

Auditor's Reports



SOCIAL SECURITY

November 9, 2005

To: The Honorable Jo Anne B. Barnhart
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2005 and 2004 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 examination 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 01-02, *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 (SSI) 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 2005 financial statements. PwC also audited the FY 2004 financial statements, presented in SSA's Performance and Accountability Report for FY 2005 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2005 and 2004 financial statements. PwC also reported

that SSA's assertion that its systems of accounting and internal control are in compliance with the internal control objective in OMB Bulletin 01-02 is fairly stated in all material respects.

Since 1997, SSA has had a reportable condition in its internal control concerning protection of information. Specifically, PwC found weaknesses in controls over access to SSA's electronic information, technical security configuration standards, suitability, and continuity of systems operations. Access to the information, or access control, is the most important of these factors. For the FY 2005 financial statement audit, PwC views the prior reportable condition in SSA's internal control, "SSA Needs to Further Strengthen Controls to Protect Its Information," as resolved. We applaud the extraordinary efforts SSA has taken to successfully address the key issues surrounding the reportable condition.

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 2005 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 01-02;
- 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, 2005, 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

REPORT OF INDEPENDENT AUDITORS

To the Honorable Jo Anne B. Barnhart
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, 2005 and 2004, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended 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 systems of accounting and internal control in place as of September 30, 2005, are in compliance with the internal control objectives in the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or Required Supplemental Stewardship Information (RSSI) and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02;
- 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, 2005 and 2004, and the related consolidated statements of net cost, of changes in net position, and of financing and the combined statements of budgetary resources for the years then ended. 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 OMB Bulletin No. 01-02. 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 consolidated and combined financial statements referred to above and appearing on pages 116 through 135 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2005 and 2004, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

We have examined management's assertion that SSA's systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02 as of September 30, 2005. 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 controls. 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. 01-02 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of 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 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 systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that (1) transactions be properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the consolidated or combined financial statements or RSSI and any other laws, regulations and government wide policies identified in Appendix C of OMB Bulletin No. 01-02, is fairly stated, in all material respects, as of September 30, 2005.

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

INTERNAL CONTROL RELATED TO KEY PERFORMANCE INDICATORS AND RSSI

With respect to internal control relevant to data that support reported performance measures on pages 16, 17 and 18 of this performance and accountability report, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. 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.

In addition, we considered SSA's internal control over RSSI by obtaining an understanding of SSA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls.

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. 01-02, 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. 01-02 as of September 30, 2005.

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, 2005.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 6 and 58 Required Supplementary Information (RSI) included on pages 1 and 2, and 141 and 142, and Required Supplementary Stewardship Information (RSSI) included on pages 143 to 161 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 and OMB Circular 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, RSI and RSSI. 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 consolidated and combined financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 141 of this performance and accountability report, is not a required part of the consolidated or combined financial statements but is supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 136 to 140 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the consolidated or combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated and combined financial statements taken as a whole.



The other accompanying information included on pages 3 to 5, 59 to 115, 162 to 164, and 169 to the end of this performance and accountability report, 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 consolidated and combined 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.

PriceWaterhouse Coopers LLP

November 7, 2005



SOCIAL SECURITY

The Commissioner

October 27, 2005

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

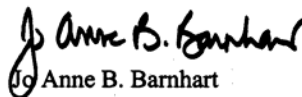
Ladies and Gentlemen:

We reviewed the draft Report of the Independent Auditors for the fiscal year 2005 financial statement audit of the Social Security Administration (SSA). This report contains PricewaterhouseCoopers' opinion on SSA's Financial Statements and on SSA management's assertion about the effectiveness of its internal control, and a report about SSA's compliance with laws and regulations. No findings or recommendations were contained in the report.

We are extremely pleased that, based on progress made since your last report, the reportable condition, "SSA Needs to Further Strengthen Controls to Protect Its Information," was eliminated from this year's report.

If your staff have any questions, they may contact Jeffrey C. Hild at (410) 965-0613.

