

Management's Discussion and Analysis



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

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

Following the Overview of SSA section is a discussion of the Major Issues that SSA will be facing in the future. We used the Performance and Accountability Report to provide a snapshot of the performance we achieved in FY 2002. However, the status of SSA would not be complete without providing a sense of the challenges tomorrow brings. These challenges include long-term solvency of the Social Security program and fulfilling our commitment to quality service as well as topics that have a more immediate impact on our operations such as SSI and DI management improvement and fraud prevention and detection. While these issues are challenging, we believe we have the policies and plans in place to help ensure they will be adequately addressed.

Next, the MD&A discusses SSA's ability to achieve the five strategic goals contained in our current strategic plan. In April 2001, we provided Congress with our FY 2002 Annual Performance Plan (APP) outlining the performance indicators we used to assess our ability to meet these five strategic goals. In April 2002, we provided Congress with our FY 2003 APP and Revised Final FY 2002 APP, which revised several FY 2002 Government Performance and Results Act (GPRA) performance indicators. The Performance Goals and Results section provides a discussion of SSA's GPRA strategy and includes a summary of FY 2002 performance. It also includes selected key indicators from the APP, targeted performance for FY 2002 and actual performance achieved. The remaining FY 2002 GPRA performance indicators and their targeted performance and results may be found in the GPRA Performance Results section of the report.

In addition to discussing program performance, the MD&A also addresses our financial performance. The major sources and uses of SSA's funds, as well as the use of these resources in terms of both program and function, are explained. Finally, the Systems and Controls section of the MD&A provides the Commissioner's Federal Managers' Financial Integrity Act (FMFIA) assurance statement, the actions SSA has taken to address our management control responsibilities and a discussion of the determination of the Agency's compliance with the Federal Financial Management Improvement Act and the Government Information Security Reform Act.

Overview of SSA

Mission

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

The Social Security Programs

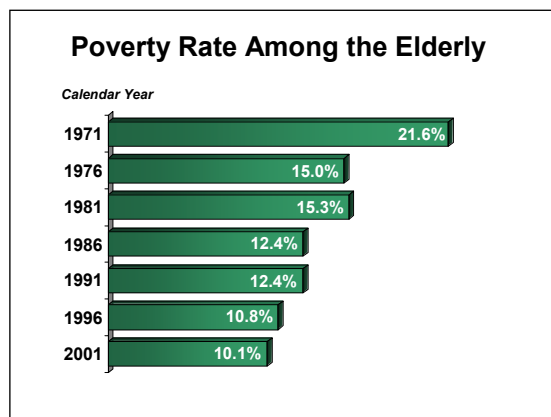
The Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. Protection for survivors of deceased retirees was added by the 1939 amendments, thus creating the Old Age and Survivors Insurance (OASI) program. Social Security protection for workers was expanded again in 1956 to include the Disability Insurance (DI) program. SSA's responsibilities were further expanded in 1972 to include the Supplemental Security Income (SSI) program and again in 1999 to include Special Benefits for Certain World War II Veterans (title VIII). The following table provides the number of beneficiaries for the OASI, DI and SSI programs.



| Number of Beneficiaries (In Millions) ¹ | | | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
| OASI | 36.9 | 37.2 | 37.5 | 37.6 | 37.8 | 37.9 | 38.0 | 38.7 | 38.9 | 39.2 |
| DI | 5.2 | 5.5 | 5.8 | 6.0 | 6.1 | 6.3 | 6.5 | 6.6 | 6.8 | 7.1 |
| SSI | 5.9 | 6.2 | 6.5 | 6.6 | 6.6 | 6.6 | 6.6 | 6.6 | 6.7 | 6.8 |

1. Includes individuals receiving benefits from more than one program.

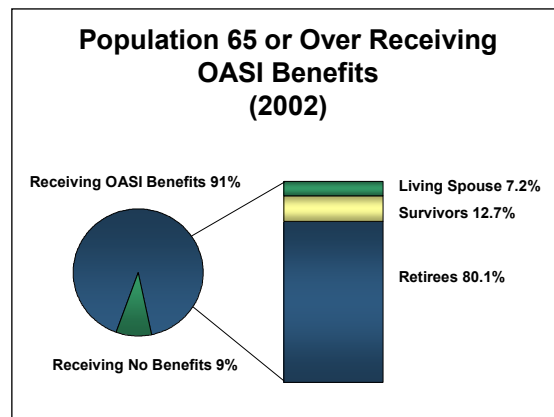
The combined Old-Age, Survivors and Disability Insurance (OASDI) programs, commonly referred to as Social Security, provide a comprehensive package of protection against the loss of earnings due to retirement, disability and death. Monthly cash benefits are financed through payroll taxes paid by workers and their employers and by self-employed people. Social Security is intended to replace a portion of these lost earnings, but people are encouraged to supplement Social Security with savings, pensions, investments and other insurance.



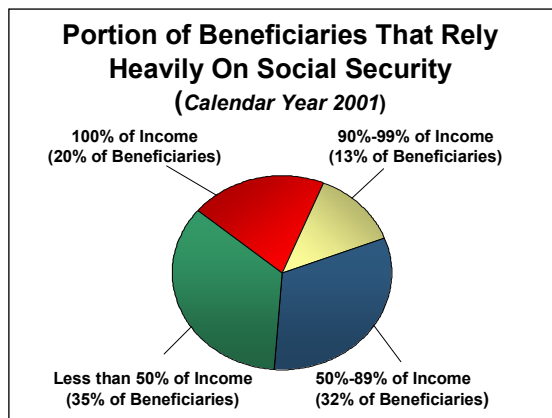
Social Security benefits have significantly improved the economic well being of the nation. Poverty among the elderly has been reduced by 54 percent over the past 30 years, decreasing from 21.6 percent in 1971 to 10.1 percent in 2001. In 1936, when Social Security numbers were first assigned to workers, most of the nation's elderly were living in poverty. Today, monthly benefits are an important part of the quality of life of elderly Americans and millions more who are protected in case of death or disability. In 2001, the family income of only 16 percent of aged, unmarried beneficiaries fell below the poverty line. In addition, in 2001, only 3 percent of aged beneficiaries who were members of a married couple had income below the poverty line.

