Social Security

Accountability Report For Fiscal Year 1997

Customer Service Pledge

We will administer our programs effectively and efficiently to protect and maintain the Social Security trust funds and to ensure public confidence in the value of Social Security. We are committed to fair and equitable service to our customers. We promise to respect your privacy and safeguard the information in your Social Security record.

We are equally committed to providing you with world-class public service. When you conduct business with us, you can expect:

We will provide service through knowledgeable employees who will treat you with courtesy, dignity and respect every time you do business with us.

We will provide you with our best estimate of the time needed to complete your request and fully explain any delays.

We will clearly explain our decisions so you can understand why and how we made them and what to do if you disagree.

We will make sure our offices are safe, pleasant and our services are accessible.

When you make an appointment, we will serve you within 10 minutes of the scheduled time.

If you request a new or replacement Social Security card from one of our offices, we will mail it to you within five working days of receiving all the information we need. If you have an urgent need for the Social Security number, we will tell you the number within one working day.

When you call our 800 number, you will get through to it within five minutes of your first try.

We know that you expect world-class service in all of your dealings with us. In 1994, when we set these standards, we were unable to meet your expectations in some areas, but we have worked to change that. We are revising all our critical work processes to make them simpler, quicker and more customer-friendly. When we redesign our processes, you can expect:

When you first apply for disability benefits, you will get a decision within 60 days.

SOCIAL SECURITY

A Message from the Commissioner

As Commissioner of the Social Security Administration (SSA), maintaining the public's trust and providing vigilant stewardship of their funds is a vital goal to me and to this Agency. Therefore, I am pleased to issue SSA's Accountability Report for Fiscal Year (FY) 1997. The Report presents financial, programmatic and performance data to provide a comprehensive picture of how SSA uses its budgetary authority in achieving that goal.

SSA provides the public with world-class service in a number of areas. Results of our 1997 Customer Satisfaction Survey indicate 85 percent of customers surveyed rate SSA service as good or very good -- up 6 percentage points since 1996. We continue to increase the number of bilingual employees to make sure our non-English-speaking customers receive the same high quality of service as our English-speaking customers, and we are streamlining and automating claims, thereby cutting down field office waiting times. We are also proud of innovative leadership in payment delivery through electronic banking.

During FY 1997, SSA's 800-number telephone service handled over 50 million calls. While the volume of inquiries alone is impressive, the ability to answer our customers' questions satisfactorily is the real measure of success. We are proud to say that 82 percent of respondents to our Customer Satisfaction Survey said SSA staff are knowledgeable and provide clear information. We continue to actively educate the public about SSA's programs. Video programming, satellite broadcasts and the Internet are just a few of the new venues we are using. Our Web site, Social Security Online, offers interactive access to 600 documents, and private industry publications herald the site as one of the best.

On the basis of SSA's comprehensive management control program, I am pleased to certify, with reasonable assurance, that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in the Office of Management and Budget's Bulletin Number 93-06. I also believe these same systems of accounting and internal controls provide reasonable assurance that the Agency is in compliance with the provisions of the Federal Managers' Financial Integrity Act. The significant aspects of the management control program are discussed in the Report. Furthermore, we believe that SSA's Program Benefits, Financial Accounting and Debt Management Systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level as required by the Federal Financial Management Improvement Act of 1996.

As we approach the new millennium, we remain committed to meeting the challenges of servicing the American people as stewards of this important public trust. The new Agency Strategic Plan, published in September 1997, will guide us in this endeavor. The plan reflects SSA's commitments not just to processing work, but also to ensuring that the accuracy and integrity of our processes are second to none. In the words of SSA's first Commissioner, Arthur J. Altmeyer, upon the 10th anniversary of the Social Security program in 1945, "Social Security will always be a goal, never a finished thing, because human aspirations are infinitely expandable - just as human nature is infinitely perfectible." That message is as relevant today as it was over 50 years ago.

Kenneth S. Apfel

Kenneth S. Apfel
Commissioner
of Social Security

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Published November 21, 1997

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Ten-Year Summary of Financial Highlights..

For the Fiscal Years Ended September 30, *(Dollars in Billions, except for unit costs)*	**1997**	**1996**	**1995**	**1994**
Assets				
Investments	**$631.0**	**$549.5**	**$483.2**	**$419.5**
Total Assets	**648.6**	**565.9**	**499.1**	**450.1**
Revenues				
Tax Revenues	**405.3**	**381.2**	**356.2**	**$340.8**
Interest Income	**42.5**	**37.6**	**34.2**	**30.1**
Total Revenue and Financing Sources	**481.2**	**449.5**	**427.4**	**407.9**
Outlays				
Benefit				
OASI	**$312.9**	**$300.0**	**$288.6**	**$276.3**
DI	**45.4**	**43.2**	**40.2**	**36.8**
SSI	**26.5**	**24.3**	**24.5**	**24.2**
Administrative	**6.2**	**5.6**	**5.7**	**5.4**
Ratios				
Return on Trust Fund Investments	**6.7%**	**7.7%**	**8.0%**	**8.1%**
Long Range OASDI Actuarial Deficit as a Percentage of Taxable Payroll	**2.23%**	**2.19%**	**2.17%**	**2.13%**
Administrative Outlays as % of Benefit Outlays	**1.6%**	**1.5%**	**1.6%**	**1.6%**
% Change in SSA's Overall Productivity	**2.2%**	**2.3%**	**5.2%**	**2.1%**
Number of Beneficiaries (In Millions)*				
OASI	**37.8**	**37.6**	**37.5**	**37.2**
DI	**6.1**	**6.0**	**5.8**	**5.5**
SSI	**6.6**	**6.6**	**6.5**	**6.2**
Unit Costs (Current Dollars)				
Issue SSNs	**$13.58**	**$12.56**	**$11.53**	**$11.68**
Process Annual Wage Reports	**.38**	**.45**	**.53**	**.57**
Issue Earnings Statements**	**1.69**	**1.96**	**1.54**	**4.58**
Process Initial Claims (Overall Average)	**366.47**	**354.71**	**358.02**	**384.45**
Maintain Benefit Rolls (Overall Average Per Work Unit)	**17.64**	**15.76**	**15.18**	**15.02**
Provide Due Process (Overall Average)	**711.46**	**695.08**	**651.48**	**630.07**
Cost to Collect $1	**.09**	**.12**	**.13**	**.13**

* Includes individuals receiving benefits from more than one program.

** SSA began issuing legislatively mandated SIPEBES in FY 1995; those costs are reflected in the FY 1995-1997 unit costs.

	1993	1992	1991	1990	1989	1988
	$365.7	$319.4	$268.7	$215.2	$157.0	$104.5
	376.4	329.2	278.4	223.0	163.5	109.4
	$316.5	$308.2	$299.3	$286.7	$268.2	$245.6
	27.4	24.6	21.1	17.1	11.5	7.2
	378.0	363.5	346.1	326.0	303.0	275.4
	$264.6	$251.3	$236.1	$219.0	$204.6	$196.1
	33.6	30.4	26.9	24.3	22.5	21.4
	21.0	17.9	14.6	11.5	11.4	14.1
	5.2	4.9	4.3	3.9	4.0	4.0
	9.0%	9.0%	9.5%	10.3%	10.3%	10.9%
	1.46%	1.46%	1.08%	.91%	.70%	.58%
	1.6%	1.6%	1.6%	1.5%	1.7%	1.8%
	7.5%	9.7%	(2.1%)	(2.4%)	5.5%	5.8%
	36.9	36.5	36.0	35.4	34.9	34.5
	5.2	4.8	4.4	4.2	4.1	4.1
	5.9	5.5	5.0	4.8	4.6	4.4
	$11.30	$11.19	$11.15	$10.60	$11.91	$10.13
	.51	.49	.45	.46	.55	.62
	3.88	3.83	4.45	4.85	4.81	5.97
	381.90	411.96	423.98	415.58	331.02	437.83
	15.53	17.55	18.57	21.26	21.37	22.03
	606.58	682.24	819.17	810.95	803.51	777.91
	.13	.13	.13	.13	NA	NA

Accountability Report for FY 1997

Foreword

The program and financial performance information presented in this report covers all the programs administered by the Social Security Administration (SSA). The Overview of SSA presents SSA's performance in meeting key goals and performance measures (PM) relating to the three broad fundamental goals of the Agency as set forth in the Agency Strategic Plan published in 1991. In September 1997, SSA released its refreshed strategic plan which established a new mission statement and strategic goals which are discussed on page 65. The Supplemental Information section provides PMs relating to the business process and service delivery interfaces included in SSA's business plan.

This is the third year SSA has been authorized by the Office of Management and Budget to issue an Accountability Report which consolidates the mandatory reporting requirements of the Chief Financial Officers Act, Government Performance and Results Act (GPRA), Prompt Payment Act, Debt Collection Act and the Federal Managers' Financial Integrity Act. Also included are the Office of the Inspector General (OIG) Inspector General's Report to Congress and SSA's Management Report on Final Action to OIG recommendations. This year, we have incorporated the reporting requirement of Section 206(g) of the Social Security Independence and Program Improvements Act and the Federal Financial Management Improvement Act of 1996.

The financial statements beginning on page 26 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of the Chief Financial Officers Act of 1990.

While the statements have been prepared from the books and records of SSA in accordance with formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

SSA's FY 1997 GPRA Annual Performance Report is provided on pages 66 and 67. It contains actual performance against performance measures included in SSA's FY 1997 Business Plan and other significant output measures.

SSA's Accountability Report for FY 1997 and other information about the Social Security programs are available through the Internet on SSA's home page at http://www.ssa.gov. The SSA homepage is updated on an ongoing basis with current information relating to the Social Security programs and their administration.