Sincerely,


Jo Anne B. Barnhart

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Inspector General Statement on SSA's Major Management Challenges



SOCIAL SECURITY

November 9, 2005

The Honorable Jo Anne B. Barnhart
Commissioner

Dear Ms. Barnhart:

In November 2000, the President signed the *Reports Consolidation Act of 2000 (Pub. L. No. 106-531)*, which 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 document responds to the requirement to include this Statement in the *Social Security Administration's Fiscal Year 2005 Performance and Accountability Report*.

In September 2004, we identified six significant management issues facing the Social Security Administration for Fiscal Year (FY) 2005.

- **Social Security Number Integrity and Protection**
- **Management of the Disability Process**
- **Improper Payments**
- **Internal Control Environment and Performance Measures**
- **Critical Infrastructure Protection/Systems Security**
- **Service Delivery**

I congratulate you on the progress you have made during FY 2005 in addressing these challenges. My office will continue to focus on these issues in the current FY. I look forward to working with you in continuing to improve the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the OIG 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 Integrity and Protection

In Fiscal Year (FY) 2005, the Social Security Administration (SSA) issued over 17 million original and replacement Social Security number (SSN) cards and received approximately \$588 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.

To do so, SSA must employ effective front-end controls in its enumeration process. We applaud the significant strides the Agency has made over the past several years to ensure SSN integrity. Nevertheless, throughout society, incidences of SSN misuse continue to rise. Accordingly, to further protect SSN integrity, we believe SSA should (1) encourage public and private entities to limit collection and use of the SSN as a personal identifier, (2) continue to address identified weaknesses in its information security environment to better safeguard SSNs, and (3) continue to coordinate with partner agencies to pursue any data sharing agreements that would increase data integrity.

Another important part of ensuring SSN integrity is the proper posting of earnings reported under SSNs. Properly posting earnings ensures eligible individuals receive the full retirement, survivor and/or disability benefits due them. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for which wage earners' names and SSNs fail to match SSA's records. As of October 2004, SSA had posted approximately 9 million wage items to its ESF for Tax Year 2002, which is the latest available data, representing about \$56 billion in wages. This was before some planned edits, which may have further reduced this number.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, there are still areas where the Agency can improve its processes. For example, SSA can improve wage reporting by encouraging greater use of the Agency's SSN verification programs. SSA also needs to coordinate with other Federal agencies with separate, yet related, mandates.

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 lacking appropriate work authorization only if they can provide evidence of a valid nonwork reason. In recent years, SSA has strictly limited the assignment of such numbers. Furthermore, SSA monitors noncitizens who show earnings under a nonwork SSN and reports this information to the Department of Homeland Security (DHS). Nonetheless, our audits have noted a number of issues related to nonwork SSNs, including (1) evidence provided to obtain a nonwork SSN, (2) reliability of nonwork SSN information in SSA's records, (3) the significant volume of wages reported under nonwork SSNs, and (4) the payment of benefits to noncitizens who qualified for their benefits while working in the country without proper authorization.

In March 2004, Congress placed new restrictions on receipt of SSA benefits by noncitizens who are not authorized to work in the United States. Under the *Social Security Protection Act (SSPA) of 2004* (Pub. L. No. 108-203), a noncitizen whose SSN was assigned on or after January 1, 2004, must have been issued a SSN for work purposes on or after this date or been admitted to the United States at any time as a nonimmigrant visitor for business or as an alien crewman to be entitled to Title II or End-Stage Renal Disease Medicare benefits based on the noncitizen's earnings.

SSA Has Taken Steps to Address this Challenge

SSA has taken steps to improve controls within its enumeration process. SSA verifies all immigration documents before assigning SSNs to noncitizens. Additionally, SSA requires (1) mandatory interviews for all original SSN applicants age 12 and over (lowered from age 18) and (2) evidence of identity for all children, regardless of age. In addition, SSA established Enumeration Centers in Brooklyn, New York and Las Vegas, Nevada that focus exclusively on assigning SSNs and issuing SSN cards. Also, in FY 2005, SSA implemented new systems enhancements that simplified the interpretation of, and compliance with, SSA's complex enumeration policies.