The monthly benefit amount to which an individual (or spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her lifetime. The maximum amount of earnings on which contributions were payable in 2001 was \$80,400 and increased to \$84,900 in 2002.

OASI Program: To qualify for OASI benefits, a worker must have paid Social Security taxes (Federal Income Contributions Act and/or Self-Employment Contributions Act) for at least 10 years (or 40 credits) over the course of his/her lifetime. Individuals born before 1929 need fewer credits to qualify. Nine out of 10 working Americans can count on benefits when they retire, with reduced benefits payable as early as age 62. Benefits are also paid to certain members of retired workers' families and to survivors.



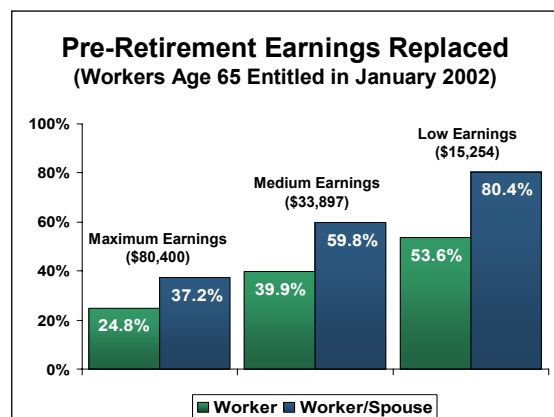
As shown in the chart to the right, 91 percent of people age 65 or over in calendar year 2002 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and their mothers or fathers with children in their care under 16 can count on monthly cash benefits if a working parent dies.



In 2001, Social Security benefits comprised 39 percent of the aggregate share of all income to the aged population 65 and over. Other sources of income include assets (16 percent), earnings (24 percent), and pensions (18 percent) both Government and private.

While many of the nation's aged population have income from other sources, a portion of the beneficiary population relies heavily on Social Security. For a third of beneficiaries, it contributes all or almost all of the income; and for almost two thirds of the beneficiaries, it is the major income source.

The level of preretirement (career-average) earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted in favor of workers with low levels of earnings. The chart to the right shows the replacement rate in 2002 for individuals and couples (i.e., worker with a spouse who is not insured) at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2001.

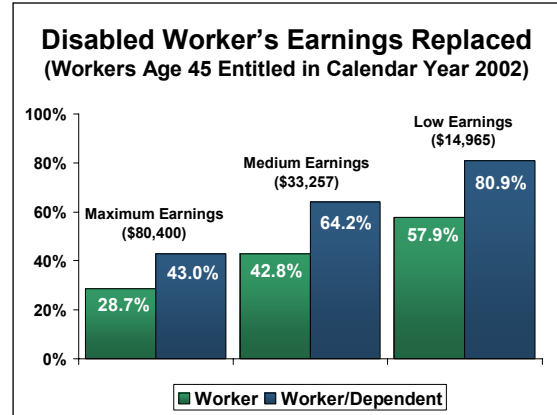


DI Program: To qualify for DI benefits, an individual must meet a test of substantial recent covered work before becoming disabled. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. About 9 out of 10 persons age 21 through 64 who worked in covered employment in 2001 can count on receiving benefits if they become disabled. Workers are considered disabled if they have a medically determinable physical or mental impairment that prevents them from engaging in substantial gainful activity. The disability must be expected to last for a continuous period of at least 12 months or to result in death.

Once benefits begin, they continue for as long as the worker is disabled and does not perform substantial gainful work. There are provisions that provide incentives for work. Disability cases are reviewed periodically to determine if the worker continues to be disabled.

The chart to the right shows the replacement rate in 2002 for disabled workers and their dependents at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2001.

The table below presents a historical perspective on medium earnings replacement for both the OASI and DI programs.

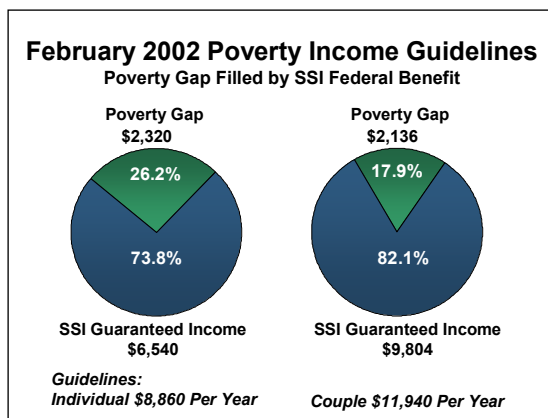


| Medium Earnings Replaced Historical Perspective | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| | 1952 | 1962 | 1972 | 1982 | 1992 | 2002 |
| Disabled Worker ¹ | NA | 34.5% | 39.1% | 42.7% | 43.5% | 42.8% |
| Retired Worker | 26.2% | 32.0% | 37.7% | 48.7% | 43.8% | 39.9% |

1. Data not available for disability benefit payments which began in 1957. Based on 45-year old disabled worker.

SSI Program: SSI is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security trust funds. Qualified recipients receive monthly cash payments from SSA sufficient to raise their income to the level guaranteed by the Federal SSI program. Children, as well as adults, can receive payments because of disability or blindness.

The definitions of disability for adults used in the SSI program, as well as continuing disability review procedures, are the same as those used in the DI program. There is a separate definition of disability for children seeking SSI benefits. There are general provisions to encourage working and special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide. However, those with other income receive less since benefits may be reduced by the income they receive from other sources.

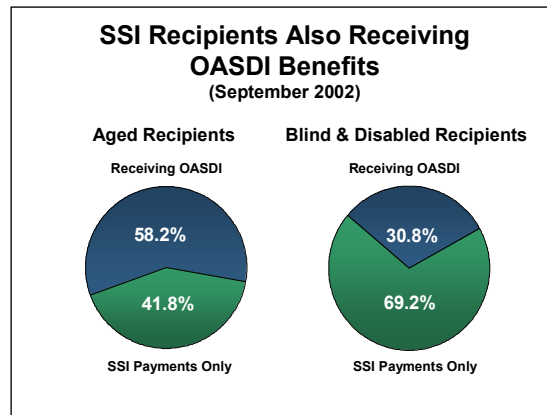


As shown in the chart to the left, SSI recipients with no other income receive the full SSI Federal benefit which is 73.8 percent of the poverty level for an individual and 82.1 percent for a couple.