SSA's Mission

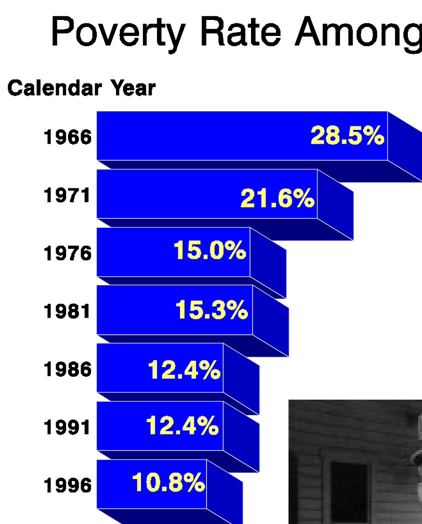
On August 14, 1935, the Social Security Act became law with President Roosevelt's signature. Throughout its 62-year history, SSA has held fast to its basic mission to pay the right amount to the right person at the right time. SSA's 1991 Agency Strategic Plan framed that mission this way:

To administer national Social Security programs as prescribed by legislation, in an equitable, effective, efficient and caring manner.

The Social Security Programs

Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI)

The OASI and DI 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.



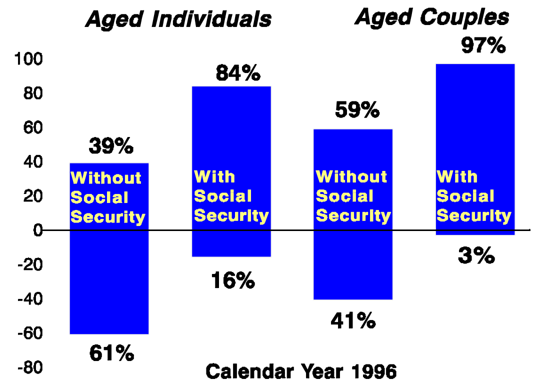
Social Security benefits have significantly improved the economic well being of the nation, reducing poverty among the elderly by 62 percent over the past 30 years. In 1936, when SSNs were first assigned to workers, most of the nation's elderly were living in poverty.

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 1996 was $62,700 and increased to $65,400 in 1997.

In 1996, the family income of 16 percent of aged, unmarried beneficiaries fell below the poverty line. Without Social Security benefits, 61 percent of those beneficiaries would have income below the poverty line--a difference of 45 percent due to receipt of Social Security.

For aged couples, Social Security also lifted many couples out of poverty. In 1996, 3 percent of aged beneficiaries who were members of a married couple had income below the poverty line. Without Social Security benefits, 41 percent of these beneficiaries would have income below the poverty line--a difference of nearly 38 percent.

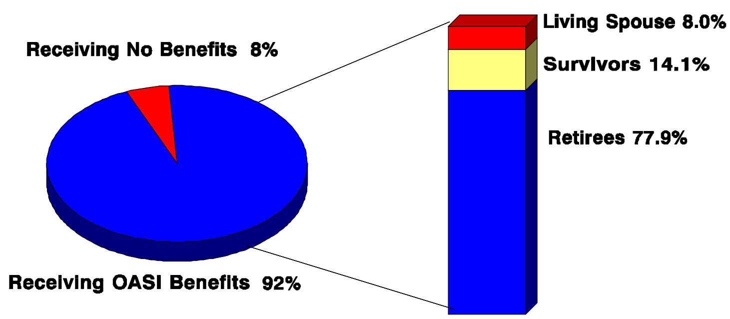
Aged Beneficiary Population with Family Income Above and Below the Poverty Line



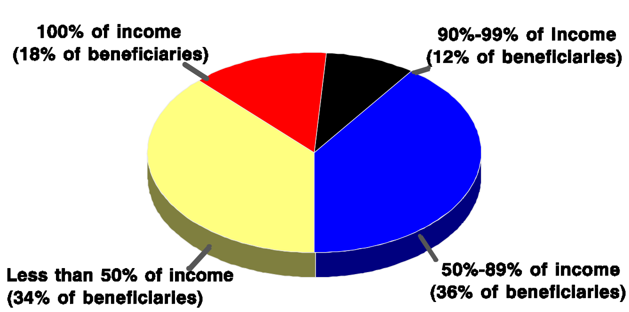
To qualify for OASI benefits, a worker must have paid Social Security taxes (FICA and/or SECA) for at least 10 years (or 40 quarters) over the course of his/her lifetime. Individuals born before 1929 need fewer quarters to qualify. Nine out of 10 working Americans can count on benefits when they retire,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

Ninety-five percent of people age 65 or over in calendar year 1997 were receiving benefits or will when their spouses retire. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and spouses with children in their care under 16 can count on benefits if a working parent dies.

Population 65 or Over Receiving OASI Benefits (1997)



Portion of Beneficiaries That Rely Heavily on Social Security (Calendar Year 1996)

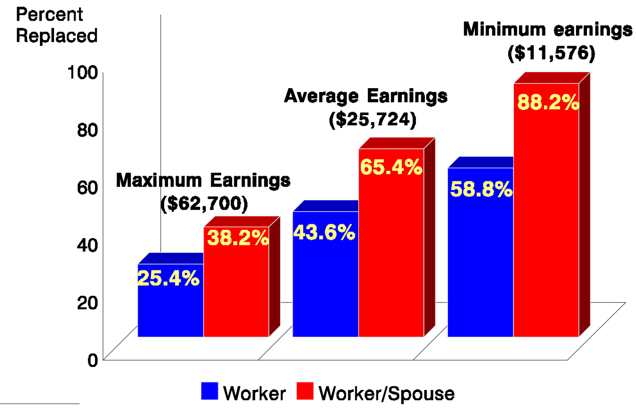


Social Security benefits comprised 40 percent of the aggregate share of all income to the aged population 65 and over of which 91 percent were Social Security beneficiaries. Other sources of income include assets (18 percent), earnings (20 percent), and pensions (18 percent) both Government and private.

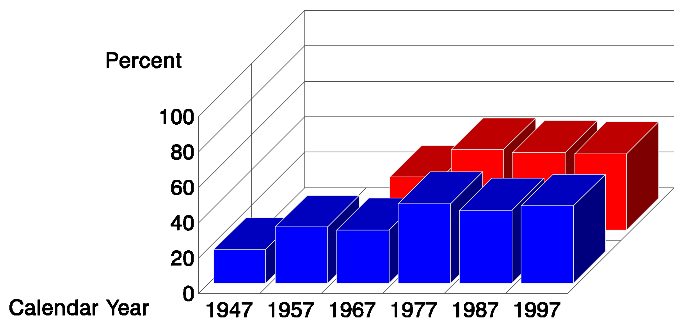
While many of the nation's aged population have income from other sources, a portion of the beneficiary population relies heavily on Social Security. For 18 percent of beneficiaries, it is the only income; for 30 percent of the population, it contributes almost all of the income; and for 66 percent of the beneficiary units, it is the major income source.

The level of pre-retirement earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted to give more credit to workers with low levels of earnings. The chart below shows an average retiree's and disabled worker's earnings replaced for selected calendar years. The charts on the right show the replacement rate for individuals and couples at various earnings levels (calendar year 1997).

Pre-Retirement Earnings Replaced
(Workers Age 65 Entitled in January 1997)



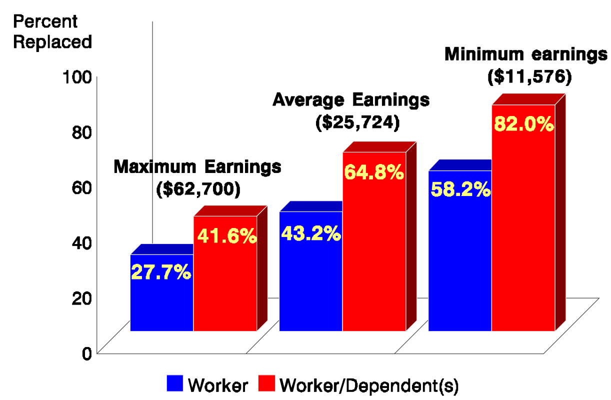
Earnings Replaced
(Historical Perspective)



Calendar Year	1947	1957	1967	1977	1987	1997
Disabled Worker	*	*	29.9	45.4	43.7	43.2
Average Retiree	19	31.6	29.9	44.8	41.2	43.6

* Data not available for disability benefit payments which began in 1957.

Disabled Worker's Earnings Replaced
(Workers Age 45 Entitled in Calendar Year 1997)



To qualify for DI benefits, an individual must meet a test of substantial recent covered work. The number of quarters needed for disability benefits depends on the age when an individual becomes disabled. The chart on the right shows the replacement rate for workers and their dependents at various earnings levels (calendar year 1997).

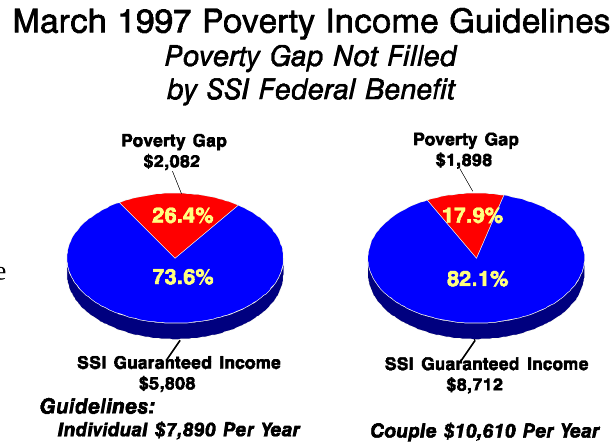
Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. Three of four working Americans age 21 through 64 can count on receiving benefits if they become disabled. Workers are considered disabled if they have severe physical or mental conditions that prevent them from engaging in substantial gainful activity. The condition 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.

