

AUDITOR'S REPORTS



SOCIAL SECURITY

November 7, 2007

To: The Honorable Michael J. Astrue
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2007 and 2006 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements, Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

PwC's audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control over financial reporting and testing and evaluating the design and operating effectiveness of the internal control. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations

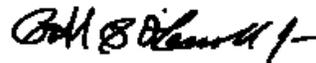
The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, to audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2007 financial statements. PwC also audited the FY 2006 financial statements, presented in SSA's Performance and Accountability Report for FY 2007 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2007 and 2006 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2007, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. PwC identified no reportable instances of noncompliance with the laws, regulations or other matters tested.

OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2007 financial statements by:

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit and assessing SSA's internal control;
- Reviewing PwC's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04;
- Coordinating the issuance of the audit report; and
- Performing other procedures that we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2007, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.
Inspector General



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Report of Independent Auditors

To the Honorable Michael J. Astrue
 Commissioner
 Social Security Administration

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

- The consolidated balance sheets of SSA as of September 30, 2007 and 2006, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2007 and January 1, 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2007.
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2007 and 2006, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2007 and January 1, 2006. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



In our opinion, the financial statements referred to above and appearing on pages 104 through 134 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2007 and 2006, and its net cost of operations, changes in net position, and budgetary resources for the years then ended and the financial condition of its social insurance programs as of January 1, 2007 and January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2007 and January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on page 38 of this Performance and Accountability Report (PAR), that SSA's internal control over financial reporting was operating effectively as of September 30, 2007 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2007, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.



We did note matters involving the internal control and its operation that we will communicate in a separate letter.

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS

With respect to internal control relevant to data that support reported performance measures on pages 14, 15 and 16 of this PAR, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on the internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to SSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 as of September 30, 2007.

Under FFMIA, we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which SSA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph as of September 30, 2007.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 5 to 41, and Required Supplementary Information (RSI) included on pages 1 and 140 and 141 to 156 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board or OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 140 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 136 to 139 of this performance and accountability report are presented



for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 2 to 4, 42 to 103, 135, 157 to 158, and 163 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

* * * * *

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

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP".

November 7, 2007



SOCIAL SECURITY
The Commissioner

OCT 30 2007

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

Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2007 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and SSA management's assertion about the effectiveness of its internal control and a report about SSA's compliance with laws and regulations.

We are extremely pleased that, for the third consecutive year, the report contains no findings or recommendations. This is validation of the Agency's continued commitment to protecting and carefully managing the resources, assets and programs entrusted to us. SSA takes pride in our ability to sustain strong and vigilant financial management.

If your staff have any questions, they may contact Mary Glenn-Croft at (410) 965-2910.

Sincerely,

Michael J. Astrue

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

INSPECTOR GENERAL STATEMENT ON SSA'S MAJOR MANAGEMENT CHALLENGES



SOCIAL SECURITY

November 7, 2007

The Honorable Michael J. Astrue
Commissioner

Dear Mr. Astrue:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. As required by the *Reports Consolidation Act*, this Statement will be placed in the *Social Security Administration's Fiscal Year 2007 Performance and Accountability Report*.

In November 2006, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2007.

- **Social Security Number Protection**
- **Internal Control Environment and Performance Measures**
- **Management of the disability Process**
- **System security and critical Infrastructure Protection**
- **Improper payments and Recovery of Overpayments**
- **Service Delivery and Electronic Government**

I congratulate you on the progress you have made during FY 2007 in addressing these challenges. My office will continue to focus on these issues in FY 2008. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the Office of the Inspector General's assessment of these six management challenges.

Sincerely,

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

Patrick P. O'Carroll, Jr.
Inspector General

**INSPECTOR GENERAL STATEMENT
ON THE
SOCIAL SECURITY ADMINISTRATION'S
MAJOR MANAGEMENT CHALLENGES**



SOCIAL SECURITY NUMBER PROTECTION

In Fiscal Year (FY) 2007, the Social Security Administration (SSA) issued approximately 5.7 million original and 11.6 million replacement Social Security number (SSN) cards and received approximately \$620 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

SSA has taken significant steps over the past several years to improve controls in its enumeration process. The Agency has made progress in providing greater SSN protection; nevertheless, incidents of SSN misuse continue to rise. To further strengthen SSN integrity, we believe SSA should (1) seek legislation to reduce the allowable circumstances in which entities may require the collection and use of SSNs as unique identifiers or recordkeeping tools and improve the protection of this information when obtained, (2) continue to address identified weaknesses in its information security environment to safeguard SSNs in a better way, and (3) continue to coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