The portion of the poverty gap not filled by Federal SSI may be filled by State SSI supplementation payments. Also, SSI recipients may be eligible for food stamps, Medicaid and social services.

In September 2002, 35.9 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.3 percent of the recipients, earnings were a source of additional income.

OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 35.9 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (58.2 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.8 percent).



Special Benefits for Certain World War II Veterans:

Title VIII of the Social Security Act, enacted December 14, 1999, as part of the Foster Care Independence Act of 1999, provides a monthly cash payment to certain World War II veterans who are eligible for SSI in both December 1999 and the month in which he or she files an application for the special benefits and who reside outside of the 50 States, the District of Columbia and the Northern Mariana Islands. Payments began in May 2000.

Support to Other Programs

In addition to its basic programs, SSA also provides a significant measure of service delivery support to other programs, particularly Black Lung, Medicare, Medicaid, Food Stamps and Railroad Retirement.

Black Lung Program: The Black Lung (BL) program pays monthly cash benefits to coal mine workers and their dependents and survivors. SSA is responsible for administering Part B of the BL program under title IV of the Federal Coal Mine Health and Safety Act. Part B covers claims filed by miners before July 1973 and survivor claims filed before January 1974 or within 6 months of the death of a miner or widow on the SSA rolls, whichever is later. Any claims filed after these dates generally are the responsibility of the Department of Labor (DOL) covered under Part C of the program.

SSA is also responsible for taking claims for, and performing certain other services related to, Part C benefits. In FY 2002, SSA field offices took 467 claims for Part C benefits and transferred them to DOL for payment, as required by law. SSA received full reimbursement from DOL for these services. Beginning in FY 1998, DOL provided administrative services for the Part B program under an interagency agreement with SSA and certified for payment all Part B benefits from funds appropriated to SSA. However, SSA retained responsibility for these payments. On November 2, 2002, the President signed Public Law 107-275, the Black Lung Consolidation of Administrative Responsibilities Act, which transfers responsibility for administration of Part B benefits from the Commissioner of Social Security to the Secretary of Labor, thereby consolidating all BL benefits responsibility under the Secretary.

Medicare: Being a primary public contact point for the Centers for Medicare and Medicaid Services (CMS), SSA provides key services to the Medicare program. SSA staff determine and answer questions regarding Medicare eligibility, maintain the computerized records of Medicare eligibility, and collect Medicare premiums through withholdings from Social Security payments. Annually, SSA devotes about 1,488 workyears to supporting these workloads and funds for these services are drawn from the Medicare trust fund. In addition, Administrative Law Judges in SSA's Office of Hearings and Appeals provide hearings and adjudicate disputed appeals of Medicare reimbursements.



Medicaid: In 32 States and the District of Columbia, eligibility for SSI benefits confers automatic entitlement to Medicaid. Thus, the SSI eligibility determination made by SSA saves a significant number of workyears for these States. SSA also provides information and referral services in support of Medicaid and is directly funded by the States and CMS.

Railroad Retirement: SSA provides services in connection with entitlement to benefits from the Railroad Retirement Board (RRB). SSA takes the applications, determines jurisdiction and coordinates benefit payments with the RRB. The latter organization, as required by statute, issues a combined monthly benefit payment when a retiree is entitled to both Railroad and Social Security retirement benefits due to having worked for both the railroad and other industries prior to retirement. SSA reimburses the RRB for OASI and DI benefits paid on SSA's behalf. In addition, SSA arranges an annual financial interchange with the Railroad Retirement Trust Fund to place the Social Security trust funds in the same position they would have been in had railroad employment been covered by Social Security.

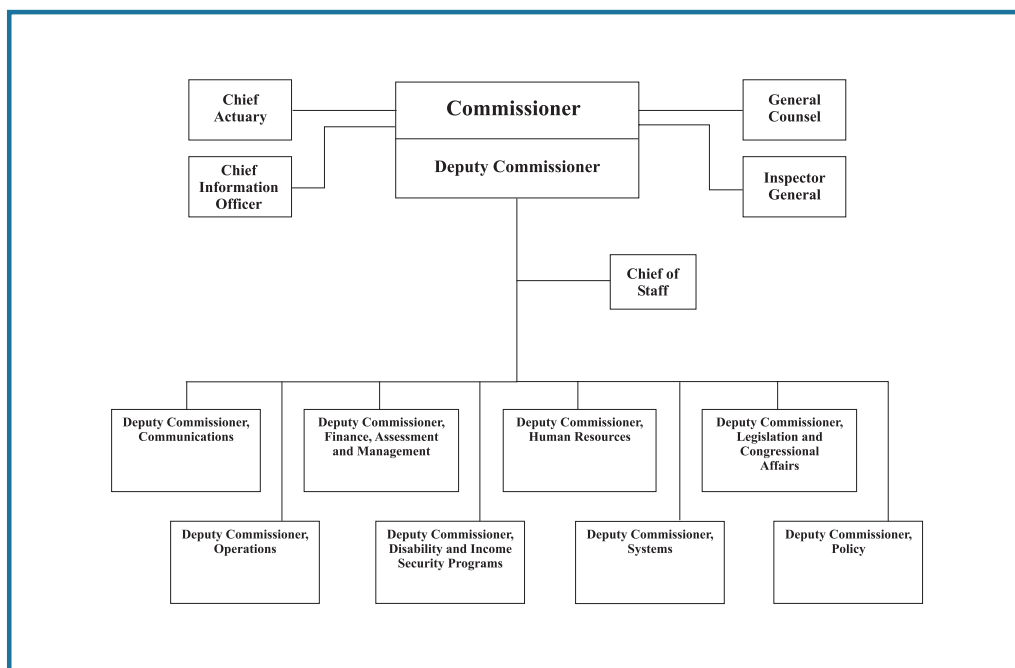
Food Stamps: SSA assists the Department of Agriculture by providing information about the food stamp program and taking food stamp applications for qualified OASI, DI and SSI claimants. In FY 2002, SSA processed 39,775 food stamp applications and recertifications.