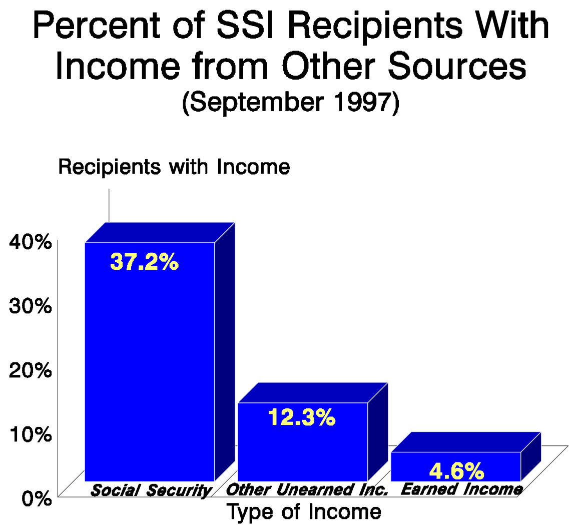
Supplemental Security Income (SSI)

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 as shown in the chart below. Children, as well as adults, can receive payments because of disability or blindness.

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

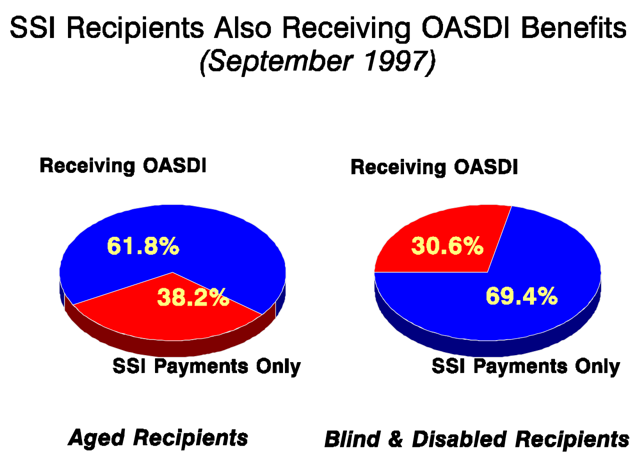
The definitions of disability and blindness used in the SSI program, as well as continuing disability review procedures, are the same as those used in the DI program. There are provisions to provide incentives for work including special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide.





SSI recipients with no other income receive the full SSI Federal benefit which is 74 percent of the poverty level for an individual and 82 percent for a couple. Those with other income receive less since the SSI Federal and State benefits may be reduced by the income they receive from other sources. In September 1997, 37.2 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.6 percent of the recipients, earnings were a source of additional income, and 12.3 percent had unearned income from other sources, such as Veterans' pensions.

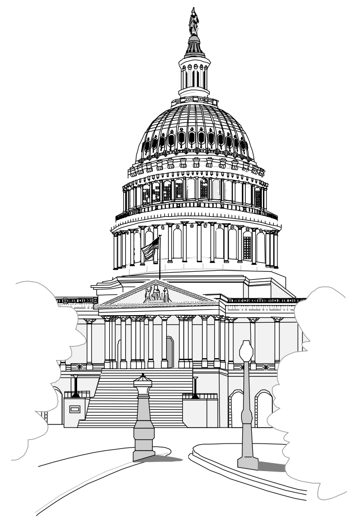
OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 37.2 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (61.8 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.6 percent).



Black Lung (BL)

The 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 1997, SSA field offices took 621 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 will certify for payment all Part B benefits from funds appropriated to SSA. However, SSA retains responsibility for these payments.

Support to Other Programs



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

***Medicare* - -** Being the primary public-contact point for the Health Care Financing Administration (HCFA), 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 1,600 workyears to supporting these workloads and is directly funded by the Medicare trust fund for these services.

***Medicaid* - -** In 31 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 amount of workyears for these States. SSA also provides information and referral services in support of Medicaid and is directly funded by the States and HCFA.

***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 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 1997, SSA processed 28,565 food stamp applications and recertifications.

***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.

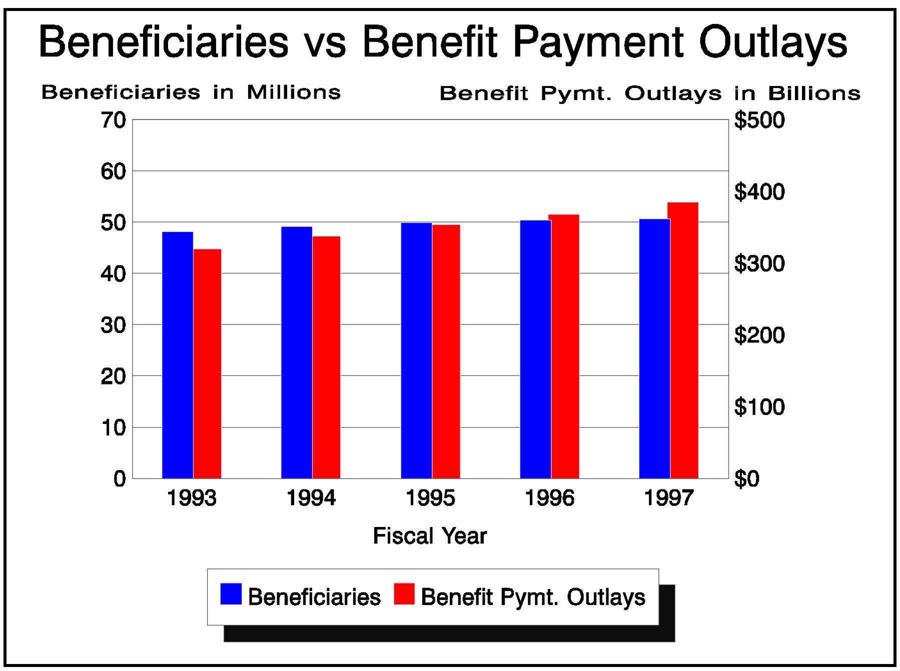
Social Security protected more than 145 million workers and paid benefits to 44 million people during FY 1997.

Overview of SSA

Agency Profile

Social Security is a fundamental part of American society, and the Social Security Administration (SSA) is unique among Government agencies. No other public program, and no other public-service entity, directly touches the lives of so many people with such impact. That impact is felt every single day by millions of retired and disabled workers and their dependents whose lives are made more secure by their Social Security benefit. It is felt every single day by millions of the country's most needy aged and disabled individuals who depend on their payment from Social Security.

Most elderly Americans were living in poverty in 1935 when 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 OASI program. Social Security protection for workers was expanded again in 1956 to include the DI program. SSA's responsibilities were further expanded in 1969 and 1972 to include the BL program (Part B) and the SSI program, respectively. SSA's responsibilities in 1997 focused on administration of these four entitlement programs that deliver cash benefits to more than 50 million beneficiaries every month. The chart below shows the 5-year trend in the number of beneficiaries served and the benefits they receive.



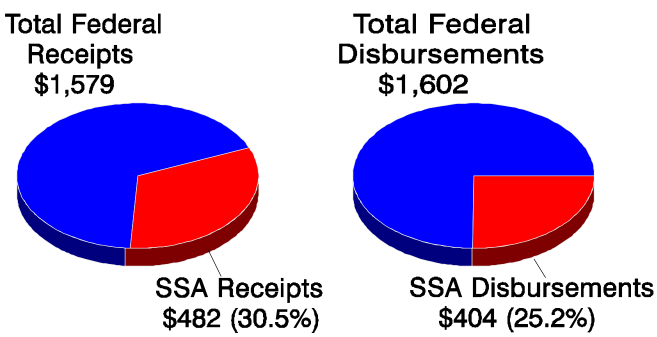
Observation

The total number of beneficiaries entitled under all SSA programs exceeds 50 million, an increase of 7.6 percent since 1993. Benefit payment outlays continue to rise faster (20.4 percent) than the number of beneficiaries as higher wage earners replace lower wage earners on the benefit rolls and cost-of-living adjustments raise benefit levels due to increases in the Consumer Price Index.

SOCIAL SECURITY

More than 27 million retired workers and about 3.4 million dependents receive Social Security.

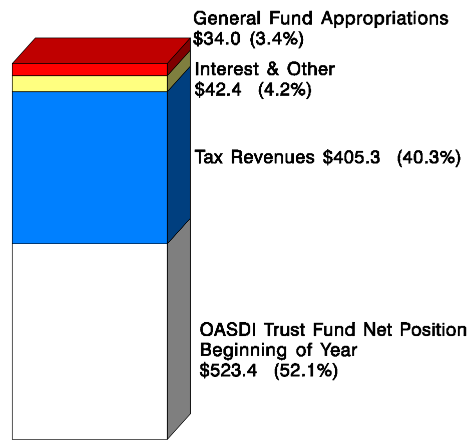
SSA's Federal Share



SSA's programs accounted for 25.2 percent ($404 billion) of the $1.6 trillion in Federal expenditures during FY 1997 and were 5.6 percent of the nation's $7.2 trillion total Gross Domestic Product (GDP).

Fiscal Year 1997 Financing *(Dollars in Billions)*

WHERE IT COMES FROM....



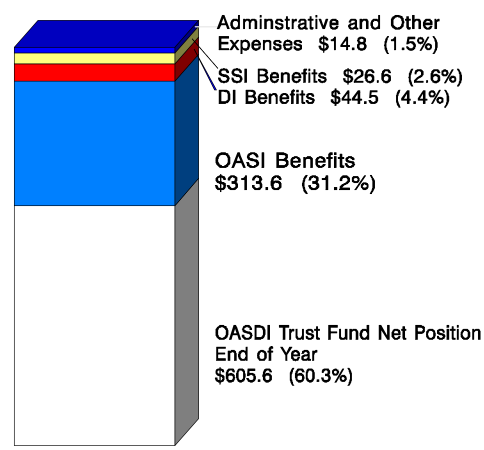
Program Financing

The adjacent charts show the sources and uses of funds to carry out all SSA programs in FY 1997 and the substantial influence of the Social Security OASI and DI Trust Funds. Employment tax revenues continue to increase consistent with increases in average earnings and increases in the taxable earnings base provided in the 1983 amendments to the Social Security Act.