In May 2007, the Office of Management and Budget (OMB) issued Memorandum M-07-16 to Federal agencies regarding safeguarding against and responding to breaches of personally identifiable information (PII), including the establishment and implementation of plans to eliminate unnecessary collection and use of SSNs. We believe this is an important step in protecting SSNs in the Federal sector and can serve as a model for State and local governments, as well as private entities. We are encouraged that SSA is taking steps to implement this OMB guidance. For further information on the SSA's actions to protect PII, see our discussion in the Systems Security and Critical Infrastructure Protection section of this report.

Maintaining the integrity of the SSN and Social Security programs also involves properly posting earnings reported under SSNs. Accurate earnings records are used to determine both the eligibility for Social Security benefits and the amount of those benefits. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for wage earners whose names and SSNs fail to match SSA's records. As of October 2006, the ESF had accumulated approximately 264 million wage items for Tax Years 1937 through 2004, representing about \$586 billion in wages.

While SSA cannot control all of the factors associated with erroneous wage reports, SSA can continue to improve wage reporting by educating employers on reporting criteria, identifying and resolving employer reporting problems, and encouraging greater use of both SSA's and the Department of Homeland Security's (DHS) employee verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting. SSA also needs to work with DHS to improve controls over employee verification programs. Finally, SSA will need to coordinate closely with DHS on its recently proposed rule (Safe-Harbor Procedures for Employers Who Receive a No-Match Letter) requiring employers to take timely action on SSA no-match letters to avoid liability under immigration laws. The use of SSA's employer no-match letter process to assist DHS with its worksite enforcement mission has led to public concerns from labor advocacy groups and unions regarding individuals being denied employment inappropriately. In October 2007, a preliminary injunction was issued preventing the mailing of the letters based on a lawsuit filed by labor advocacy organizations.

Another area of concern related to SSN integrity is the use of nonwork SSNs by noncitizens for unauthorized employment in the United States. SSA assigns nonwork SSNs to noncitizens when (1) a Federal statute or regulation requires that noncitizens provide an SSN to receive a federally funded benefit to which they have established an entitlement or (2) a State or local law requires that noncitizens who are legally in the United States provide an SSN to receive public assistance benefits to which they are entitled and for which all other requirements have been met. SSA assigns these individuals SSN cards with a "Not Valid for Employment" annotation. SSA also provides information about earnings reported under a nonwork SSN to DHS as required by law. Nonetheless, prior audits have noted several issues related to nonwork SSNs, including the (1) type of evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) volume of wages reported under nonwork SSNs, and (4) restrictions on payment of benefits to noncitizens who qualified for their benefits while

working in the United States but lack proper authorization. SSA's future accomplishments with nonwork SSNs will require increased coordination with DHS to ensure SSA has correct work status information.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

Over the past 5 years, SSA has implemented numerous improvements to its enumeration process. For example, SSA implemented new systems software, which field offices are required to use, called the SS-5 Assistant. This program has simplified the interpretation of, and compliance with, SSA's complex enumeration policies and, unlike the traditional process, will not process an SSN request unless SSA staff enters all of the applicant's required information. SSA has also established five Social Security Card Centers that focus exclusively on assigning SSNs and issuing SSN cards—and it has plans to open more as resources permit.

In addition, SSA has implemented several enhancements designed to protect the SSN under the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA) (Pub. L. No. 108-458). The enhancements include (1) restricting the issuance of multiple replacement SSN cards to 3 per year and 10 in a lifetime; (2) requiring independent verification of any birth record submitted by a U.S. born individual to establish eligibility for an SSN, other than for purposes of enumeration at birth; (3) consulting with DHS and other agencies to further improve the security of SSNs and SSN cards; and (4) strengthening the standards and requirements for citizenship and identity documents presented with SSN applications to ensure the correct individual obtains the correct SSN. Additionally, SSA has significantly decreased the number of nonwork SSNs it assigns to noncitizens as a result of a change in regulations and field office compliance with procedures to ensure that nonwork SSNs are issued only to qualified individuals.

SSA has also taken steps to reduce the size and growth of the ESF. In June 2005, the Agency expanded its voluntary Social Security Number Verification Service (SSNVS) to all interested employers nationwide. SSNVS allows employers to verify the names and SSNs of employees before reporting their wages to SSA. During Calendar Year 2006, SSNVS processed over 49 million verifications for over 13,400 registered employers.