Child Support: The Office of Child Support Enforcement, working with State and local agencies, locates absent parents in order to ensure that parents provide financial support to their children. SSA routinely provides electronic information from Social Security records that improves the efficiency of the program and greatly enhances the ability to locate parents and collect child support, collections which totaled almost \$19 billion in 2001.

State and Local Programs: SSA regularly provides information from Social Security records needed to make eligibility and payment decisions for a variety of State and local welfare programs, and provides automated data exchanges with over 100 State and Federal agencies.

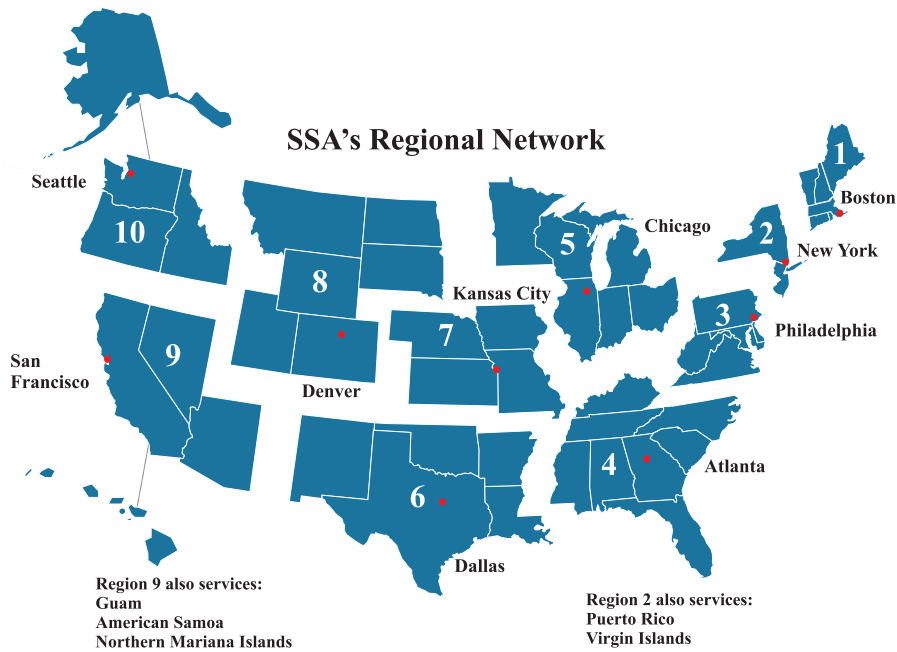
Agency Organization

SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 1,336 field offices (FO), 138 hearings offices, 36 teleservice centers, 7 processing centers and 1 data operations center. SSA's organizational structure is designed to provide responsive, swift and quality service to the public. All components within SSA's central office perform a supporting role to SSA FOs by providing uniform directions, guidance and material resources needed by the FOs. By integrating services for all the programs we administer, we are able to enhance efficiency, avoid duplication of effort and increase opportunities to provide one-stop service to the public.



FOs are located in cities and rural communities across the nation and are the Agency’s main physical point of contact with beneficiaries and the public. Additionally, the Social Security disability program depends on the work of 54 Disability Determination Services which include all 50 States, the District of Columbia, Guam and Puerto Rico.

To meet the needs of non-English-speaking persons, SSA recruits bilingual individuals to serve as a public contact for persons visiting SSA field offices and calling SSA’s 800-number telephone service. During FY 2022, 15 percent of the Agency’s new hires were bilingual. At year end, SSA had public contact employees who could provide service in English and at least one of 23 other languages.



Major Issues Facing SSA

SSA's Performance and Accountability Report summarizes the Agency's achievements in administering its programs and managing the resources entrusted to it. In addition to the retrospective information provided by the report, we believe a full picture of the Agency's and the program's status must also consist of a discussion of those current issues with possible major impact on future operations. This section is organized by the Commissioner's four goals, which encompass the President's Management Agenda (PMA) initiatives of Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration. These initiatives are discussed in more detail in this section and throughout the report.

Service

Service Delivery Assessment

The Agency decided to address the many challenges and issues it faces through the framework of a comprehensive Service Delivery Assessment. This assessment is a granular-level examination of each of SSA's programs, delivery channels and processes to ensure that the Agency is providing quality service and stewardship to the American public. From this detailed evaluation, SSA is identifying issues and problems and ways to address them.



SSA began its Service Delivery Assessment with the disability process because, while the Agency devotes two-thirds of its administrative budget to it, the timeliness of the service delivered is unacceptable. The information gathered from, and the analytical tools developed in, this detailed examination are being used in our efforts to accelerate implementation of an electronic business process for the disability program.

Accelerated eDIB (AeDib)

SSA has embarked on a major Agency initiative consisting of a series of projects designed to move its disability claims adjudication/review to an electronic business process through the use of an electronic disability folder. This initiative is known as AeDib (accelerated electronic disability system). In order to reap the benefits as early as possible, the Commissioner decided to implement the electronic business process by calendar year 2004, which was significantly faster than previously planned.

The scope of the AeDib plan encompasses disability cases from the initial intake process through the appeals process and includes Continuing Disability Reviews (CDR). Case processing systems throughout SSA and the state Disability Determination Services will interface with an electronic case record and be enhanced to support a paperless business process. This new process will enable all case processing components to electronically share information, exchange data with the electronic folder and manage and control workloads. The AeDib plan includes:

- developing an electronic folder and infrastructure;
- creating interfaces and enhancing existing systems to work with the electronic folder;
- developing a case processing system for the Office of Hearings and Appeals (OHA);
- automating the disability interview process and providing an Internet filing option to the public; and
- incorporating electronic medical evidence and scanning/imaging processes.

Over time, the AeDib will significantly reduce the time and costs currently required to process a disability case.