In addition to these improvements, SSA is planning to implement several other enhancements that will better ensure SSN protection. These endeavors were required by the *Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004* (Pub. L. No. 108-458). SSA's plans include (1) restricting the issuance of multiple replacement Social

Security cards to 3 per year and 10 in a lifetime; (2) requiring independent verification of any birth record submitted by an original SSN applicant, other than for purposes of enumeration at birth; and (3) coordinating with DHS to further improve the security of Social Security cards and numbers.

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.

SSA coordinates with other agencies to encourage improved wage reporting. For example, SSA participates in a joint program with DHS, called the Basic Pilot, which verifies the names and SSNs of employees as well as their citizenship and authorization to work in the economy. In December 2004, the Basic Pilot program was made available to employers nationwide. Furthermore, the Agency is also collaborating with the Internal Revenue Service to achieve more accurate wage reporting by employers with a high volume of wage items in the ESF.

SSA is also in the process of modifying the information it shares with employers. Under IRTPA, the Agency is required to add both death and fraud indicators to SSNVS for employers, State agencies issuing driver's licenses and identity cards, and to other verification routines as determined appropriate by the Commissioner of Social Security.

Management of the Disability Process

SSA needs to improve critical parts of the disability process – determining disabilities, the accuracy of disability payments, and the integrity of the disability programs. In January 2003, the Government Accountability Office (GAO) added modernizing Federal disability programs—including SSA’s—to its high-risk list. GAO did this, in part, because of outmoded concepts of disability, lengthy processing times, and decisional inconsistencies.

SSA needs to continue to improve the process used to determine claimant disability by focusing on initiatives that will improve the timeliness and quality of its services. For example, the Office of Hearings and Appeals’ (OHA) average processing time has increased significantly from 308 days in FY 2001 to 415 days in FY 2005. Further, the hearings pending workload for FY 2005 was 708,164 cases, whereas it was 392,387 cases in FY 2001. This represents an 80 percent increase from FY 2001. SSA’s efforts to address its pending workload did not meet the goals established for FY 2005. In FY 2005, SSA processed 519,359 hearings, approximately 99 percent of its goal of 525,000. Lastly, SSA’s productivity goal in this area for FY 2005 was to process 103 hearings per work year. In FY 2005, it processed 101.7 hearings per work year, under its goal but over the 100.2 hearings processed per work year reached in FY 2004.

Another area SSA needs to improve is ensuring the correct benefits are paid to the correct individuals. Continuing disability reviews (CDR) are critical to determining whether a disabled beneficiary continues to be eligible for benefits. In an April 2005 report, we estimated that approximately \$12.4 million was overpaid to about 11,880 recipients because SSA did not previously consider all of their earnings when calculating Supplemental Security Income (SSI) payment amounts. We also estimated that, if the Agency resolved the earnings discrepancies, approximately an additional \$74.7 million in overpayments to about 61,380 recipients would have been recognized.

Fraud is an inherent risk in SSA’s disability programs. Key risk factors in the disability program are individuals who feign or exaggerate symptoms to become eligible for disability benefits or who, after becoming eligible to receive benefits, knowingly fail to report medical improvements or work activity. For example, one beneficiary with a diagnosis of affective disorders (a psychiatric impairment) started receiving disability benefits in 1997. Office of the Inspector General (OIG) investigators observed activities that seemed inconsistent with the beneficiary’s statements regarding limitations due to the beneficiary’s impairment; and therefore, we requested SSA conduct a CDR. As a result of this CDR, SSA found that medical improvement had occurred and stopped the benefits—resulting in 12 months of savings of \$6,948. If SSA had not conducted the CDR at the time of our request, benefits would have continued to be paid to this individual.

