for each of our three major programs.

### Benefit Changes in Our Major Programs During Fiscal Years 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OASI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$765,024</td>
<td>$736,752</td>
<td>3.8%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$1,283.82</td>
<td>$1,269.65</td>
<td>1.1%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>50.02</td>
<td>48.93</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>DI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$144,018</td>
<td>$144,102</td>
<td>(0.1)%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$1,028.50</td>
<td>$1,021.92</td>
<td>0.6%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>10.64</td>
<td>10.81</td>
<td>(1.6)%</td>
</tr>
<tr>
<td><strong>SSI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Payment Expense</td>
<td>$58,976</td>
<td>$51,520</td>
<td>14.5%</td>
</tr>
<tr>
<td>Average Monthly Benefit Payment</td>
<td>$540.16</td>
<td>$539.32</td>
<td>0.2%</td>
</tr>
<tr>
<td>Number of Beneficiaries</td>
<td>8.32</td>
<td>8.36</td>
<td>(0.5)%</td>
</tr>
</tbody>
</table>

Notes:
1. Benefit payment expense and the number of beneficiaries are presented in millions.
2. The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.
3. The average monthly benefit payment for OASI and DI programs reflects the September average monthly benefit payment for FY 2016 and FY 2015.
4. The FY 2016 number of beneficiaries and average monthly benefit payment for the SSI program are presented for August 2016, since September figures are not yet available. The values presented for FY 2015 are from September 2015.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 52 presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of $30.3 billion in the net position of our agency, which is attributable to financing sources in excess of our agency’s net cost. At this time, the total of all tax revenues and interest earned continue to exceed benefit payments made to OASDI beneficiaries, keeping the agency’s programs solvent. In FY 2015, DI’s benefit payments exceeded its receipts, causing the DI Trust Fund to
use its reserves, resulting in DI’s net position decreasing $29.7 billion. However, in FY 2016 the passage of Public Law 114-74, Bipartisan Budget Act of 2015, authorizes a temporary reallocation of the DI Trust Fund’s portion of the Federal Insurance Contributions Act payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.4 percent payroll tax is being allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in decreased growth in tax revenue for the OASI Trust Fund, and increased tax revenue for the DI Trust Fund, which resulted in DI’s net position increasing $2.8 billion from $18.0 billion to $20.8 billion.

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 are 1.5 percent.

In FY 2016, total financing sources, as shown in the Table of Key Financial Measures displayed on page 29, increased by $45.0 billion to $1,012.5 billion. The primary source for this increase is additional tax revenues received in FY 2016. The $1,012.5 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart “Where It Comes From…” as seen below. The activity reported in the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

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 2016.

The SSI program’s Cumulative Results of Operations are negative due to unfunded Benefits Due and Payable liabilities. Unadjudicated and adjudicated, or pending, claims make up a significant portion of SSI’s Benefits Due and Payable activity. SSI will pay for these benefits using future years’ resources. While the activity is unfunded, we still record an expense, which creates the negative Cumulative Results of Operations since we do not record an associated financing source.

**Statement of Budgetary Resources**: The Statement of Budgetary Resources displayed on page 53 provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2016. The Statement shows that we had $1,038.8 billion in budgetary resources, of which $6.3 billion remained unobligated at year-end. We recorded total net outlays of $976.8 billion by the end of the year. Budgetary resources increased $36.3 billion, or 3.6 percent, from FY 2015, while net outlays increased $32.7 billion, or 3.5 percent. The increase in budgetary resources is primarily due to an increase in tax revenues. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries.
USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2016 in terms of the programs we administer or support. Although the DI program comprises only 14.9 percent of the total benefit payments we make, it consumes 23.0 percent of annual administrative resources. Likewise, while the SSI program comprises only 6.1 percent of the total benefit payments we make, it consumes 33.9 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2015 use of administrative resources by program was 27.0 percent for the OASI program, 23.5 percent for the DI program, 33.5 percent for the SSI program, and 16.0 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 in FY 2016 represented 31.2 percent of the $3.3 trillion in total Federal receipts, an increase of 1.2 percent over last year. Outlays decreased by 0.2 percent to 25.4 percent of Federal outlays.
### Overview of Social Insurance Data