SSA also supports DHS in administering "E-Verify" formerly known as the Basic Pilot Program, which verifies the names and SSNs of employees as well as their authorization to work in the United States. The "E-Verify" program is available to employers nationwide and was recently enhanced to include a Photo Screening Tool feature, which allows an employer to check the photos of a new hire's Employment Authorization Document or Permanent Resident Card ("Green Card") against images stored in DHS immigration databases. During FY 2006, "E-Verify" processed about 1.7 million verifications for approximately 12,000 employers.

The Agency continues to modify the information it shares with employers. Under IRTPA, SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines, as determined appropriate by the Commissioner of Social Security. SSA added death indicators to those verification routines used by employers and State agencies on March 6, 2006 and added fraud indicators in August 2007.

MANAGEMENT OF THE DISABILITY PROCESS

SSA needs to continue to improve critical parts of the disability process, such as making timely disability decisions and safeguarding the integrity of its disability programs. SSA's disability program has remained on the Government Accountability Office's (GAO) high-risk list since 2003 due, in part, to outmoded concepts of disability, lengthy processing times, and inconsistencies in disability decisions across adjudicative levels and locations.

At the forefront of congressional and Agency concern is the timeliness of SSA's disability decisions at the hearings adjudicative level. The average processing time for the Office of Disability Adjudication and Review (ODAR), responsible for SSA's hearings and appeals programs, continues to increase each FY—from 293 days in FY 2001 to 512 days in FY 2007. In our December 2006 report on Disability Insurance (DI) payments made during the appeals process, we found that financial performance and citizen satisfaction of the DI program could be greatly increased if SSA would establish a business process to allow more timely decisions on medical cessation appeals. In our March 2007 audit on ODAR's workload status reports, we reported that we found no clear link between the Agency's internal hearings workload benchmarks and the overall performance goal for the average processing time of a hearing.

ODAR's pending workload also continues to increase steadily. At the end FY 2007, the pending workload was 746,744 cases—up from 392,387 cases in FY 2001. We recently presented SSA with the results of our review on Administrative Law Judges' (ALJ) Caseload Performance. The review recommended SSA establish a performance accountability process to address ALJ performance when it falls below an acceptable level. The recommendation, when implemented by SSA, will assist the Agency in reducing pending workloads.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

In August 2006, SSA implemented a Quick Disability Determination (QDD) process which uses a computer model to identify cases when the individuals are obviously disabled and are likely to be allowed. The QDD process was successful with Disability Determination Services (DDS) issuing decisions on 95 percent of cases within the required timeframe. Based on the results of the QDD process in the Boston region, the Commissioner of Social Security required DDSs nationwide to implement the QDD process by March 2008.

In response to our March 2007 audit on ODAR's workload status reports, the Agency has developed "guidelines" related to the steps in the hearings process to track the Agency's performance goal for average processing time. ODAR has also taken other steps, such as encouraging hearing offices to view case processing using a weekly rather than monthly timeframe, to improve office productivity.

To address its pending workload, ODAR accelerated and expanded efforts to address cases that have been waiting 1,000 days or more for a hearing—with the goal of having these cases to a negligible level by the end of FY 2007. Specifically, at the beginning of FY 2007, there were about 63,000 cases pending which were or would become over 1,000 days old by the end of the FY. As of end of FY 2007, this pending workload was reduced to 108 cases.

The Commissioner also recently announced additional initiatives in an effort to reduce the hearings backlog by FY 2012. Many of these initiatives are either ongoing or expected to begin within the next few months. The Commissioner's initiatives include:

- **Compassionate allowances** where SSA plans to build on the success of the QDD process by implementing additional initiatives to quickly identify and allow applicants who are obviously disabled.
- **Increased adjudicatory capacity** which includes filling hearing dockets of current ALJs to capacity by increasing staff overtime, improving ALJ productivity, hiring at least 150 ALJs and the necessary accompanying support staff, streamlining folder assembly, and using personnel from other SSA components to assist the most affected hearing offices.

- **Using automation and improved business processes** such as video equipment in all hearings offices, electronic file assembly, electronic scheduling, and decision-writing templates to improve case processing at the hearings level.
- **Opening a National Hearing Center** where ALJs in a centralized, fully electronic facility will handle electronic files and conduct only video hearings.