Most resources available to SSA were used to finance current OASDI benefits and to accumulate reserves to pay future benefits. Growing OASDI Trust Fund assets were safely invested in interest bearing obligations of the United States as required by statute. When funds are needed to pay administrative expenses or benefit entitlements, these investments are redeemed to supply cash to cover the outlays.

Additional data on program financing can be found on pages 9 and 10 and 49 through 55.

....WHERE IT GOES



SOCIAL SECURITY

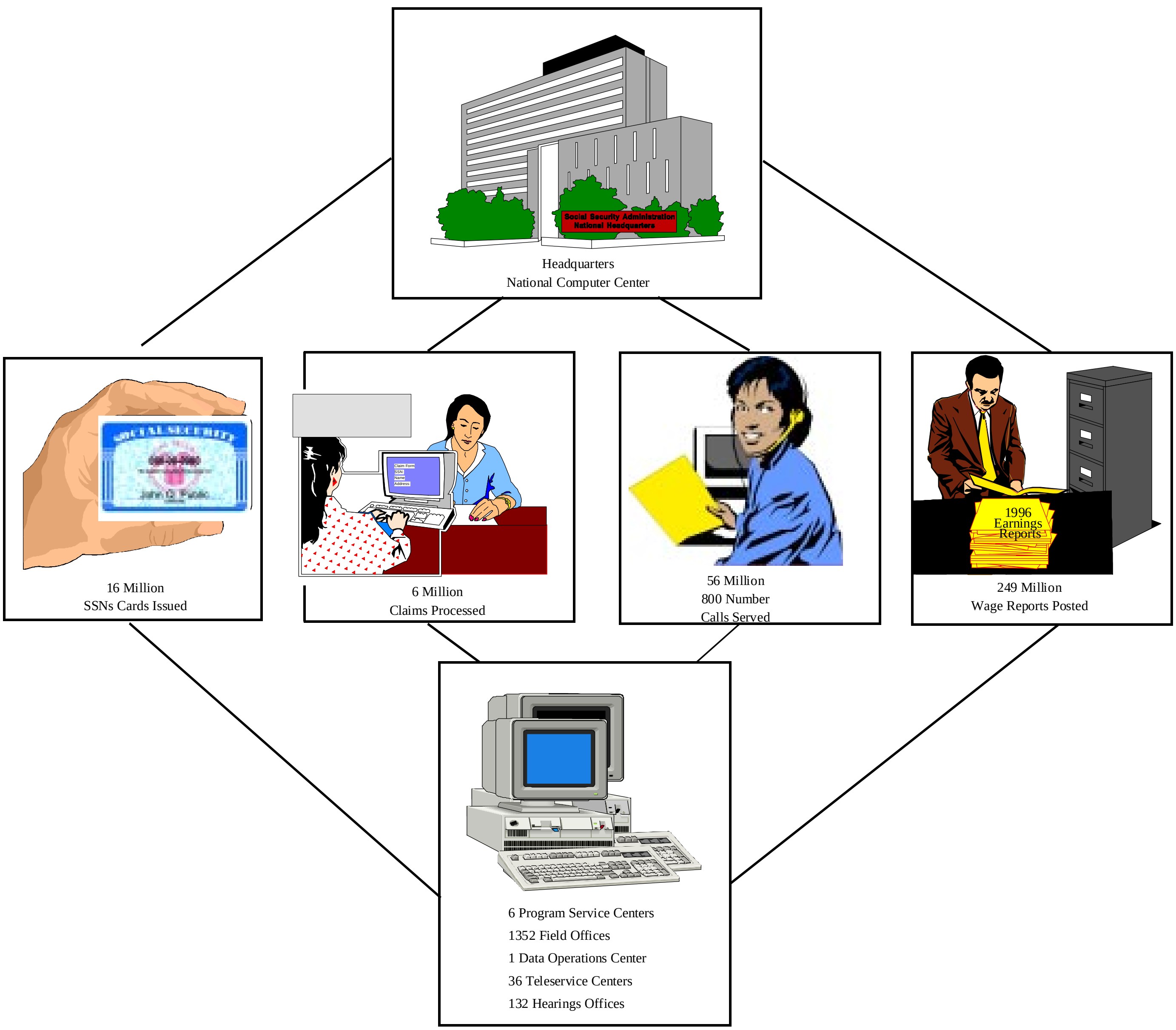
In addition to retirement benefits, Social Security provides a valuable package of disability and survivors insurance.

Service Delivery Network

SSA's service delivery network is designed to provide responsive, swift and accurate service to the public through its unique organizational structure. SSA's organization features centralized management of the national Social Security programs and a decentralized nationwide network of 10 Regional Offices overseeing 6 Program Service Centers, 1352 Field Offices, 1 Data Operations Center, 36 Teleservice Centers and 132 Hearings Offices.

Field offices are located in cities and rural communities across the nation and are the Agency's physical point of contact with beneficiaries and the public. Additionally, the Social Security disability program depends on the services of 54 Disability Determination Services (DDS) which include all 50 States, the District of Columbia, Guam and Puerto Rico. Through its information processing network, which links its distributed operations with headquarters, SSA has the ability to serve its clients efficiently and effectively.

SSA's Information Processing Network



> *Social Security benefit amounts are based on lifetime earnings; payment increases are based on the annual cost-of-living index.*

Agency Goals

SSA has established three broad fundamental goals that define the results we expect to accomplish as we fulfill our mission. The Agency goals are:

Rebuild Public Confidence in Social Security;

Provide World-Class Service; and

Create a Supportive Environment for SSA Employees.

Under each goal, we show actual performance in meeting Agency long-term objectives, intermediate objectives and GPRA performance goals. Charts 1 through 9 and 16 display progress against the long-term objectives. SSA has developed intermediate GPRA goals to ensure that we continue to make progress towards the objectives which present the greatest challenge to the Agency. Our performance against these objectives are shown in charts 10, 11, 14 and 15. Finally, charts 12 and 13 display our progress in achieving select FY 1997 GPRA workload goals. In FY 1998, we will report performance against the performance indicators included in SSA's new strategic plan, "Keeping The Promise," issued in September 1997.

Progress in Achieving Our Goals

GOAL: Rebuild public confidence in Social Security.

Public confidence and support are important to the successful administration and planning of SSA's programs. An independent survey done in 1997 asked the public about their confidence level in Social Security. As shown in the chart below, 39 percent of the public indicated they were "very confident" or "somewhat confident" in Social Security.

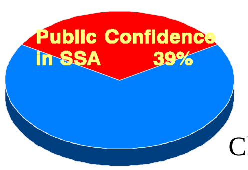


Chart 1

Observation

Recognizing that a public well informed about Social Security is more likely to have confidence in the program, Social Security continued efforts to educate people about the value of Social Security.

The adequacy of trust fund reserves, the provision of personal earnings and benefit estimate statements and the timely maintenance of reliable lifetime earnings records for the public are key measures of the success of SSA's initiative to rebuild public confidence in Social Security. (See pages 65 through 82 for a discussion on how effectively and efficiently SSA performs its day-to-day business functions and the Agency's progress in achieving a full range of its service delivery goals and objectives.)

Trust fund assets will be sufficient to pay 1 year's worth of benefits.

The trust funds are deemed adequately financed on a pay-as-you-go basis if the asset level at the end of a year is sufficient to cover at least 1 year's worth of benefit payments in the absence of other income such as payroll taxes.

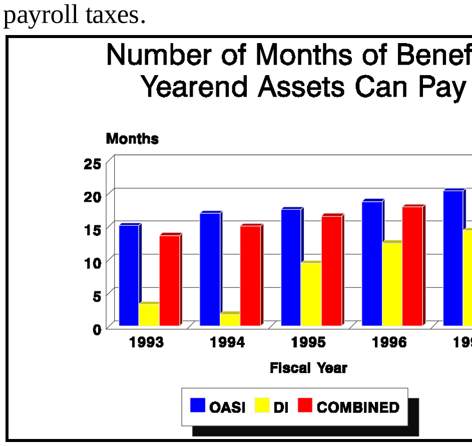


Chart 2

Observation

The number of months of benefits that combined yearend OASDI assets can pay has grown from 13.7 months at the end of FY 1993 to 19.6 months at the end of FY 1997, a 43 percent increase. For the last 4 years, the level of combined assets was deemed sufficient to finance the OASDI programs on a pay-as-you-go basis.

Social Security provides survivors protection worth $313,000 to a typical family of four.

Trust fund assets will meet or exceed trust fund expenditures for each of the next ten years.

The trust funds are deemed adequately financed for the "short term" if actuarial estimates of assets meet or exceed outlay estimates in each year of the next decade. Estimates in the 1997 Trustees Report indicate that the OASI and DI Trust Funds are adequately financed over the short term (next 10 years), having sufficient assets to pay full benefits until 2031 and 2015, respectively.

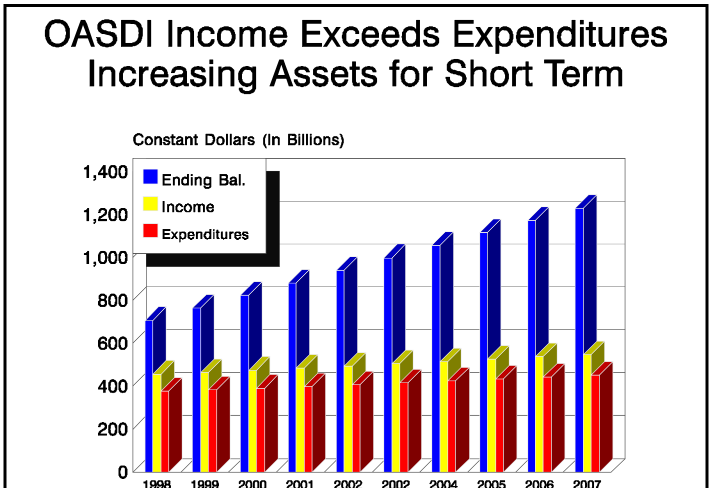


Chart 3

Observation

While combined OASDI expenditures and income are expected to increase by 21.9 percent and 21.5 percent, respectively over the ten year period, trust fund assets are expected to grow by 90.0 percent.