#### Table of Key Social Insurance Measures

<table>
<thead>
<tr>
<th>Statements of Social Insurance</th>
<th>(Dollars in billions)</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of future net cash flows&lt;sup&gt;2&lt;/sup&gt; for current and future participants over the next 75 years (open group measure), current year valuation</td>
<td></td>
<td>-$14,169</td>
<td>-$13,440</td>
<td>-$13,330</td>
</tr>
<tr>
<td>Present value of future net cash flows&lt;sup&gt;2&lt;/sup&gt; for current and future participants over the next 75 years (open group measure), prior year valuation</td>
<td></td>
<td>-$13,440</td>
<td>-$13,330</td>
<td>-$12,294</td>
</tr>
<tr>
<td>Change in present value</td>
<td></td>
<td>-$730</td>
<td>-$110</td>
<td>-$1,035</td>
</tr>
</tbody>
</table>

**Notes:**
1. Totals do not necessarily equal the sum of rounded components.
2. Future net cash flows are estimated over the appropriate 75-year period.

**Statements of Social Insurance:** As displayed on page 54, the Statements of Social Insurance present the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age (age 62 and over) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age (ages 15-61) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated 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 asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants (those under age 15, and to be born and to immigrate during the period) and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those to be born and to immigrate during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, plus the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$13.4 trillion, as of January 1, 2015, to -$14.2 trillion, as of January 1, 2016. The deficit, therefore, increased in magnitude by about $0.7 trillion. Including the asset reserves in the combined OASI and DI Trust Funds increases this open group measure to -$11.4 trillion for the 75-year valuation period. Therefore, including the asset reserves decreases the open group measure, in magnitude, by about $2.8 trillion.
The present value of estimated future net cash flows for all current participants over the next 75 years, plus the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is -$28.7 trillion (closed group measure). Including future participants over the next 75 years decreases the projected deficit by $17.3 trillion to the open group measure of -$11.4 trillion.

Statements of Changes in Social Insurance Amounts: The Statements of Changes in Social Insurance Amounts displayed on page 55 reconcile the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated 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, 2015 to January 1, 2016: The present value as of January 1, 2016 decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2090. Changes for this valuation period, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.6 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.9 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by less than $0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent for the current valuation period, compared to 2.7 percent for the previous valuation period;
- The ultimate real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period;
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent for the current valuation period, compared to 2.9 percent in the previous valuation period; and

From January 1, 2014 to January 1, 2015: The present value as of January 1, 2015 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2089. Changes for this valuation period, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by about $0.7 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.
Significant changes made for this valuation included:

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period;
- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period; and
- The effects of the President’s executive actions on immigration.

**OASI AND DI TRUST FUND SOLVENCY**

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

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing.

The *Bipartisan Budget Act of 2015*, passed by Congress and signed into law by the President, reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund. Under the intermediate assumptions of the 2016 Trustees Report, this reallocation is expected to ensure full payment of disability benefits into 2023. Without reallocation, the DI Trust Fund asset reserves were projected to have been depleted by the fourth quarter of 2016.

The following table shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 40.1 months at the end of FY 2012, to 38.9 months at the end of FY 2013, to 37.6 months at the end of FY 2014, and to estimated values of 36.6 and 35.5 months at the end of FY 2015 and FY 2016, respectively. 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 2015 and FY 2016, although at a slower rate of decrease due to the payroll tax reallocation in the *Bipartisan Budget Act of 2015*.