We continue to work with the Agency to safeguard the integrity of its disability programs with the Cooperative Disability Investigations (CDI) program. Under the CDI program, our Office of Investigations and SSA staff obtain evidence to resolve questions of fraud in disability claims. Since the program's inception in FY 1998, the 19 CDI units, operating in 17 States, have been responsible for over \$879 million in projected savings to SSA's disability programs and over \$539 million in projected savings to non-SSA programs.

IMPROPER PAYMENTS AND RECOVERY OF OVERPAYMENTS

Improper payments are defined as any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Examples of improper payments include payments made to ineligible recipients, duplicate payments, and payments that are for the incorrect amount. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an overemphasis on expediting payments.

SSA and the Office of the Inspector General (OIG) have discussed such issues as detected versus undetected improper payments and avoidable versus unavoidable overpayments that are outside the Agency's control and a cost of doing business. OMB issued specific guidance to SSA to include only avoidable overpayments in its improper payment estimate because those payments can be reduced through changes in administrative actions. Unavoidable overpayments that result from legal or policy requirements are not to be included in SSA's improper payment estimate.

The President and Congress continue to express interest in measuring the universe of improper payments in the Government. In August 2001, OMB published the President's Management Agenda (PMA), which included a governmentwide initiative for improving financial performance, including reducing improper payments. The *Improper Payments Information Act of 2002* (IPIA) (Pub. L. No. 107-300) was enacted in November 2002, and OMB issued guidance in May 2003 (OMB Memorandum M-03-13) on implementing this law. In August 2006, OMB updated and revised this guidance (OMB Memorandum M-06-23). Significant updates to the guidance include new language to clarify the definition of an improper payment and clarification of OMB's authority to require agencies to track programs under the IPIA with low error rates (i.e., less than 2.5 percent), but significant improper payment amounts.

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs—and some improper payments are unavoidable. In FY 2007, SSA issued over \$612 billion in benefit payments to over 54 million people. Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

In January 2007, OMB issued a report *Improving the Accuracy and Integrity of Federal Payments* noting that eight Federal programs—including SSA's OASDI and SSI programs—accounted for more than 89 percent of the improper payments in FY 2006. However, this report also noted that the OASDI error rate dropped by 1/10th of 1 percent, which resulted in a \$401 million reduction in improper payments.

In August 2007, we issued a report, *Improper Payments Resulting from the Annual Earnings Test*, that showed that SSA did not adjust the benefit payments for all beneficiaries who were subject to the Annual Earnings Test. We estimated SSA overpaid about \$313 million to 89,300 beneficiaries and underpaid about \$35 million to 12,800 beneficiaries. These payment errors primarily occurred because SSA did not process all records identified by its Earnings Enforcement Operation (EEO). Furthermore, unless SSA takes corrective action to process all future EEO selections, we estimated it would pay at least \$104 million in overpayments and \$11 million in underpayments annually.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has been working to improve its ability to prevent over- and underpayments by obtaining beneficiary information from independent sources sooner and using technology more effectively. For example, the Agency is continuing its efforts to prevent payments after a beneficiary dies by using Electronic Death Registration information. Also, the Agency's Continuing Disability Review process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments.

SSA is also taking steps to recover overpayments. For example, the Agency generally agreed to the recommendations to improve its efforts for cross-program recovery of overpayments that were in our June 2007 report, *Cross-Program Recovery of Benefit Overpayments*. For the records we reviewed, we estimated SSA could

collect a maximum of about \$3.6 million over a 21-month period from SSI payments to recover OASDI overpayments. The amounts recovered could also earn about \$149,000 in interest for the OASDI trust funds over the 21-month period. In addition, we estimated that over the 21-month period, SSA could recover a maximum of about \$13.4 million in SSI overpayments. In September 2007, SSA implemented Cross Program Recovery III, which collects OASDI overpayments from SSI underpayments. SSA reported that the new program provided for the collection of over \$4 million in its first month of implementation.

We will continue to work with SSA to identify and address improper payments in its programs. For example, in our review, *Title II Disability Insurance Benefits with a Workers' Compensation Offset* (issued in November 2006), we found that the percentage of payments in error identified in this report declined significantly when compared to the percentage we reported in our prior workers' compensation offset audits. However, although there has been an improvement in reducing improper payments due to workers' compensation, we still identified about 25,377 disability insurance claims totaling approximately \$149 million that had payment errors. SSA agreed to implement the five recommendations we made regarding this workload.