Trust fund assets will be sufficient to meet a long-range test of close actuarial balance.

The trust funds are deemed adequately financed for the "long-term" if actuarial estimates of revenues over the next 75 years can finance expenditures estimated for that period. Combined assets will continue growing over the next 25 years because the financing scheduled in current law results in temporary partial advance funding of benefits payable to the baby-boom generation, which begins retiring about 2010. The size of the actuarial balance for any period represents a measure of the program's financial adequacy for that period. For the long-term (over the next 75 years), the OASI and DI programs **are not** in close actuarial balance. (See pages 49 through 55 for further information about the adequacy of trust fund reserves**.)**

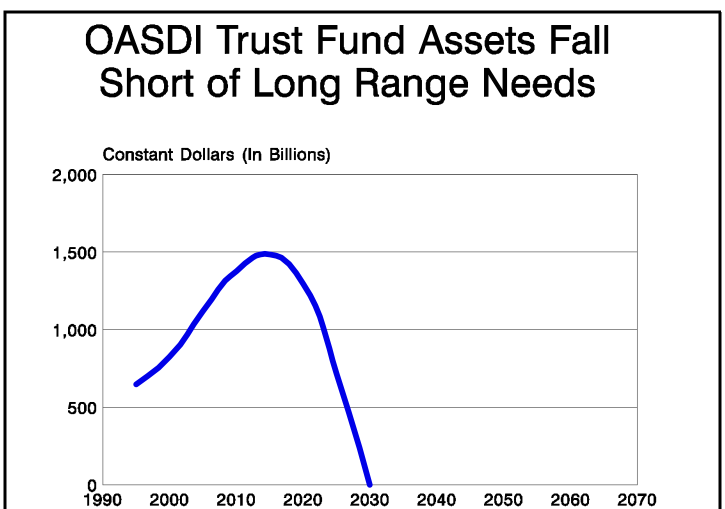


Chart 4

Observation

By 2029, under present law, OASDI assets will not be sufficient to pay 100 percent of benefits due, based on current estimates. At that time, OASDI revenues will be sufficient to pay about 75 percent of benefits. Over the 75-year projection period, the actuarial deficit equals 2.23 percent of taxable payroll.

SOCIAL SECURITY

During FY 1997, Social Security paid monthly survivors benefits to 7.2 million Americans.

SSA will issue Personal Earnings and Benefits Estimate Statements (PEBES) to all covered workers, age 25 and over.

As a service to the public, SSA provides summaries of earnings histories and estimates of benefit amounts upon request. Starting in FY 1995, under legislative mandate, SSA began sending SSA-Initiated PEBES (SIPEBES) to more segments of the working population. Current law requires that, by FY 2000, these statements be sent annually, unsolicited, to workers age 25 and over. SSA expects the SIPEBES to generate additional workloads for the Agency, mostly in the form of public inquiries and requests for earnings corrections. SSA is spreading this workload out more evenly by issuing first-time PEBES to some younger workers during the FY 1996-1999 period. Our goal is to release as many initial statements as possible before the annual issuance process begins in FY 2000.

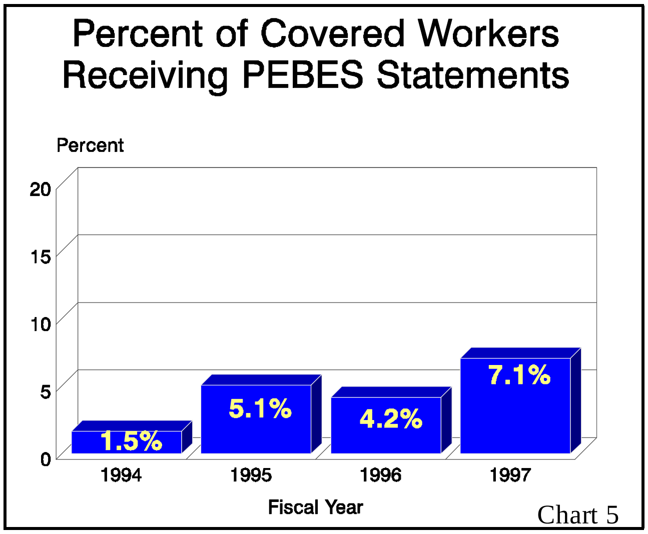


Chart 5

Observation

Less than 2 percent of covered workers request PEBES each year. During FY 1997 SSA issued 15.7 PEBES including 12.4 SIPEBES to workers age 60 and over to comply with legislation. Estimates of SIPEBES, required by law, to be issued in FY 1998 to workers age 60 and over and in FY 2000 to workers age 25 and over are 1.8 million and 123 million, respectively.

SSA will accurately post all annual wage reports (AWR) within six months following the close of the tax year.

During FY 1997, SSA continued its efforts to improve accuracy and processing times for both wages and self-employment income. Employers and payroll processors were approached through outreach initiatives including instructional videos and special publications to enhance wage report accuracy. The IRS/SSA wage reconciliation process continued to be performed on a current basis and additional wages were posted as a result. SSA is working with the Departments of Treasury and Labor to reduce the tax and wage reporting burden on employers while improving the effectiveness of each Agency's operations. The objective is to simplify laws and procedures, provide enhanced assistance and services to employers for easier filing and enable employers to electronically file a single return that can be used by SSA, IRS and State tax and unemployment insurance agencies.

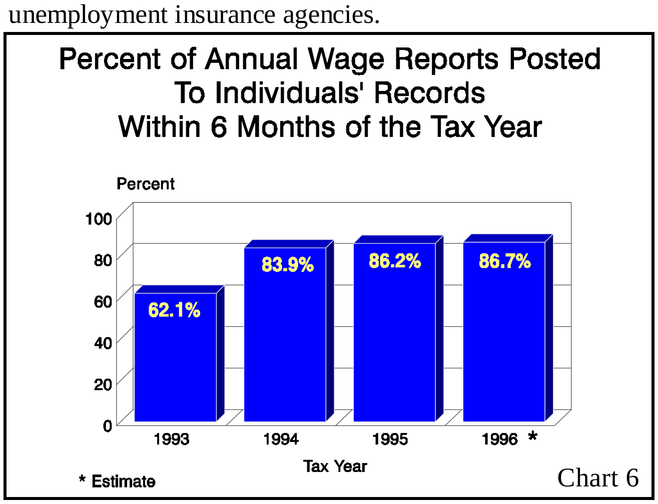
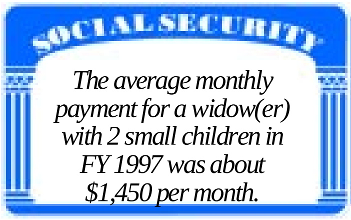


Chart 6

Observation

SSA is working to increase the number of annual wage reports filed electronically. Reports filed electronically tend to be more accurate and can be processed more efficiently and cost effectively than paper or magnetic media reports. Progress in this initiative should increase SSA's performance in this measure as well as overall posting accuracy.



SSA will process all legislatively required Continuing Disability Reviews (CDR).

SSA has been unable to process all CDRs required by law. Currently, the backlog of approximately 2.1 million DI cases and 2.0 million SSI cases is still growing, although at a slower rate. To close this gap, Congress passed legislation which adjusts discretionary spending caps, thus permitting allocation of additional funds to SSA for CDR processing. In FY 1997, SSA conducted over 38 percent more periodic CDRs than in FY 1996.

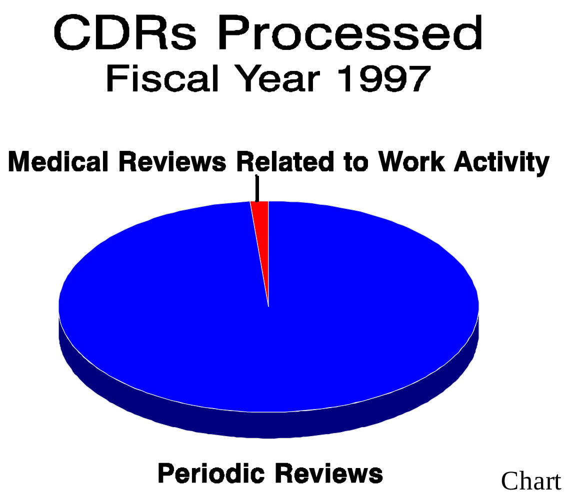


Chart 7

Observation

During FY 1997, SSA was able to perform 690,478 periodic reviews and 20,224 medical reviews related to work issues. SSA expects to perform close to 1.2 million CDRs in FY 1998.

GOAL: Provide world-class service.

SSA's five core business processes--enumeration, earnings, claims, postentitlement and informing the public--all relate directly to the services SSA provides to the American people. We provide those services using, in varying degrees and for various purposes, six service delivery interfaces: face-to-face service provided directly by SSA, telephone service in the field office, telephone service over the 800 Number, service through the mail, service provided by thrid parties and automated self-service. Approximately 85 percent of SSA's employees perform direct service to the public, in addition to all of the State DDS employees. Virtually all other SSA employees provide support to the front line.

SSA is dedicated to providing world-class service to all of the people it serves. In basic terms, world-class service is defined as service equal or superior to that provided anywhere in the comparable public or private sectors. SSA has always been committed to providing its customers with service that is of the highest quality possible. Customer satisfaction remains very high, and SSA's accuracy in providing basic services--particularly enumeration and the paying of benefits--are exemplary. SSA continues to provide caring, courteous service to all its customers.

In each of the programs SSA administers and through each available service delivery interface, providing this level of service involves different challenges. But in every program and across every interface, the goal is the same: to provide world-class service to every customer, every time.