SSA Has Taken Steps to Address this Challenge

On July 27, 2005, the Commissioner announced proposed regulations in the Federal Register which outlined her plan to improve the disability process. The proposed regulations would:

- Establish a Quick Disability Determination process through which State agencies will expedite initial determinations for claimants who are clearly disabled;
- Create a Federal Expert Unit to augment and strengthen medical and vocational expertise for disability adjudicators at all levels of the disability determination process;
- Eliminate the State agency reconsideration step and terminate the disability prototype that SSA is currently conducting in 10 States;
- Establish Federal reviewing officials to review State agency initial determinations upon the request of claimants;
- Preserve the right of claimants to request and be provided a “de novo” hearing, which will be conducted by an Administrative Law Judge (ALJ);
- Close the record after the ALJ issues a decision, but allow for the consideration of new and material evidence under certain circumstances;
- Gradually shift certain Appeals Council functions to a newly established Decision Review Board; and
- Strengthen in-line and end-of-line quality review mechanisms at the State agency, reviewing official, hearing, and Decision Review Board levels of the disability determination process.

In addition to the Commissioner's proposed improvements to the disability process, the Agency is in the process of transitioning to the electronic disability folder. The electronic disability folder allows disability claims information to be stored electronically and transmitted between field offices, hearing offices, and Disability Determination Services (DDS). As of August 2005, four State DDSs - Mississippi, Illinois, Hawaii, and Nevada - have been certified to operate fully in the electronic folder. By January 2007, SSA expects all DDSs and disability quality branches to be operating in the electronic disability folder.

SSA is addressing the integrity of its disability programs through the Cooperative Disability Investigations (CDI) program. The CDI program's mission is to obtain evidence that can resolve questions of fraud in SSA's disability programs. SSA's Offices of Operations and Disability Programs, along with the Office of the Inspector General, manage the CDI program. There are 19 CDI units operating in 17 States. Since the program's inception in FY 1998, CDI efforts have resulted in over \$533 million in projected savings to SSA's disability programs and over \$311 million in projected savings to non-SSA programs. During FY 2005, CDI units saved SSA over \$123 million by identifying fraud and abuse related to initial and continuing claims within the disability program.

Improper Payments

Improper payments are defined as payments that should not have been made or were made for incorrect amounts. Examples of improper payments include inadvertent errors, payments for unsupported or inadequately supported claims, or payments to ineligible beneficiaries. Furthermore, the risk of improper payments increases in programs with a significant volume of transactions, complex criteria for computing payments, and an emphasis on expediting payments.

The President and Congress have expressed interest in measuring the universe of improper payments within the Government. In August 2001, the Office of Management and Budget (OMB) published the *FY 2002 President's Management Agenda* (PMA), which included a Government-wide initiative for improving financial performance, including reducing improper payments. As of the first quarter in FY 2005, OMB implemented a PMA program initiative (Eliminating Improper Payments) specifically targeting Agency action to reduce improper payments—and SSA was rated as making progress in this area as of June 2005. In November 2002, the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300) was enacted, and OMB issued guidance in May 2003 on implementing this law. Under the Act, SSA must estimate its annual amount of improper payments and report this information in the Agency's annual Performance and Accountability Report (PAR). OMB will then work with SSA to establish goals for reducing improper payments in its programs.

SSA issues billions of dollars in benefit payments under the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs; and some improper payments are unavoidable. In FY 2004, SSA issued about \$522 billion in benefit payments to about 52 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 FY 2005, SSA reported that it detected over \$4 billion in overpayments.

In January 2005, OMB issued a report on *Improving the Accuracy and Integrity of Federal Payments* which noted that seven Federal programs—including SSA's OASDI and SSI programs—accounted for approximately 95 percent of the improper payments in FY 2004. SSA's OASDI and SSI programs represented 10 percent of this amount. However, this report also noted that SSA had reduced the amount of SSI improper payments by more than \$100 million since levels reported in FY 2003.

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 improper payments after a beneficiary dies through the use of Electronic Death Registration information. Also, the Agency's CDR process is in place to identify and prevent beneficiaries who are no longer disabled from receiving payments. Additionally, in FY 2005, SSA implemented eWork—a new automated system to control and process work related CDRs—which should strengthen SSA's ability to identify and prevent improper payments to disabled beneficiaries who are working.

SSA has worked with the OIG to prevent and recover improper payments.