Disability Program Improvements

Over the years, SSA has explored initiatives intended to improve service in the disability program. At the State disability determination services (DDS) level where the initial disability determinations are performed, the most recent effort has been testing in 10 States a disability prototype process that combined several features that had shown promise during earlier testing. SSA has decided to pursue only the effective features of the prototype, such as the single decisionmaker.

The single decisionmaker feature of the prototype provides authority for disability examiners to make many disability determinations more quickly by not requiring the participation of a medical or psychological consultant when the disability is obvious. Testing demonstrated that examiners can make accurate determinations using single decisionmaker authority, and they make good judgments about when to seek medical or psychological consultant advice. Single decisionmaker authority enables the Agency to make the most effective use of available resources, and enables medical and psychological consultants to devote most of their time to the most complex cases. Regulations providing for national implementation of single decisionmaker authority are being developed.

SSA also is developing proposals for broader changes to the disability claims and appeals processes. In the meantime, SSA is implementing several near-term changes to improve service and efficiency, such as electronic service initiatives and updating the medical Listing of Impairments.

SSA continues to improve the processing of cases that go to the Appeals Council, the final step in the administrative appeals process. The streamlined process at the Appeals Council has resulted in decreased processing time and a reduction in the backlog of pending cases.

Hearings and Appeals Process

Although in 2002 we made significant progress managing the Hearings and Appeals workload to ensure that it delivers fair, equitable and timely service to the public, it remains a great challenge. Under Accelerated eDib, OHA will implement the Case Processing and Management System (CPMS) which is both a case tracking system and a case processing system. Data will be propagated from and to other SSA systems, which will eliminate the redundant keying of data into multiple systems. CPMS will also insure data consistency throughout SSA. In addition, OHA has initiated several changes to address ongoing challenges in FY 2003 and beyond:



Hearings Process

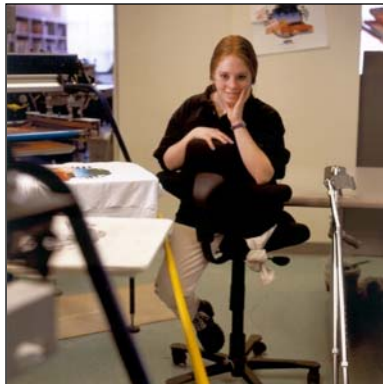
- Eliminated the requirement that cases be certified as ready for hearing and eliminated the mandatory rotation of staff among various duties.
- Enhanced early case screening and analysis to add efficiencies in case workflow.
- Developed initiatives that have the potential for reducing processing times and pending levels including: using a short-form fully favorable decision format; issuing bench decisions; expanding videoteleconferencing capability; implementing digital recording of hearings; and using service contracts to supplement folder assembly efforts.

Appeals Council

- Established an Aged Case Task Force to concentrate efforts on the review and clearance of the oldest cases.
- Used differential case management initiatives (i.e., working a mix of cases, including older and newer requests for review cases) to maintain and improve service delivery.
- Expedited the process of pre-development actions in an effort to reduce processing time.

We expect the combination of these changes to yield steady improvements in performance through the next three years.

Return to Work



When the disability provisions were first added to the Social Security Act, there was little expectation that severely disabled individuals would ever be able to perform substantial work. Since then, changes in the American economy and workplace may make it possible for many beneficiaries with disabilities to be able to work with proper support. However, few disability beneficiaries now leave the disability roles and return to work (RTW).

The Ticket to Work and Work Incentives Improvement Act of 1999 increased beneficiaries' access to vocational services and assigned SSA a major role in bringing beneficiaries and support services together. With the Ticket to Work law now a part of the President's New Freedom Initiative, SSA has stepped up beneficiary reemployment efforts.

SSA is also planning new initiatives to establish or test innovative approaches to early intervention with beneficiaries with disabilities and to better integrate SSA's work support programs with those of other federal agencies, including:

- Testing early intervention initiatives including a demonstration with applicants for disability benefits to assist their attempts to RTW before a decision on their disability benefits has been made;
- Testing increased support through school-to-work programs for young beneficiaries with disabilities to better prepare them for transition to adult life and increased self-sufficiency;
- Collaborating with the Departments of Labor (DOL); Health and Human Services; Education; Housing and Urban Development; and Transportation to improve the coordination of programs that support work efforts among people with disabilities across these agencies. SSA will attempt to increase use of DOL's One-Stop system to help individuals with disabilities receive accurate information. SSA is jointly working with these agencies in the planning of a comprehensive employment demonstration that will attempt to use waiver authorities to build and test a seamless set of work supports for people with disabilities.

The results of these research efforts will lead to recommendations for RTW program improvements for SSA and these other agencies.

Expanded Electronic Government

SSA recognizes that to better serve the "baby boom" and younger generations, the Agency must provide service to satisfy the ever-increasing demands for convenient access to SSA information and services by enhancing and expanding our electronic service delivery. SSA's initiatives include:

- Improving tools and integrating services, including benefit planners and calculators to permit citizens to estimate their benefits, a robust system of Frequently Asked Questions (in English and Spanish) on www.ssa.gov, our Internet newsletter (eNews), and participation in FirstGov for Seniors, a portal that provides one-stop shopping for government services on the Internet;
- Conducting a program of continuous website enhancement to improve interfaces, navigation and the accessibility of the site to disabled customers;
- Expanding our online applications, including the Internet Social Security Benefit Application to fully support filing for disability benefits in addition to retirement and spouse benefits and processing such events as direct deposit and change of address;

- Enhancing our automated 800-number response system to match the Internet offerings for “Check Your Benefits.” Beneficiaries with passwords may now check the amount and date of next payment, type of benefit or non-payment reason, telephone number and date of birth, direct deposit information, Medicare entitlement dates, and overpayment amounts; and
- Adding “Check Your Benefits” for Supplemental Security Income (SSI) recipients.

SSA is also developing new ways to meet the needs of users who want multiple service channels. SSA is evaluating its Multimedia Customer Contact Center pilots for expanding this multiple delivery channel into SSA’s production environment.

Privacy and security are major concerns when using electronic services. SSA is consulting with privacy experts to develop ways to incorporate appropriate authentication for identifying electronic users. Each new application must pass a rigorous risk assessment process. The Agency is developing a strategic approach for Public Key Infrastructure technology to provide the underpinnings for scalable authentication, access control, confidentiality, integrity, and non-repudiation services for Internet applications.