INTERNAL CONTROL ENVIRONMENT AND PERFORMANCE MEASURES

Sound management of public programs includes both effective internal controls and performance measurement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. OMB's *Circular No. A-123, Management's Responsibility for Management Control*, requires the Agency and its managers to take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management. Accordingly, SSA management is responsible for determining through performance measurement and systematic analysis if the programs it manages achieve intended objectives.

Establishing appropriate controls over the development of disability claims under the DI and SSI programs is one of the main work processes for which SSA is responsible. Disability determinations under DI and SSI are required to be performed by DDSs in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2007, SSA allocated over \$1.7 billion to fund DDS operations.

From FY 2000 through FY 2007, we conducted 61 DDS administrative cost audits. In 32 of the 61 audits, we identified internal control weaknesses and over \$110 million that SSA reimbursed to the States that were not properly supported or could have been put to better use. Fourteen of the 61 audits conducted were completed in FY 2007. Six of these reports noted similar control weaknesses identified in DDS audits in previous years and over \$28 million of questioned costs and/or funds that could be put to better use. We believe the large dollar amounts claimed by State DDSs and the control issues we have identified, warrant this issue remaining a major management challenge.

Another area that requires sound management and effective internal control is the selection and oversight of contractors assisting the Agency in meeting its mission. In FY 2007, SSA spent over \$715 million on contracts. We reviewed 11 of SSA's contracts in FY 2007. We generally found that the costs claimed for services provided by the contractors involved were reasonable and allowable. While we noted no major concerns in the reviews conducted, we believe ensuring proper oversight and controls over its contracts is inherently a major management challenge for SSA due to the total dollar amounts awarded and risks involved with contractors adequately delivering services and meeting contract objectives.

The *Government Performance and Results Act of 1993* (Pub. L. No. 103-62) and the PMA call for the identification of outcome measures that accurately monitor programs' performance. Also, SSA managers need sound information to monitor and evaluate performance. In FY 2007, we issued 7 audits that addressed 14 of SSA's performance measures. Four of the seven audits were based on work that began in FY 2006, with audit work continuing into FY 2007. The nine performance measures addressed in these four reports are listed below.

- Increase the Usage of Electronic Entitlement and Supporting Actions
- Agency Decisional Accuracy Rate
- Average Processing Time for Hearings Appeals
- Disability Determination Services Cases Processed per Workyear
- Number of Initial Disability Claims Processed by the Disability Determination Services
- Increase the Percent of Employee Reports (W-2 forms) Filed Electronically
- Number of SSA Hearings Processed
- Average Processing Time for SSA Hearings
- Average Processing Time for Initial Disability Claims

We concluded the data used for five of the nine measures were reliable and that the data used for four of them were unreliable.

Three of the seven audits released in FY 2007 were based on work that began and was completed in FY 2007. The five performance measures addressed by these audits are listed below.

- Percent of Individuals Who Do Business with SSA Rating the Overall Service as “Excellent,” “Very Good,” or “Good”
- Minimize Skill and Knowledge Gaps in Mission-Critical Positions
- Align Employee Performance with Agency Mission and Strategic Goals
- Percent of Old-Age, Survivors, and Disability Insurance Payments Free of Overpayment and Underpayment
- Continue to Achieve 2 Percent Productivity Improvement on Average

We concluded that the data used for four of the five measures were reliable and that the data used for one of them was unreliable.

Generally, when data was determined to be unreliable, it was due to weaknesses in internal or access controls over the systems used to collect and process it. Due to the control weaknesses, the data was not sufficiently secure to be certain of its integrity. The challenge SSA faces in this area is ensuring that it has reliable management information when making strategic and operational plans.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken steps to develop internal controls over its operations and contractor performance and in developing sound performance data. SSA has generally agreed with our recommendations that address internal control weaknesses associated with DDSs and has taken the recommended steps to ensure that reimbursements provided to DDSs are allowable and properly supported. Additionally, SSA is working to limit the number of employees that have access and the ability to change data in its performance data collection systems to help ensure the integrity of its management information. Also, the Agency has worked with us to determine what is the best way to audit its performance data without significantly increasing its data storage costs. This effort includes gaining real time access to SSA’s performance data, which allows us to test the data as it is being created.