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<tbody>
<tr>
<td>OASI</td>
<td>46.3</td>
<td>45.2</td>
<td>43.9</td>
<td>43.1</td>
<td>41.6</td>
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<tr>
<td>DI</td>
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<td>8.3</td>
<td>5.7</td>
<td>3.4</td>
<td>3.3</td>
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<tr>
<td>Combined</td>
<td>40.1</td>
<td>38.9</td>
<td>37.6</td>
<td>36.6</td>
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</tr>
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Notes:
1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
SHORT-TERM FINANCING

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program’s obligations for the year. Estimates in the 2016 Trustees Report indicate that, on a theoretical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2016 Trustees Report, OASDI estimated cost and income for 2025 are 79 percent and 60 percent higher than the corresponding amounts in 2015 ($897 billion and $920 billion, respectively). From the end of 2015 to the end of 2025, asset reserves are projected to decrease by 10 percent, from $2.8 trillion to $2.5 trillion. In addition, under those assumptions, the DI Trust Fund asset reserves were expected to deplete at the end of 2016. However, with the passage of the Bipartisan Budget Act of 2015, the DI Trust Fund is expected to have sufficient asset reserves to pay full scheduled benefits into 2023.

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 2034, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security’s Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 79 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 74 percent of scheduled benefits in 2090.

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 $11.4 trillion, which is 2.49 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:

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

Significant uncertainty surrounds the estimates for the Statements 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 95 through 106 contain the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.
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 programs susceptible to significant improper payments and the actions to reduce such payments. OMB guidance on IPIA implementation requires us to report improper payment information for the OASI, DI, and SSI programs.

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

The enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) provided an opportunity for OMB to re-examine existing guidance to ensure agencies are able to more efficiently reduce their improper payment rates, while also complying with multiple legislative and administrative requirements. On October 20, 2014, OMB issued implementing guidance to transform the improper payment compliance framework to create more unified, comprehensive, and less burdensome requirements.

We report information about our improper payments, as required by IPIA and amended by IPERA and IPERIA, in the Improper Payments Information Detailed Report in the Other Information section of this report.

AGENCY EFFORTS AND FUTURE PLANS

We have multiple efforts underway to prevent, detect, and recover our improper payments. For FY 2016, we continued to focus our improper payments strategy to align with our improper payments governance.

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 data for 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, over $853 billion in FY 2015, means that even a small percentage of error results in substantial improper payments. In FY 2015, the OASDI overpayment accuracy rate was 99.6 percent, representing projected overpayments of $3.1 billion, and the underpayment accuracy rate was over 99.9 percent, or almost $0.6 billion in projected underpayments. Each tenth of a percentage point in payment accuracy represents about $854 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate has increased over a 5-year period, FY 2011 through FY 2015, from 92.7 percent to 93.9 percent. We based the FY 2015 rate of 93.9 percent on overpaid dollars totaling a projected $3.4 billion. In FY 2015, the SSI underpayment accuracy rate was 98.6 percent based almost $0.8 billion in projected underpayments. For FY 2015, each tenth of a percentage point in payment accuracy represented about $56.6 million in SSI program outlays.
The following 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 Information section of this report.

**NEW IMPROPER PAYMENT INITIATIVES**

In addition to enhancing our ongoing efforts for FY 2016, we are pursuing the following new initiatives:

- For our Data Exchange Initiative, which will enhance the administration of our programs and prevent improper payments, we developed a strategic initiative to identify and seek new data to improve program administration and prevent improper payments. We are actively researching current programs, working with internal stakeholders to identify data exchange needs, and pursuing new data exchanges with potential partners. Some of these efforts include seeking entry and exit data from the Department of Homeland Security on SSI recipients who have left the United States for 30 days or more to determine ongoing eligibility and to reduce improper payments, although we have only examined this data for non-citizens. We are also negotiating with the Department of Labor to obtain Federal Employees’ Compensation Act workers’ compensation data to increase OASDI payment accuracy.

- A new strategic initiative that focuses on improper payments caused by the Windfall Elimination Provision (WEP) (a definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html), and Government Pension Offset (GPO) (a definition of GPO is available at: www.socialsecurity.gov/pubs/EN-05-10007.pdf). We formed a cross-agency work group to compile a comprehensive list of identified changes in WEP and GPO implementation; assess the root causes of improper payments based on these changes; and develop policy, data, systems, or training solutions in line with each of the root causes of improper payments.

- We are also developing corrective action plans to address a host of other areas where we have an opportunity to significantly improve quality and payment accuracy. Recently, our Acting Commissioner announced that improving quality and payment accuracy for our customers was one of seven critical agency priorities. We will address these areas through training, automation, and business process improvements, including streamlining the work continuing disability review process, addressing uneffectuated medical cessations, and improving the documentation of capability determinations in our representative payee program.