SSA is a key participant in the President’s eGovernment initiative. SSA is the managing partner for the eVital initiative, which will build an infrastructure to handle all requests for vital records data as well as disbursement of vital records data to all federal and other interested parties. Besides eVital, SSA is participating in 15 of the other 24 initiatives, including eAuthentication, eTravel, GovBenefits, Consolidated Healthcare Informatics, Recruitment One Stop and ePayroll.

Additionally, by leveraging partnerships and looking outside the agency, SSA is sharing best practices and solutions to global problems.

Maintaining Systems

All of SSA’s programmatic and administrative workloads, and most of SSA’s service delivery channels, rely on a complex information technology (IT) infrastructure. To ensure that the Agency can meet its aggressive service goals, we have a number of integrated IT initiatives which will provide for upgrading hardware and software, refreshing obsolete technology and improving economies of scale within that infrastructure. The foundation for these initiatives rests on the following 3 priority tenets of operation:

- **Availability** – SSA’s front-line employees must have access to all IT infrastructure services whenever field offices are open and/or telephone access is available to the public. Direct access on the web is required 24 hours-per-day, 7 days-per-week.
- **Stability** - The IT infrastructure must be highly available overall without patterns of even brief periods of outage.
- **Maintainability** – SSA’s highly distributed, multi-platform and multi-vendor architecture requires that IT hardware and software must be maintained at near-current vendor release levels. This ensures continued and quality support services from vendor suppliers.

To provide support across the many disparate workloads and activities within SSA, multiple “processing platforms” must be maintained. These platforms include SSA’s 110,000+ desktop and laptop infrastructure and the network of site and enterprise services supporting it, the telecommunications network infrastructure which links all SSA sites and connects SSA to the public and its business partners, the mainframe capacity infrastructure hosting all of SSA’s mission critical applications and resources, the electronic messaging infrastructure of eMail, fax and collaboration services, and finally, the SSAWeb infrastructure supporting www.ssa.gov and the Agency’s intranet applications.

Stewardship

Improved Financial Performance

The Administration has set aggressive criteria to measure department and agency success towards meeting the PMA initiatives relating to Improved Financial Performance. Although SSA received one of the best evaluations overall, the Agency has several ongoing initiatives to address areas for improvement. SSA is replacing its core financial accounting system and is substantially enhancing its existing agency-wide cost accounting system and several related management information and financial management information systems. The Replacement Financial Accounting System and Managerial Cost Accounting System (MCAS) projects will expand the validity, depth, range and coverage of SSA management and financial management information. SSA's MCAS is being developed in close partnership with other SSA data management projects, the SSA Unified Measurement System (SUMS) and Management Information Infrastructure, will provide the data base for all SSA management and financial management reporting.

In addition, SSA has developed a corrective action plan for reducing erroneous payments and initiatives to remove the SSI program from the General Accounting Office's "High Risk" list. The action plan is discussed in this section under the heading of SSI Management Improvement. Lastly, SSA will continue to work with its auditors to receive an unqualified and timely audit opinion on SSA's FY 2003 annual financial statements to prepare to meet the accelerated Office of Management and Budget requirement for delivery of FY 2004 Performance and Accountability Reports to the President and Congress.

Budget and Performance Integration

Budget and Performance Integration plays a central role in all of the PMA initiatives. SSA recognizes this and is committed to improving its budget and performance integration by making effective use of current processes and systems, while developing new systems and methods and strengthening communication between planning, budget and evaluation staffs.

A significant challenge for SSA is clearly relating funding to key strategic and performance plan outcomes. Success is dependent on having the right information in modernized, upgraded SSA financial accounting, cost accounting and management information systems. While SSA is modernizing these systems, it is designing and developing a new budget formulation system which will build on them and strengthen the budget, accounting and performance linkage. It will enable SSA to more clearly align resources with outputs and outcomes.

To strengthen accountability, tracking reports of actual performance results against commitments are now available online to SSA executives and staff via the SSA Intranet. In addition, SSA's new Senior Executive Service performance management system will relate performance appraisals to results.

Competitive Sourcing

Competitive sourcing is one of the PMA initiatives. It is intended to improve the efficiency and effectiveness of services provided by the government. SSA has developed a competitive sourcing plan to address the goal of competing 15 percent of commercial activities by the end of FY 2003 in a broader effort to ultimately compete 50 percent of the commercial activities in the Federal government. There is regular, close executive oversight of the program. A centralized team was formed to manage and coordinate the competitive sourcing initiative. A workgroup representing each SSA component meets regularly to monitor progress, address pertinent issues and maintain consistency across the agency. A comprehensive training program is underway to ensure those involved in the competitive sourcing process have the necessary tools to successfully implement the initiative. In addition, SSA is obtaining outside support and advice from an organization experienced in the competitive sourcing process.

Critical Infrastructure Protection



Recognizing that the information that the SSA collects and uses to complete its mission is one of the Agency's most valuable assets, SSA has taken a number of steps to assure the security of that information both physically and electronically. SSA is conducting ongoing system and security reviews to ensure physical and cyber security throughout the infrastructure.

Presidential Decision Directive 63, issued in 1998, requires Federal agencies to identify and protect their critical infrastructure and assets. SSA established a Critical Infrastructure Protection workgroup with executive leadership, which reports regularly to the Executive Internal Control Committee which oversees the Agency's management control program and addresses management control issues, audit and review findings, and corrective actions. Closely associated with this workgroup are the Security Response Team, Intrusion Protection Team and Electronic Crimes Team.