> SOCIAL SECURITY
>
> *Few workers have private long-term disability insurance, nearly all have Social Security disability protection.*

SSA will provide prompt, courteous service to the public, both in person and on the telephone, at all times.

SSA is committed to ensuring equity of service across geographic lines, program lines and demographic lines. One important thrust is improving service to our many non-English speaking customers. We know we must treat all of our customers with equal care and consideration. To improve the quality and timeliness of our service, SSA is paying greater attention to our customers' comments. Customers have indicated through a variety of mechanisms that they expect SSA to do more than issue benefit checks accurately and on time.

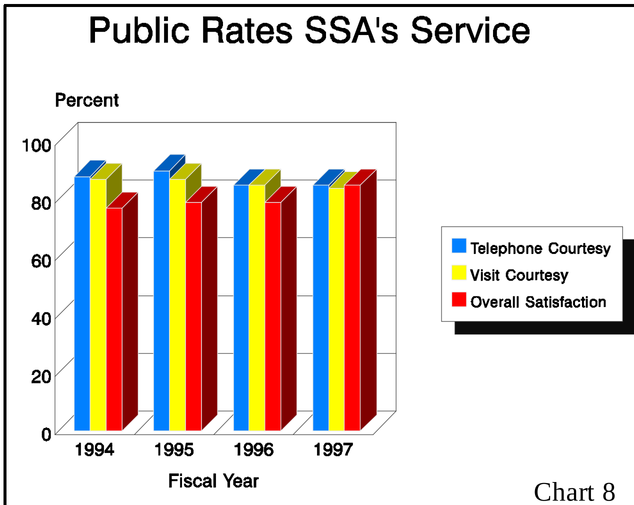


Chart 8

Observation

Customers who consider staff courteous are more likely to give high ratings for overall satisfaction. Consistent with prior years, customers give Social Security staff high marks for courtesy. In FY 1997, 85 percent of customers who called the 800 telephone number were satisfied with staff courtesy. Of the people who actually visited a field office, 85 percent of those interviewed said they were satisfied with staff courtesy. In FY 1997, the number of customers expressing overall satisfaction with SSA's services increased to 85 percent, a significant increase over the FY 1996 rate of 79 percent.

SSA will recruit bilingual public contact employees for field offices and the 800-number telephone service.

To meet the needs of non-English-speaking customers, SSA recruits bilingual individuals to act as a public contact for customers visiting SSA field offices and calling SSA's 800-number telephone service. SSA also provides notices and public information materials in Spanish and works with community groups to increase understanding of SSA-administered programs and provide translation services. In addition, SSA has developed a Spanish version of the PEBES statement and has broadened information and outreach efforts by producing a series of fact sheets in five Pacific-Asian languages. Additionally, we are using census data to customize bilingual services by geographical location.

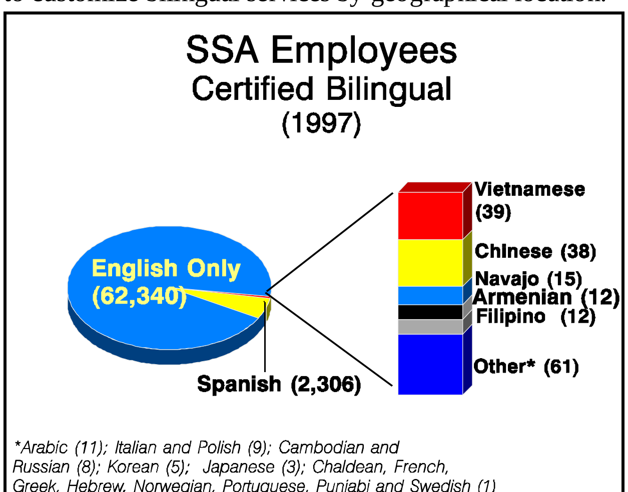


Chart 9

Observation

Eleven percent of new employees hired during FY 1997 were certified bilingual. Under the current initiative to recruit additional bilingual public contact employees for field and telephone service, SSA hopes to increase the percent of staff certified bilingual from its current 3.8 percent.

SOCIAL SECURITY

Social Security provides disability protection worth more than $285,000 including benefits payable to survivors of disabled workers.

SSA will process all initial DI claims within 6 months after onset or 60 days of effective filing date, whichever is later.

Each year, the DI initial claims workload presents many challenges for the Agency as it continues to be one of the largest workload categories in SSA. This workload demands a considerable amount of the Agency's resources as it streamlines its workforce and implements a new disability process. The overall DI initial claims processing time had steadily decreased from FYs 1994 through 1996. However, in FY 1997, DI processing time rose 8.6 days over FY 1996. The increased processing time can be attributed to critical, time-sensitive workloads that required redirection of resources from the claims area. These workloads include the review of childhood cases required by the Welfare Reform legislation and the increased volume of continuing disability reviews.

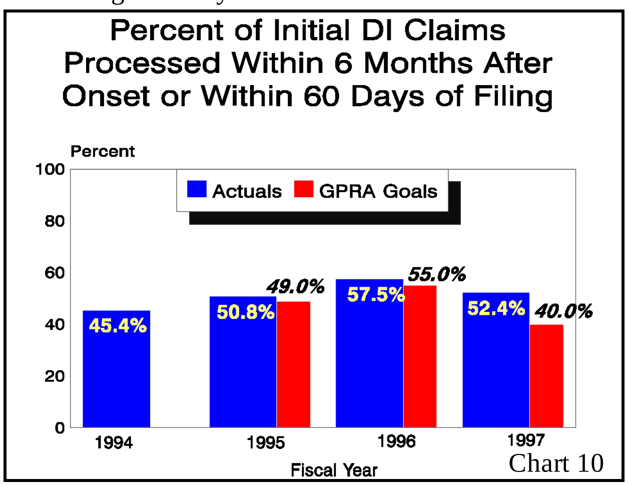


Chart 10

Observation

During FY 1997, SSA was able to exceed the GPRA goal by 31 percent. This was the third consecutive year the goal was exceeded.

SSA will pay or deny all initial SSI disability claims within 60 days of filing date.

The Agency has realized that a change in its business processes is crucial if we are to meet the demands of the new century. This continues to be a driving influence in our efforts to attain the goal of providing timely decisions on SSI disability claims. Though the Agency has not yet achieved this long range goal, we are gradually moving towards our objective by implementing short-term disability projects as well as a long term redesign of the disability program. However, in FY1997 there was a decrease of 4.5 percentage points in the percent of SSI blind/disabled claims paid within 60 days of filing date compared to FY 1996. This reversal was related to the redirection of resources to address the Welfare Reform Childhood reviews and the increased volume of continuing disability reviews.

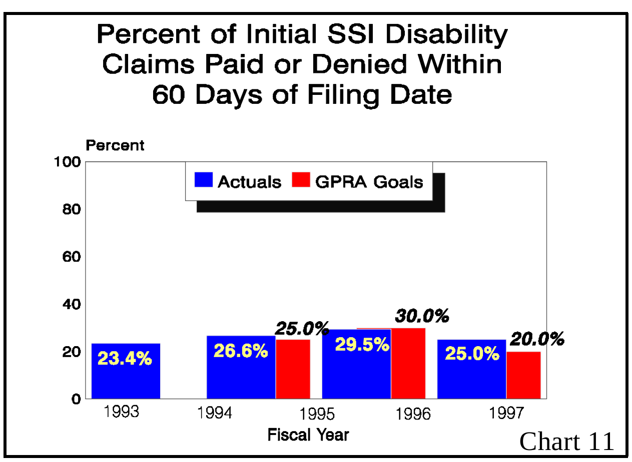


Chart 11

Observation

During FY 1997, SSA was able to exceed the GPRA goal by 25 percent.

SOCIAL SECURITY

Studies show that a 20-year old worker stands nearly a 3 in 10 chance of becoming disabled before age 65.

The Disability Determination Services (DDS) will process at least 2,009,000 initial disability claims in FY 1997.

Through the outstanding efforts of SSA and State DDS employees throughout the country, SSA was able to achieve its GPRA goal of processing 2,009,000 initial disability determination cases. During FY 1997, initial disability claims receipts decreased by over 14 percent with an average DI claim taking approximately 86.5 days to process and an average SSI disability claim taking approximately 108.4 days to process. SSA continues to streamline the disability determination process. Efforts concentrate on streamlining the decision methodology to enable the current workforce to process disability claims more efficiently.

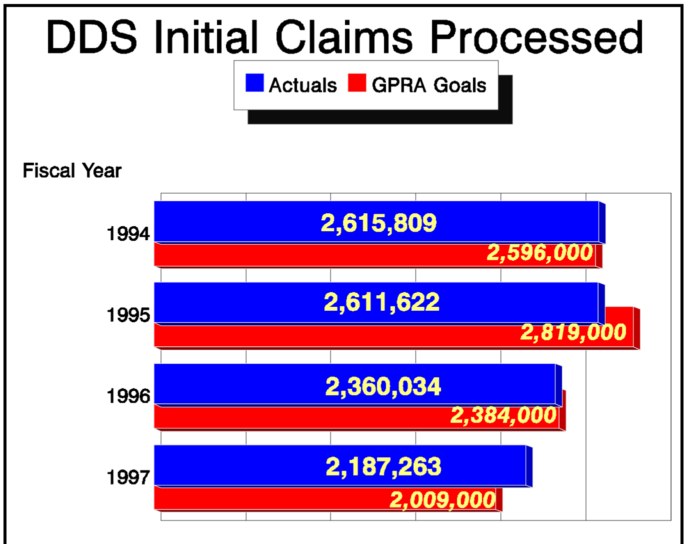


Chart 12

Observation

The DDSs exceeded the FY 1997 GPRA initial claims processing goal by over 178,000 claims. This helped reduce the initial disability cases pending by over 21 percent.

The Office of Hearings and Appeals (OHA) will process at least 605,000 hearings in FY 1997.