**EXAMPLES OF OASDI IMPROPER PAYMENT INITIATIVES**

- To address errors because of substantial gainful activity (SGA) (a definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html), we will implement a new policy that will no longer require us to contact employers when doing an SGA determination. Instead, we will use other readily available evidence, thus reducing processing times for work continuing disability reviews and reducing overpayments. We expect to implement the new policy by the end of FY 2017.

- To improve post-entitlement accuracy, we have developed the Work Smart process. Work Smart identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. This process helps us to learn of unreported work more quickly and reduce work-related overpayments.

**EXAMPLES OF SSI IMPROPER PAYMENT INITIATIVES**

- Access to Financial Institutions (AFI) is an automated process that verifies alleged bank account balances with financial institutions to identify excess resources. In FY 2013, we further lowered the AFI threshold to verify liquid financial resources and increased undisclosed bank account searches. In FY 2016, we added functionality to search for financial institutions by routing transit number when initiating AFI requests.

- We rely on individuals to self-report wages to us on time, but from experience, we know that they may fail to report or not report wages in time to prevent an improper payment. We will request that applicants,
recipients, and deemors provide their consent for us to obtain wage information from payroll data providers as part of the SSI application and redetermination processes.

- In FY 2013, we developed a pilot in 100 of our field offices to identify undisclosed real property owned by SSI recipients. The pilot provided information on cost savings and the feasibility of expansion to other field offices. The pilot results found that using this process was a cost effective method to reduce and prevent improper payments. In FY 2016, we decided to move forward with nation-wide expansion of non-home real property data integration with SSI systems for use during initial claims and high error redetermination interviews. The current focus is on management information planning and requirements, as well as systems development. By the end of FY 2017, we will complete the integration.

- Our studies show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2015, we issued notices to over 25,000 individuals entitled as spouses who may be eligible for higher benefits on their own records. In FY 2016, we made changes that enable us to notify these individuals again at full retirement age.
MANAGEMENT’S DISCUSSION AND ANALYSIS

SYSTEMS AND CONTROLS

MANAGEMENT ASSURANCES

FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT
FISCAL YEAR 2016

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers’ Financial Integrity Act. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, that are effective for fiscal year 2016. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016.

We also performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the Standards for Internal Control in the Federal Government, issued by the Comptroller General of the United States. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2016.

Carolyn W. Colvin
Acting Commissioner
November 9, 2016

AGENCY FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT PROGRAM

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 Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that 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 Acting Commissioner’s annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, 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 our agency head for a final determination on whether to report a material weakness.
We incorporate effective internal controls into our business processes and financial management systems through
the life cycle development process. We incorporate the necessary controls into the user requirements, certify the
controls are in place by having management review the new or changed processes and systems, and test the controls
prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observations 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 that our business processes are functioning as
intended. The reviews also ensure management controls and financial management systems comply with the

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the
Other Reporting Requirements section of this report 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**

The agency maintains a financial management systems inventory and conducts reviews of the financial management
systems to ensure they 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) 2016, the
results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws,
Federal regulations, or Federal standards.

**GOVERNMENT ACCOUNTABILITY OFFICE’S, STANDARDS FOR INTERNAL CONTROL
IN THE FEDERAL GOVERNMENT**

In FY 2016, we engaged an independent accounting firm to assess the agency’s compliance with the revised
The standards provide the internal control framework and criteria that Federal managers should use to design,
implement, and operate an effective internal control system that will provide us with reasonable assurance that we
will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the
independent accounting firm concluded we have an adequately designed system of internal controls that meet the
GAO’s standards.

**FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT**

The Acting Commissioner determined that our financial management systems were in substantial compliance with
the *Federal Financial Management Improvement Act* for FY 2016. In making this determination, she considered all
the information available, including the auditors’ opinion on our FY 2016 financial statements, the report on
management’s assertion about the effectiveness of internal controls, and the report on compliance with laws and
regulations. She also considered the results of our management control reviews and financial management systems
reviews conducted by our independent contractor.
Please refer to the Summary of Financial Statement Audit and Management Assurances located in the Other Reporting Requirements section of this report for more information.