SYSTEMS SECURITY AND CRITICAL INFRASTRUCTURE PROTECTION

Protecting the critical infrastructure of the United States is essential to the Nation's security, public health and safety, economic vitality, and way of life. Attacks on critical infrastructure could significantly disrupt the functioning of Government and business alike and produce cascading effects far beyond the targeted sectors and physical location of the incident. Therefore, any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and result in the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures.

SSA's information security challenge is to understand and mitigate system vulnerabilities. Weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations have been identified. While many of these weaknesses have been resolved, SSA needs to monitor these issues diligently to ensure that they do not reoccur.

OMB continues to stress the importance of protecting the public's privacy and PII as emphasized by new guidance such as OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*. This new guidance mandates agencies increase efforts to reduce the use of PII collected and held. OMB Memorandum M-07-16 complements existing PII guidance including OMB Memorandum M-06-15, *Safeguarding Personally Identifiable Information*, and OMB Memorandum M-06-19, *Reporting Incidents Involving Personally Identifiable Information and Incorporating the Cost for Security in Agency Information Technology Investments*. OMB is also incorporating more privacy and PII protection questions in its annual *Federal Information Security Management Act (FISMA)* (Pub. L. No. 107-347, Title III) guidance (OMB Memorandum M-07-19).

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken numerous steps to address OMB guidance on PII. In September 2006, the Agency released, *Policy and Procedures for All SSA Employees for Reporting the Loss or Suspected Loss of Personally Identifiable Information (Information Systems Security Handbook, Appendix V)*. This policy requires the reporting of incidents involving the loss or potential loss of PII within 1 hour of discovery. In March 2007, the Agency issued procedures on safeguarding PII while in transit or outside of secure SSA space. In September 2007, SSA issued the, *SSA Breach Notification Policy, The Social Security Administration's Implementation Plan To Eliminate Unnecessary Use Of Social Security Numbers, and The Social Security Administration's Plan and Progress Update on Review and Reduction of Holdings of Personally Identifiable Information (PII)*. The Agency has also established workgroups, a PII Executive Steering Committee, which provides oversight and recommendations on SSA policy, and the PII Breach Response Group whose role is to engage in Agency planning in the event a breach occurs.

SSA addresses significant information technology control issues in many other ways. For example, the Agency developed and implemented configuration standards for all major operating system platforms and software components. SSA also began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations are in compliance with established system configuration standards. Further, SSA maintained Certifications and Accreditations for all 20 major systems, which were substantially compliant with security standards. SSA has instituted access control policies to ensure appropriate segregation of duties by limiting access to critical information on a 'need only' basis.

Over the years, SSA has worked to establish sufficient access controls as evidenced by the use of Top Secret software and the System Security Profile Project (SSPP). An employee's profile is the primary element used to control access to SSA's databases. As a result of the SSPP, in FY 2005, the access control issue was removed as a reportable condition from SSA auditor's financial statement report. SSA needs to continue its efforts to fully implement the policies that control access to sensitive records. Such efforts should include:

- Updating and developing new configuration standards when appropriate;
- Strengthening its access control processes to ensure that the user profiles are adequately reviewed and tested;

- Continuing to monitor the Agency's devices for compliance with established configuration standards;
- Continuing to work the SSPP and the regular monitoring of accesses made to sensitive data; and
- Controlling and monitoring DDS employees and contractors' access to sensitive SSA information.

SSA has implemented a variety of methods to protect its critical information infrastructure and systems security. For example, SSA's Critical Infrastructure Protection workgroup continuously looks to find ways to ensure Agency compliance with various directives, such as Homeland Security Presidential Directives and FISMA. To provide for the protection of the critical assets of the SSA National Computer Center, SSA has initiated the Information Technology Operations Assurance (ITOA) project. The objective of the ITOA project is to build a second, fully functional, co-processing data center. SSA also routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SERVICE DELIVERY AND ELECTRONIC GOVERNMENT

One of SSA's goals is to deliver high-quality "citizen-centered" service. This goal encompasses traditional and electronic services to applicants for benefits, beneficiaries and the general public. It includes services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. This area includes the challenges of the Representative Payee Process, Medicare Prescription Drug Program, Managing Human Capital and Electronic Government (e-Government).

When SSA determines a beneficiary cannot manage his or her benefits, SSA selects a representative payee who must use the payments for the beneficiary's interests. In FY 2007, SSA reported there were approximately 5.3 million representative payees who managed about \$49.9 billion in annual benefit payments for approximately 7.1 million beneficiaries in FY 2006. While representative payees provide a valuable service for beneficiaries, SSA must provide appropriate safeguards to ensure its responsibilities are met to the beneficiaries it serves.