Administrative Law Judges (ALJ) were able to act upon 54.3 percent of hearings cases received and pending from last year. This figure was 53.2 and 49.3 percent for FYs 1996 and 1995, respectively. Thus the number of cases pending at year end decreased by 5.3 percent from last year.

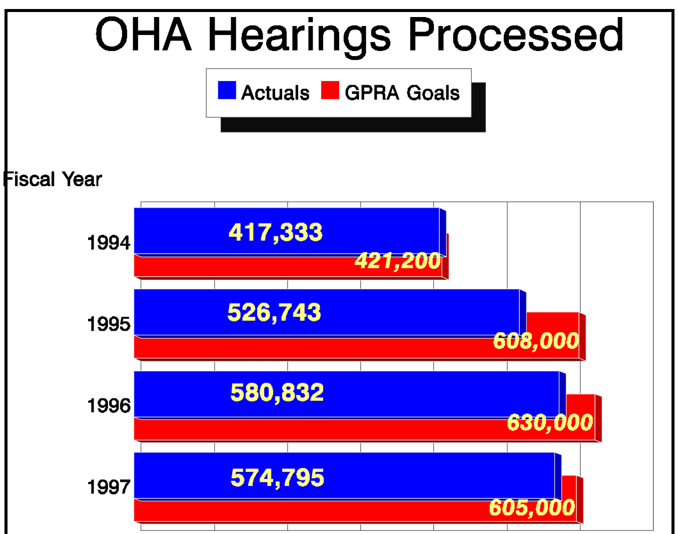
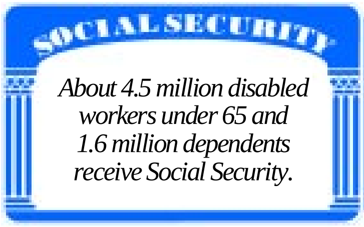


Chart 13

Observation

SSA was unable to meet the GPRA target of processing 605,000 hearings cases in FY 1997. However, the Agency did process 95 percent of the FY 1997 GPRA goal.



SSA will issue hearing level decisions and send notices to claimants within 120 days after filing date.

Hearing level dispositions issued within 120 days or less generally tend to be favorable decisions that can be issued on-the-record without a hearing or additional development of the record. Under initiatives tied to the Short Term Disability Project (STDP) in FYs 1995 through 1997, OHA has been able to identify and dispose of fully favorable cases earlier in the hearings process. OHA projects to dispose of an even greater number of cases within 120 days in FY 1998 and beyond, with implementation of Process Unification and national roll-out of the Adjudication Officer (AO) Program (see page 75 for more information on these initiatives).

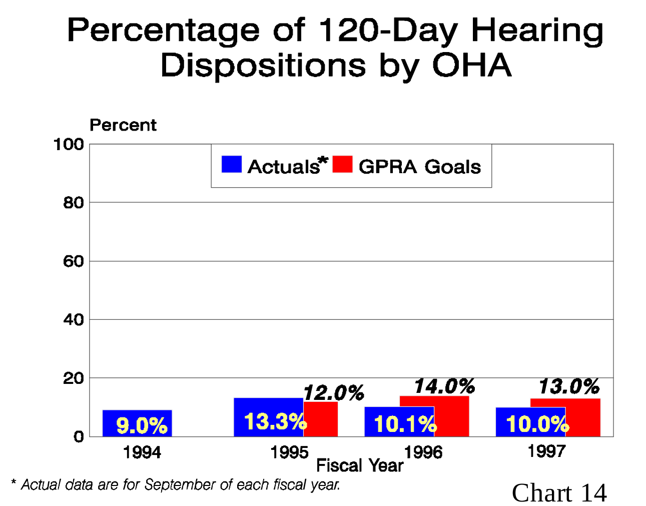


Chart 14

Observation

Although SSA was not able to achieve this FY 1997 GPRA goal, the Agency was able to reduce the end of year pendings for hearings by over 27,000 cases. However, the disposition percentage remained relatively static at 10.0 percent due to the age of the pending cases that were processed.

GOAL: Create a supportive environment for SSA employees.

Serving our customers well requires that SSA's key resource, its employees, have a professional working environment that makes available the tools and resources its employees need to do their jobs effectively and efficiently. Beyond the concern with employees' impact on service, however, lies SSA's conviction that employees deserve opportunities for an enriching career. Technology advances can also present challenges to work-force management, and SSA is beginning to plan for the technological evolution of jobs to ensure that SSA can accommodate employees whose jobs are impacted by automation.

SSA values the contributions of employees to Agency decisionmaking and recognizes the importance of making Agency decisions at the lowest level possible in the organization. We are continuing our search for the best ways to ensure that employees have the latitude they need to perform their work effectively and efficiently and to remove the barriers that impede their ability to do so.

A worker who receives disability payments for two years becomes eligible for Medicare.

SSA will provide all employees with state of the art technology enabling them to work effectively and efficiently.

While the SSA workforce is SSA's most valuable asset, technology runs parallel in importance because it is essential to the effectiveness of that workforce, and indispensable to the success of the SSA business approach. SSA must meet growth in both customer expectations and workloads, and improve or maintain service while satisfying staffing and streamlining goals. To accomplish this, SSA must use enabling technology to support improved or dramatically altered processes which simplify, speed and eliminate tasks and free employee time for the more complex activities which are not susceptible to simplification or automation.

The Intelligent Workstation/Local Area Network (IWS/LAN) is the linchpin for both SSA's customer service program and its entire business approach. It will facilitate many of the planned productivity improvements and enable full reengineering of the disability process, including processing time reductions and other improvements projected in the redesign. IWS/LAN also will support continuous improvement efforts necessary to meet the expectations of our customers.

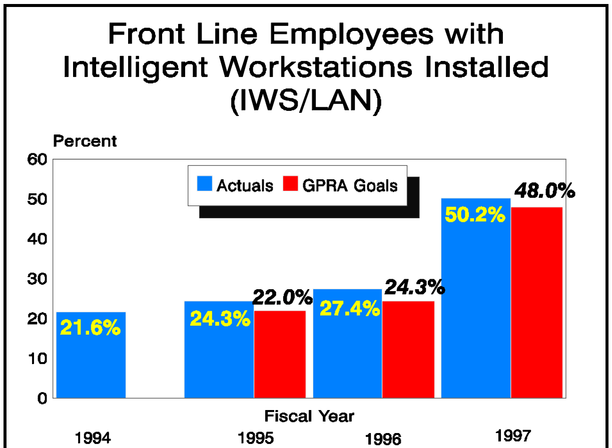


Chart 15

Observation

During FY 1997, SSA was able to increase the number of front line employees with IWS/LANs installed to 50.2 percent nearly doubling the number of employees with IWS/LAN technology. In doing so, we exceeded the FY 1997 goal by 2.2 percentage points.

SSA will provide adequate training to employees enabling them to perform their jobs knowledgeably and with confidence.

Ongoing investments in employee training and career development are crucial to maintaining an effective workforce. Streamlining initiatives have resulted in a number of employees redeploying to direct service positions from management and staff support jobs. The success of streamlining rests on the premise that employees will be well trained as they are redeployed to different work. Significant training is also flowing from process reengineering and continuous improvement automation efforts. For example, a multi-year, phased training approach is an integral part of the Disability Process Redesign Project and similar large training efforts are also planned in support of technology-based initiatives such as IWS/LAN.

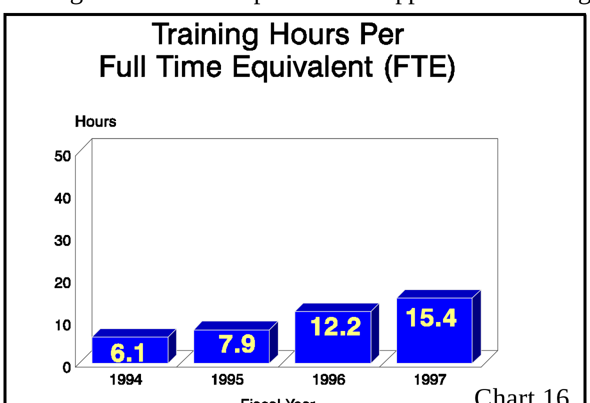


Chart 16

Observation

During FY 1997, SSA's training hours per FTE increased by 26 percent from the FY 1996 performance; nearly double the FY 1995 figure. The increase was due in part to the large number of front line employees being upgraded to the ISW/LAN environment.

Acting Chief Financial Officer's Discussion and Analysis of Emerging Workload Challenges

The American public demands that its Government make wise decisions with their tax dollars and be held accountable for those decisions. SSA is striving to improve the services we deliver to our customers and to develop proper measurement systems so our management decisions may be better evaluated. In addition to working hard to achieve the goals and objectives discussed on pages 9 through 17, our dynamic business environment has created many additional workload challenges which SSA must address both now and in the future. Mandated reductions in the size of our overall workforce will increase the challenge that lies ahead. Discussed below are the predominant issues the Agency is currently addressing to provide a Government that works better and costs less.

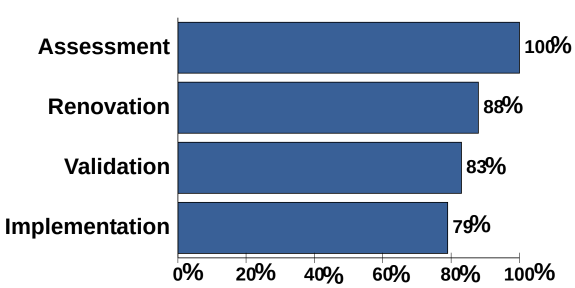
Year 2000 Compliance

In 1989, SSA first identified the need for major systems modification to ensure all systems will continue to operate properly in the next millennium. Since then, the Agency has taken a comprehensive approach to identifying all mission critical systems, both internally developed or vendor purchased, and ensuring year 2000 readiness. Because of the integrated nature of SSA's systems, we track our compliance progress in terms of the modules which perform a specific business function rather than by major system.