SSI Management Improvement

The SSI program provides benefits to approximately 6.7 million needy beneficiaries who are aged, blind or disabled. Like other means-tested programs that respond to changing circumstances of individuals' lives, the SSI program presents challenges to ensure that it is administered efficiently, accurately and fairly. SSI is designated a major management challenge by GAO. To improve the administration of the SSI program and to get it removed from the High Risk list, the Agency developed the SSI Corrective Action Plan. Key components of the plan include:

Preventing overpayments

- Testing an innovative wage reporting method for workers at higher risk for wage-related overpayments using touchtone telephone technology, thereby prevent errors due to unreported wages.
- Electronically accessing the records of financial institutions to determine if an applicant or recipient owns unreported assets, thereby prevent errors due to unreported bank accounts.
- Testing the use of credit bureaus and other public databases to detect unreported income or resources.
- Continuing commitment to timely processing of Continuing Disability Reviews.

Detecting overpayments

- Increasing the number of redeterminations conducted, which are periodic reviews of the financial factors of eligibility for SSI.
- Increasing the frequency with which we use online access to data to improve our ability to verify documents and claimant allegations, which reduces the administrative costs and decreasing processing time, as compared to manual, paper-bound verifications.

Collecting debt created by overpayments

- Using a new debt collection measurement tool that we will employ that will enable us to better target those portions of our debt portfolio that can be collected from debtors.
- Continuing to use cross-program recovery of SSI debt from Social Security benefits.
- Developing regulations to institute administrative wage garnishment for public-and private-sector employees who have outstanding SSI overpayments.

Fraud Prevention, Detection and Resolution



SSA remains committed to its program to deter, detect, investigate and prosecute fraud. During fiscal year 2002, the National Anti-Fraud Committee established a workgroup to develop a more comprehensive, Agency anti-fraud strategy. The results of this intercomponent effort confirmed that the Agency is already working on those projects considered critical. These critical projects include Cooperative Disability Investigations (CDI) units and the Fugitive Felon project.

The mission of CDI units is to obtain evidence of material fact sufficient to resolve questions of fraud in SSA's disability programs. These units rely on the combined skills of SSA's Offices of the Inspector General, Operations, Disability, the State's Disability Determination Services, and State and local law enforcement. The first CDI units began operation in 1998. There are currently 17 units. SSA is targeting 20 CDI units in place by the end of FY 2003.

The Fugitive Felon project focuses on identifying fugitive felons who are also SSI recipients, to apprehend the fugitive and suspend his/her benefits. SSA has matching agreements for obtaining fugitive felon warrants in place with the Federal Bureau of Investigation (FBI), the FBI's National Crime Information Center, the U. S. Marshal's Service, 38 State agencies and four metropolitan police departments.

Strengthening the Integrity of the SSN

SSA is committed to provide Social Security numbers (SSNs) only to individuals who are eligible to receive them. The unofficial use of the SSN as a universal identifier has led to increased incidences of SSN fraud and misuse, including the use of stolen SSNs to commit identity fraud. Since SSNs are needed primarily to record an individual's work and earnings, SSA is limiting assignment of SSNs to those authorized to work in the U.S. or who need an SSN to receive a federally funded benefit or a state or local public assistance benefit.

Individuals seeking an SSN must provide proof of identity, age and U.S. citizenship or legal alien status. To eliminate counterfeits, SSA is verifying such proofs with the entity that issued the documents. SSA is also developing protocols for sharing information with other Federal and State agencies to decrease reliance on documents presented by SSN applicants. SSA is working with the Immigration and Naturalization Service and the Department of State to enumerate non-citizens at entry.

SSA is also developing additional automated checks to detect situations that may indicate misuse or potential fraud and methods of validating SSNs for other authorized users of SSNs.

Earnings Suspense File

Each year SSA receives annual wage reports (266 million in FY 2002) from employers and self-employment income from the Internal Revenue Service. These earnings records are used to determine eligibility and benefit amounts for OASDI. Once received, the reports are matched with SSA's Numident File (the repository for all issued SSNs) to verify an individual's name and SSN.

Some annual wage reports have invalid name and SSN combinations. SSA performs multiple routines to try to match the names/SSNs. The invalid combinations are placed in the Earnings Suspense File (ESF). Once the item is placed on the ESF, an annual series of processes are used in an attempt to determine the correct identity (name/SSN) so the reported earnings can be posted to the correct individual's Master Earnings File. We also mail annually to workers over age 25, a report of their qualifying lifetime earnings.

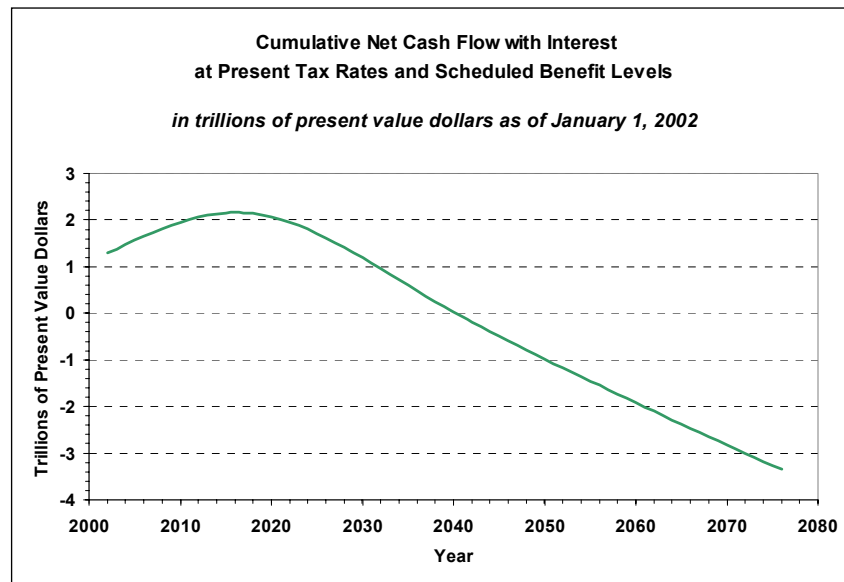
Productivity

Continuing tight budget constraints will mean that SSA will have to manage itself more effectively to increase productivity. Advances in automation, many of which have already been identified, will be key to SSA's productivity improvement. Process and regulation changes will also contribute positively.