- For the FY 2005 OIG report, *Individuals Receiving Benefits Under Multiple Social Security Numbers at the Same Address*, SSA worked with the OIG to identify and assess about \$9.2 million in overpayments—and 6 percent of these funds were recovered during the audit (as of April 2005), with SSA continuing to take action to recover the remaining funds.
- In another FY 2005 OIG report, *School Attendance by Student Beneficiaries over Age 18*, we estimated SSA disbursed about \$70 million in incorrect payments to 32,839 students. SSA agreed with our recommendation to ensure that the overpayments are established and that subsequent collection activities are initiated for those payments.

We have helped the Agency reduce improper payments to prisoners and improper SSI payments to fugitive felons. However, our work has shown that improper payments—such as those related to workers' compensation—continue to diminish the Social Security trust funds. For example, in the FY 2005 OIG report, *The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset*, we found under- and overpayment errors totaling over \$500 million continued to exist in 110,000 workers' compensation cases even after they were reviewed by SSA in an effort to determine the correct payment amount. Additionally, with the passage of SSPA, SSA has new opportunities to prevent improper payments and new challenges in implementing provisions of the law—such as OASDI benefits to fugitives.

Internal Control Environment and Performance Measures

Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls help safeguard assets and prevent and detect errors and fraud. Assessing the internal control environment is important since internal control is a critical part of performance-based management. SSA's internal control environment helps its managers achieve desired results through effective stewardship of public resources.

Another important part of performance-based management is performance measurement. Congress, external interested parties, and the general public need sound data to monitor and evaluate SSA's performance. The necessity for good internal data Government wide has resulted in the passage of several laws, including the *Government Performance and Results Act of 1993* (Pub. L. No. 103-62). The Act, in part, requires the development of annual performance measures and goals. In addition to the legislation calling for greater accountability within the Government, the PMA has focused on the integration of the budget and performance measurement processes.

One of SSA's primary functions is the processing of disability claims. SSA is responsible for implementing policies for the development of disability claims under the Disability Insurance (DI) and SSI programs. Initial disability determinations under both DI and SSI are performed by DDSs in each State in accordance with Federal regulations. Each DDS is responsible for determining whether or not claimants are disabled and ensuring adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

There are 52 DDSs located in each of the 50 States, the District of Columbia, and Puerto Rico. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2005, SSA allocated over \$1.7 billion to fund DDS operations. Given the amount of funds allocated, adequate controls are needed to ensure the funds are used in accordance with the applicable laws and policies, and to meet the programs' intended purposes.

During FY 2005, we conducted 10 DDS administrative cost audits. In 5 of the 10 audits, internal control weaknesses were identified. The control weaknesses identified addressed areas such as fund transfers between accounts, cash activities and physical security. The lack of effective internal controls and proper oversight of DDS cash management activities can result in the mismanagement of Federal resources and increase the risk of fraud.

In the 10 DDS administrative cost audits, we reported unallowable indirect costs of over \$3,989,000, as well as \$39,600 in unallowable direct costs. As a result, we concluded that SSA's Regional Offices needed to improve their oversight of the costs DDSs claimed.

We audited the performance data used to measure seven of SSA's annual performance measures.

- Number of Job Enrichment Opportunities
- Average Processing Times for Initial Disability Claims
- Average Processing Times for Hearings
- DDS Net Accuracy Rate
- Percent Improvement in Agency Productivity
- Supplemental Security Income Aged Claims Processed Per Work Year
- DDS Cases Processed Per Work Year

We concluded that the data used to measure one of the seven measures was reliable. We found the data used for another of the seven measures to be unreliable. We concluded that the data was unreliable since the controls in place to ensure the accuracy of the measure were not working as intended. We could not determine the reliability of the data used for the remaining five performance measures since there were data retention limitations for the detailed data used to calculate the performance measure results.

SSA Has Taken Steps to Address this Challenge

The Agency has taken steps to address the internal control weaknesses, such as cash management and physical security, identified at the DDSs we reviewed. The DDS offices have consulted with regional SSA offices to address the issue of the transfer of funds. SSA has instituted a process to correct any future improprieties of this kind in a manner that will match cash draws to SSA disbursement records.