In FY 2007, we identified several problematic conditions during our reviews of SSA's representative payee process. We found SSA's procedures did not ensure new representative payees were selected when the death of current payees occurred. We were also unable to identify if SSA referred, as required, all misuse cases to the OIG. Furthermore, SSA did not always use its authority to redirect benefit payments to the local field office when representative payees failed to submit annual accounting reports. Finally, in July 2007, the National Academy of Sciences (NAS) issued a report, *Improving the Social Security Representative Payee Program: Serving Beneficiaries and Minimizing Misuse*, that contained several recommendations to improve SSA's representative payee program. For example, NAS reported that SSA should take steps to prevent and detect misuse of beneficiary funds in a better way. In addition, NAS recommended that SSA conduct targeted reviews of those representative payees most likely to misuse benefits.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Pub. L. No. 108-173) established a new, voluntary Prescription Drug Program that became effective January 2006. Under this program, certain low-income individuals are eligible to receive prescription drug coverage, premium, deductible, and co-payment subsidies. Implementation of the program presented several challenges for SSA. For example, SSA needed to conduct outreach efforts to promote the program, perform income and resource verifications for individuals who applied for low-income subsidies and review appeals for applicants who disputed SSA's eligibility determinations.

As of January 2007, the GAO continued to identify strategic human capital management on its list of high-risk Federal programs and operations. Further, Strategic Management of Human Capital is one of five governmentwide initiatives contained in the PMA. By the end of 2012, SSA projects its DI rolls will have increased by 35 percent. Further, by FY 2015, 54 percent of current SSA employees will be eligible to retire. This could result in a loss of institutional knowledge that will affect SSA's ability to deliver quality service to the public.

SSA faces numerous challenges in its attempts to provide eServices to the public, Government and business. For example, SSA is facing increased workloads as "baby boomers" become eligible for retirement and as the disability beneficiary population grows. At the same time, there is a greater need for prompt, secure, and efficient Government Internet services. We believe SSA needs to increase its efforts to encourage claimants to file claims via the Internet Social Security Benefit Application (ISBA). The percentage of claims filed through the Internet has remained at about 3 to 5 percent over the previous 5 years. Furthermore, about 73 percent of claimants who file electronically for retirement or disability benefits over ISBA still have to be contacted by SSA's field offices before processing can be completed.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken several actions to address the challenges of its representative payee process. This includes providing periodic reports mandated by Congress under the *Social Security Protection Act of 2004* on its representative payee site reviews and other reviews. SSA has also established a Representative Payment Steering Committee to address the NAS conclusions and recommendations and planned enhancements to its information systems for the issuance of alerts to field offices to select a new representative payee when SSA is notified of a payee's death.

To manage the challenges presented by the Medicare Prescription Drug Program, SSA conducted more than 75,000 outreach events across the country to promote the program. Based on income and resource verifications performed as of February 2007, SSA approved low income subsidies to about 2.1 million applicants and denied low income subsidies to about 2.5 million applicants. SSA created a Subsidy Appeals Unit to process appeals of its subsidy eligibility determinations and continues to perform periodic redeterminations of subsidy eligibility.

Since June 2004, SSA has consistently scored "green" in both "Current Status" and "Progress in Implementing the PMA," for Human Capital on the Executive Branch Management Scorecard. The scorecard tracks how well the departments and major agencies are executing the governmentwide management initiatives. SSA has taken various actions to address its human capital challenges. In the Agency's FY 2006 Annual Human Capital Accountability Report, SSA reported it developed an Office of Personnel Management certified Human Capital Accountability System and Operating Plan. In addition, SSA reported it instituted changes in its organizational structure to expedite service to the public.

E-Government is a cornerstone of the PMA. SSA is incorporating this Presidential initiative into its process by promoting convenient, quality on-line services. SSA is currently using the Web to provide services through its Homepage. ISBA has consistently rated at the top of all Federal offerings by the American Customer Satisfaction Index Scorecard. In FY 2007, SSA reported a 292 percent increase over the FY 2004 baseline in the use of electronic entitlement and supporting actions during FY 2006. One of the more recent users of SSA's electronic services was the Nation's first "baby boomer" who filed for retirement benefits on-line.