Solvency

Long-Term Program Reforms

Without reforms, Social Security is financially unsustainable in the long term. When the first baby boomers reach retirement age in 6 years, the number of retirees will grow rapidly. Life expectancy is also increasing. As a result, the ratio of workers paying taxes to the people drawing benefits is projected to decline from 3.3 to 1 today to 2.1 to 1 by 2030. Social Security's outgo will begin to exceed its tax income in 2017, and the Social Security trust funds will be exhausted by 2041. Cumulative taxes through 2076 fall short of cumulative scheduled benefits by \$3.3 trillion.



Long-term Social Security reform is critical to ensure the viability of Social Security for today's retirees' children and grandchildren. The issue has wide repercussions for the nation and economy. Reform alternatives include increasing payroll taxes, decreasing benefits, using general revenues or prefunding future benefits through either personal savings accounts or direct investments of the trust funds. By identifying long-term sustainable solvency as one of the agency's key goals, SSA has made a commitment to address this key national issue.

Education

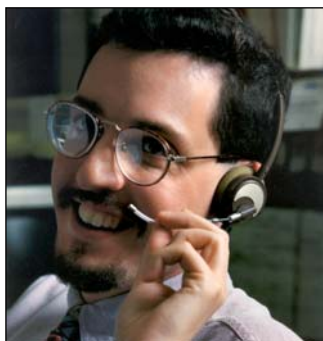
Through SSA's ongoing communications program, we will continue to educate the public about financing challenges facing the Social Security programs. SSA's Regional Communications Directors, public affairs specialists, and managers throughout the country will be available to discuss the solvency issue in public appearances and community relations activities. Relevant publications will continue to include a basic message about the financing structure of the programs and why Social Security needs to be strengthened. We are working with members of the financial community to sponsor a "National Save for Your Future" campaign that will include the importance of personal savings as a component of a secure financial future. SSA's website (www.ssa.gov) will provide an important venue for educating the public on the financial challenges facing Social Security.

Research Capability

As policymakers consider changes to reform the Social Security program, they need timely information about the effects of proposed policy changes. To that end, SSA is creating a dedicated in-house capacity to strengthen its capability to respond to decisionmakers' questions about the fiscal, benefit distribution, and administrative effects of such proposals. In addition, the Agency is working on how to better explain the current financing outlook for the program. SSA will prepare analyses of the current Social Security system and the three plans put forth by the President's Commission to Strengthen Social Security. SSA will also assist the Administration and the Congress in developing reform proposals, supported by the development of data and models as required.

Staff

Strategic Management of Human Capital



SSA faces significant workload growth as the baby boom generation ages, becomes more prone to disabilities and retires. At the same time, SSA faces its own internal retirement wave, with the projected loss of more than 38,000 SSA employees over the next decade, due to retirement and other attrition. This represents approximately 59 percent of our current workforce. Following is a discussion of some of the challenges the Agency faces.

Performance Management

It is crucial for SSA to have a culture that motivates its employees to perform their duties with professionalism, skill and integrity; distinguishes between levels of performance for recognition of contributions and deals appropriately with poor performers. An effective performance management system can be the catalyst that supports these outcomes.

SSA currently uses a performance management process based on a pass/fail appraisal system which does not effectively evaluate and reward employees based on their contribution to organizational performance. In October 2002, SSA implemented a five-level performance system for senior executives that will strengthen their accountability as they work toward achieving the President's and the Agency's goals. The Commissioner has also convened an executive-level workgroup to explore options for strengthening the performance management approach for the rest of the workforce.

Moving Staff to the Front Lines

Our greatest challenge in the human resource area is to manage our workforce to maintain the level and efficiency of service the American public has the right to expect. SSA will use the competitive sourcing results of the Most Efficient Organization's analysis to create highly efficient components. As a result, SSA will have the opportunity to divert personnel from staff and support positions into the critical, understaffed occupations involved in direct service to our recipients and beneficiaries. Toward this end, the Agency is developing strategies to reallocate resources to the front-line workforce functions and become even more efficient and citizen-centered in the delivery of crucial Social Security services.

Recruitment and Retention

In April 2002, SSA launched the centerpiece of the agency's new recruitment strategy - a national marketing campaign - designed to attract applicants with an interest in public service. Using the theme, "Make a difference in people's lives and your own," new tabletop exhibits, posters, electronic images, CD-ROM "business cards" and professional signage were developed for the Agency's recruiters. In addition, SSA is working to implement other elements of the Agency's recruitment strategy; including maximizing the use of the Internet and Intranet, advertising in print media and using SSA's public information officers across the Agency to promote our hiring efforts.

While recruitment is critical, retaining a larger percentage of our employees is no less important to the ongoing success of the Agency. SSA must be able to identify why employees leave, and to utilize management flexibilities to provide them the incentive to stay. SSA needs to continue making the Agency an attractive, family friendly environment that inspires lasting careers.

Career Development

SSA administers a number of national development programs aimed at helping people grow and develop into key agency leaders. Based upon careful succession planning we have prepared and developed high-potential employees to assume positions of greater leadership responsibility at all levels. SSA's programs include the Leadership Development Program (advancement to GS 11-13), Advanced Leadership Program (advancement to GS 14 -15) and the Senior Executive Service Candidate Development Program (advancement to Senior Executive). They provide participants with 12-18 months of developmental assignments in other SSA components and agencies, classroom experiences and intense interactions with a senior mentor.

SSA has accelerated its announcement of these programs along with increasing the number of participants within them. SSA's programs will continue to provide high performers with an incentive to stay in SSA and accelerate their advancement. The end result will be to ensure that we have sufficient qualified candidates to promptly fill managerial and executive vacancies--a key reason why SSA's career development programs have been recognized as being the "best in government."

Management Challenges Identified by Others

The Reports Consolidation Act of 2000 requires that, annually, the Inspector General (IG) prepare a statement that summarizes what he considers to be the most serious management and performance challenges facing the Agency and his assessment of the Agency's progress in addressing those challenges. SSA then reviews that list of "major management challenges" and works with the IG to address our mutual concerns. All topics on the IG's list are discussed in this Major Issues Facing SSA section of the MD&A. In addition, the General Accounting Office has identified similar major management challenges which SSA addresses each year in the Annual Performance Plan. The complete list of the IG's Major Management Challenges may be found in this report following the auditor's report on the FY 2002 financial statements.