SSA has demonstrated a commitment to the production of comprehensive and accurate data on its financial statements, annual performance plans and reports, and individual performance measures. SSA is the only Federal agency that has received the Association of Government Accountant's Certificate of Excellence in Accountability Reporting for its Performance and Accountability Report every year since the award program began in FY 1998. Also, SSA obtained a "green" rating on the PMA Scorecard in the areas of financial management and budget and performance integration.

Critical Infrastructure Protection and Systems Security

The information technology revolution has changed the way Governments and businesses operate, creating a greater reliance on computer systems. Unfortunately, in today's world, every computer system is a potential target. Any disruptions in the operation of information systems that are critical to the Nation's infrastructure should be infrequent, manageable, of minimal duration and cause the least damage possible. The Government must make continuous efforts to secure information systems for critical infrastructures. Protection of these systems is essential to the operation of the telecommunications, energy, financial services, manufacturing, water, transportation, health care, and emergency service sectors.

SSA's information security challenge is to understand and mitigate system vulnerabilities. This means ensuring the security of its critical information infrastructure, such as access to the Internet and the Agency's networks. Since 1997, SSA has had an internal controls reportable condition concerning its protection of information based on weaknesses in controls over access to its electronic information, technical security configuration standards, suitability, and continuity of systems operations. Reportable conditions are matters that represent significant deficiencies in the design or operation of an internal control that could adversely affect SSA's ability to meet the internal control objectives. Access to the information, or access control, is the most important of these factors. This reportable condition was resolved on September 30, 2005.

While protecting its critical information infrastructure, the Agency is tasked with offering more electronic services to the public. The Expanded Electronic Government, or e-Government, initiative of the PMA calls for the expanded use of the Internet to provide faster and better access to government services and information. Specifically, e-Government calls for the Agency to help citizens find information and obtain services organized according to their needs, and not according to the divisions created by the Agency's organizational chart. SSA needs to ensure that the expansion of its electronic services does not increase the risks to its systems.

Additionally, SSA must address new Homeland Security Presidential Directives (HSPD). HSPD 7 requires all Federal departments and agency heads to identify, prioritize, assess, remediate, and protect their respective critical infrastructure and key resources. HSPD 12 mandates the development of a common identification 'Standard' for all Federal employees and contractors.

SSA Has Taken Steps to Address this Challenge

SSA successfully addressed the key issues surrounding the reportable condition. For example, the Agency developed and implemented configuration standards for its major operating system platforms and software components. Further, SSA began an extensive monitoring process to ensure that the Agency's over 100,000 servers and workstations were in compliance with the appropriate configuration standards. In addition, SSA established and implemented access controls to ensure appropriate segregation of duties and limited access to critical information on a need only basis.

This task was completed largely through its Standardized Security Profile Project (SSPP). An employee's profile is the tool used to control access to SSA's databases. SSPP is a full scale project begun several years ago to compare system user access assignments to job responsibilities. SSPP involved components throughout the Agency and the review of access to millions of sensitive records.

To prevent the reoccurrence of these issues, SSA needs to continue the procedures that resolved the reportable condition, such as:

- SSA needs to update and develop new configuration standards when appropriate.
- SSA should continue monitoring the Agency's devices for compliance with the configuration standards.
- SSA needs to continue the work of the SSPP and regularly monitor the level of access to significant data.

SSA took additional steps to protect its critical information infrastructure and systems security in a variety of ways. For example, SSA's Critical Infrastructure Protection workgroup continuously works to ensure Agency compliance

with various directives, such as HSPDs and the *Federal Information Security Management Act (FISMA) of 2002* (Pub. L. No. 107-347). To comply with HSPD 7, SSA submitted its *Critical Federal Infrastructure Protection Plan* to OMB in 2004; SSA continues to work with OMB to resolve any outstanding issues regarding its plan. The Agency recently created a workgroup, which coordinates with other agencies and OMB to address HSPD 12. Further, SSA routinely releases security advisories to its employees and has hired outside contractors to provide expertise in this area.

SSA continues to improve its security program to better comply with FISMA and makes strides towards reaching green in the PMA e-Government initiative. Some of the specific steps the Agency has taken include:

- participating in *Pinnacle*, the Government-wide contingency test;
- improving its automated tool to better track security weaknesses and help monitor their resolution; and
- improving tracking of security training for SSA staff with significant security responsibilities.