**FINANCIAL STATEMENT AUDIT**

The Office of the Inspector General (OIG) contracted with KPMG LLP (KPMG) for the audit of our FY 2016 financial statements. KPMG 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.

KPMG also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2016, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2015 to January 1, 2016, are presented fairly, in all material respects, in accordance with United States generally accepted accounting principles.

In this year’s financial statement audit, KPMG cited a significant deficiency in our information technology systems controls in its opinion on internal control over financial reporting. KPMG provided recommendations to remediate the deficiencies. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

KPMG also found deficiencies in the processes and controls related to accounts receivable and overpayments that, when aggregated, it considered it to be a significant deficiency. KPMG provided recommendations to remediate the deficiencies. We will continue to improve our processes and controls over accounts receivable and overpayments.

Please refer to the Auditors’ Report section of this report for more information on the auditors’ findings and our plans to correct the findings.

**FEDERAL INFORMATION SECURITY MODERNIZATION ACT**

The Federal Information Security Management Act of 2002 (FISMA), as amended by the Federal Information Security Modernization Act of 2014, 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 was due by November 10, 2016. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration’s cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

During FY 2016, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. We made significant progress in automating our access management process, ensuring the security of distributed systems, and automating the detection and mitigation of vulnerabilities.

For the FY 2016 FISMA audit, KPMG determined that we established an information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The auditors did cite weaknesses in some areas, to include Risk Management, Contractor Systems, Configuration Management, Identity and Access Management, Security and Privacy Training, Information Security Continuous Monitoring, Incident Response, and Contingency Planning.

As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

**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 nine 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. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

For our Debt Management category, in FY 2016, we began planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently. Due to demands on current resources, we do not have information technology resources to continue planning and analysis for FY 2017.

In December 2014, we completed the nationwide rollout of the Social Security Electronic Remittance System (SERS) to collect administrative fees in all field offices. SERS fits our agency’s vision to upgrade our receipt processes to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are compliant with Payment Card Industry security standards. We continued the rollout of SERS functionality across the agency in FY 2016 to include the collection of fees for services, such as wage reports and itemized earnings statements. We also completed the planning and analysis to have SERS collect programmatic overpayments in both the field offices and the processing centers. SERS programmatic overpayment collection is funded for development in FY 2017.

Beginning in FY 2017, the Remittance Modernization Project will implement various mechanisms for submitting programmatic debt payments electronically. We will include SERS development in this overall effort. This initiative is a multi-year, multi-phase project.

For the Financial/Administrative systems category, OMB Memorandum M-10-26 provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

We successfully replaced the SSOARS infrastructure with state-of-the-art servers that consolidated our footprint, consume less energy, and provide performance improvement across the SSOARS environment. This hardware refresh coincided with the move to the National Support Center (NSC) as well. SSOARS is running on modern servers in the NSC with enhanced performance, disaster recovery, and life cycle configuration as a result of this successful hardware refresh in 2016.

The agency also completed planning and analysis and began implementing the Digital Accountability and Transparency Act of 2014 (DATA Act) reporting requirements. The DATA Act effort will enhance the agency’s transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.
For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). In FY 2014, we reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Serving as an advisory board for the Office of Anti-Fraud Programs (OAFP);
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency’s commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

On November 24, 2014, the Acting Commissioner approved the establishment of OAFP. An Associate Commissioner-level office, OAFP’s mission is to more efficiently and effectively detect, deter, and mitigate fraud, waste, and abuse of our programs. OAFP provides oversight and accountability for the agency’s anti-fraud activities, working closely with the NAFC.

While the reinstitution of the NAFC provided strategic governance over our anti-fraud efforts, we also established OAFP to provide centralized oversight and accountability for our anti-fraud program. OAFP leads our anti-fraud activities and works across organizational lines to ensure that employees throughout the agency have the tools to combat fraud.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention.

On September 27, 2016, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2017 priorities and initiatives.