Service Delivery

One of SSA's strategic 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. It also includes basic operational services including, the representative payee process, managing human capital and e-Government.

The integrity of the representative payee process is a specific challenge within this area. When SSA determines a beneficiary cannot manage his or her benefits, it selects a representative payee who manages and solely uses the payments for the beneficiary's needs. SSA reported that there are about 5.4 million representative payees who manage benefits for about 6.9 million beneficiaries. In March 2004, the President signed SSPA into law. The SSPA provides several new safeguards for those individuals who need a representative payee, while presenting significant challenges to SSA to ensure representative payees meet beneficiaries' needs.

During our review, *Nation-wide Review of Individual Representative Payees for the Social Security Administration (A-13-05-25006)*, we confirmed the existence of all beneficiaries that were in the care of the 275 representative payees included in our sample. We found, through personal observation and interviews, that the food, clothing and shelter needs of most beneficiaries were being met. We also found several representative payees did not comply with certain SSA policies. Specifically, we determined eight payees functioned as conduit payees. Further, we found five payees failed to report events that could have affected the amount of benefit payments the beneficiaries received or the beneficiaries' right to receive benefit payments. In some instances, more than one condition may have applied to the same payee.

As of January 2005, GAO continued to identify strategic human capital management on its list of high-risk Federal programs and operations. In addition, Strategic Management of Human Capital is one of five Government-wide initiatives contained in the PMA. As of June 30, 2005, SSA continued to score "green" for Human Capital on OMB's PMA Scorecard.

SSA is being challenged to address increasing workloads, due to the baby boom generation retiring and entering their disability prone years, at the same time its workforce is retiring. Improved productivity is essential for SSA to meet the increasing workload and retirement wave challenges ahead. Technology is essential to achieving efficiencies and enabling employees to deliver the kind of service that every claimant, beneficiary and citizen needs and deserves.

The e-Government initiative of the PMA directs the expanded use of the Internet to provide faster and better access to Government services and information. Specifically, e-Government instructs SSA to help citizens find information and obtain information organized according to their needs.

SSA Has Taken Steps to Address this Challenge

SSA has taken various actions regarding its representative payee process. It has established workgroups to implement each section of SSPA related to representative payees and has issued two reports in FY 2005 to Congress:

- *Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews* (January 2005), and
- *Report on the Sufficiency of the Social Security Administration's Representative Payee Procedures in the Prevention of Misuse of Benefits* (November 2004).

SSA also issued to Congress a preliminary report from the National Academies as required by Section 107 of SSPA. SSA contracted with the National Academies to determine (1) the extent to which representative payees are not performing their duties as payees in accordance with SSA standards for payees, (2) which types of payees have the highest risk of misuse of benefits, (3) ways to reduce those risks and better protect beneficiaries, (4) observations

about the adequacy of payee's actions, and (5) recommendations for change or further review. The National Academies plans to submit its final report to SSA in early 2007.

Regarding human capital, SSA reports developing and implementing competency-based training for "front-line" employees; implementing a national recruitment strategy to bring the "best and brightest" individuals to the Agency; and developing a Human Capital Plan to respond to the challenge of hiring, developing and retaining a highly skilled, high performing and diverse workforce.

According to SSA, its e-Government strategy is based on the deployment of high volume, high payoff applications, for both the public and the Agency's business partners. To meet increasing public demands, SSA has aggressively pursued a portfolio of services that enable online transactions and increase opportunities for the public to conduct SSA business electronically in a private and secure environment. Over the past 6 years, SSA has launched the Internet Social Security Benefit Application and created on-line requests for Social Security Statements, replacement Medicare cards, proof of income letters and changes of address. In FY 2005, SSA accomplished such e-Government enhancements as releasing software to enable the public to confidentially input data regarding their resources to determine eligibility and/or apply for Medicare Part D subsidy, a program that will reduce out of pocket costs for prescription drugs for those who have limited income and resources. Another enhancement was the implementation of software to improve the usability and common look and feel of the SSA.gov WebPages.