The Agency has identified almost 22,000 mission critical modules which required repairs to ensure year 2000 compliance. The chart below shows the implementation progress in repairing these modules as of September 30, 1997. By January 1999, all of SSA's mission critical modules will have the ability to operate in the year 2000. Also, over 6,000 additional year 2000 compliant modules have been built and integrated into SSA's systems.

The House Subcommittee on Government Management, Information and Technology recently graded progress made by the 24 major departments and agencies of the Federal Government in addressing the year 2000 problem. SSA was the only entity to be rated at the "A" level for year 2000 compliance efforts.

Year 2000 Compliance
Progress in Repairing Current Systems Modules
(As of September 30, 1997)



Observation

SSA has completed an assessment of the steps necessary to ensure all mission critical system modules will be able to function in the year 2000. Eighty-eight percent of these systems have been fully renovated. Once renovations are completed, the module is validated and subsequently implemented. Only 17 percent of all modules have not completed validation and implementation.

Modernizing the Disability Claims Process

A dramatic increase in initial claims for disability benefits coupled with declining resources led to the erosion of SSA's ability to process claims timely. The average time to process an initial claim increased from 74 days in FY 1988 to 98.6 days in FY 1992 for DI claims and from 76 days in FY 1988 to 119.2 days in FY 1992 for SSI blind/disabled claims. A subsequent increase in hearings and appeals workloads followed.

The Agency undertook an interim initiative to provide short-term relief to these growing workloads and processing times. In FY 1993, contingency funding and a larger investment of staff dedicated to processing disability claims began to reduce backlogs. Also, SSA's Short Term Disability Project (STDP) which began in FY 1995, included 19 actions designed to significantly reduce pending disability and hearings cases. For example, central office staff were redirected to claims processing duties. Several of these initiatives have continued into FY 1997.

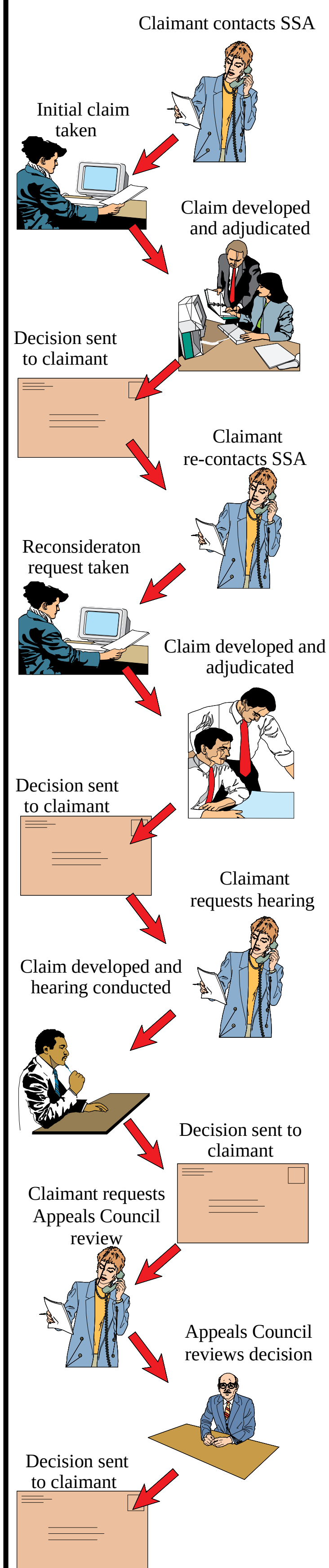
To develop a longer term solution, a cross-component team was formed to analyze problems with the current disability process and devise a plan to redesign the process to make it more customer focused and efficient. In September 1994, SSA released a <u>Plan for a New Disability Process</u> to significantly improve the Agency's disability determination process from initial contact through final administrative appeal. The new process will allow the Agency to deliver quality service in a more timely and cost-effective manner.

In the redesigned process, applicants at the initial level deal primarily with a single disability claim manager (DCM) who would be both fact finder and decision-maker for medical and non-medical portions of the case. In instances where evidence from the initial claim does not support an allowance, the DCM would offer a pre-decisional interview—providing the claimant with an opportunity to submit additional information/evidence which could impact the decision.

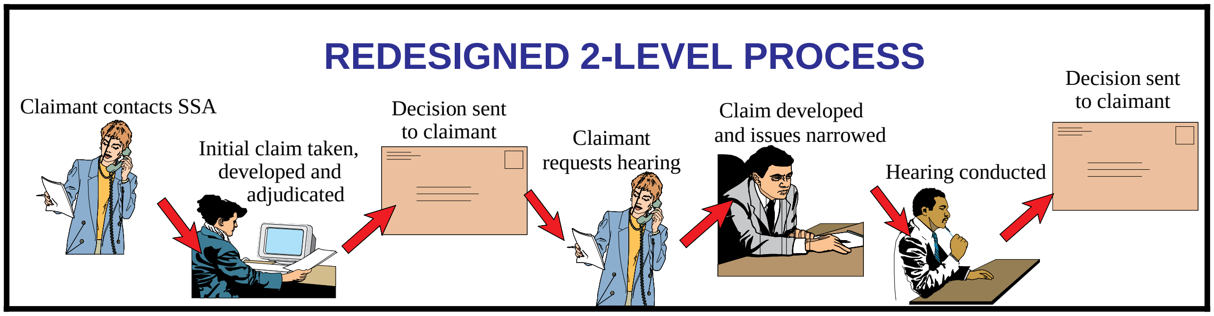
The appeals process would be streamlined to one level of administrative appeal instead of the current 3 levels. If a claimant disagrees with the DCM determination, they could appeal by requesting a hearing before an ALJ. Once appealed, the case would be turned over to an adjudication officer (AO) who serves as primary claimant contact for all pre-hearing activity. Working with the claimant and/or representative, the AO reviews the issues in dispute and determines whether there is a need for additional evidence. The AO has the authority to issue favorable determinations if warranted by the evidence in file. Other cases developed by the AO are forwarded to the hearings office for ALJ hearing and decision. Claims denied by the ALJ can be appealed in Federal court. The role of the Appeals Council will be to ensure claims subject to judicial review have been properly prepared and that only claims where appellate review is warranted enter the Federal court system.

To support this streamlined process, SSA will utilize modern technology to create a seamless electronic environment. In this environment, all employees will use the same hardware, claim assignment and scheduling software, decision support software, case control system, integrated quality assurance functionality and management information through all stages of the process. SSA is currently testing and implementing aspects of the redesign plan although it is not expected to be fully implemented until FY 2002.

CURRENT 4-LEVEL PROCESS



As shown on the previous page, the current disability claims process allows for an initial determination of disability and three subsequent appeals, i.e., reconsideration by DDS, hearing before an administrative law judge and a review by the Appeals Council. SSA is incrementally testing a process which would streamline the appeals process to one level—the hearing, and increase claimant contact and involvement in the process. The graphic below depicts the redesigned 2-level process.



Continuing Disability Reviews (CDR) Remain a Key Priority

SSA is required to determine the continuing eligibility of DI beneficiaries every three years for those whose long-term disabilities have not been determined to likely be permanent. At the end of FY 1997, SSA had a backlog of 2.1 million DI CDRs.

In addition to the DI CDR workload, Congress, in August 1994, mandated the Agency to conduct at least 100,000 CDRs of SSI recipients in each of fiscal years 1996, 1997 and 1998.

Public Law 104-193 enacted in August 1996 mandated that SSA conduct a CDR on the following SSI recipients:

- Those under age 18 whose medical conditions are considered likely to improve. These CDRs must be conducted at least once every three years;

- Those whose low birth weight is a contributing factor material to the determination of their disability. These CDRs must be conducted within 12 months (extended beyond 12 months under certain conditions by P.L. 105-33, enacted August 1997) after birth; and

- Those whose eligibility for SSI benefits was established under the disabled child eligibility criteria who have attained age 18. This CDR must be conducted within one year of attaining age 18 using adult eligibility criteria.

To address the CDR backlog, SSA improved the way State Disability Determination Service (DDS) resources are utilized. Before FY 1994, SSA would refer disabled beneficiaries to State DDSs to determine their continued eligibility for benefits. SSA has implemented a profiling process which refers only those beneficiaries whose health is most likely to have improved to the DDS for review. Those with conditions less likely to have improved are first screened using a response required mailer process to identify those for whom a full medical CDR is warranted.

To further reduce the backlog of DI CDRs and meet recent SSI CDR processing requirements, Congress earmarked $1.4 billion of SSA’s base budget and authorized an additional $2.5 billion primarily for CDR processing during the period FY 1996 - FY 2002. The improved profiling process along with these additional funds should enable SSA to eliminate the backlog of CDR cases by FY 2002.

The increase in CDRs conducted should result in a net savings to the Social Security OASDI and SSI programs as well as the Medicare and Medicaid programs. In FY 1996, SSA processed 41,910 initial cessations of benefits as a result of CDRs initiated in SSA’s Office of Disability. Of these, an estimated 26,500 beneficiaries will have their benefits terminated after all appeals, yielding an estimated present value of future benefits saved for Federal programs of over $2.4 billion.

SSI Program's Susceptibility to Fraud, Waste and Abuse

On March 4, 1997, the General Accounting Office, in testimony before the House Committee on Ways and Means' Subcommittee on Oversight, identified the SSI program as high risk for fraud, waste and abuse. Three major problems were cited:

- Insufficient attention to the verification of financial eligibility information;
- Vulnerabilities associated with determining disability eligibility; and
- Lack of management attention to return to work and vocational rehabilitation initiatives.

As a result of these problems, recipients may be overpaid or receive payments for which they are not entitled. These payments are difficult to collect since those receiving benefits have few financial resources.

To ensure the most accurate financial information is available, SSA is implementing several initiatives to more readily access third party information which affects program eligibility. In FY 1997, for example, SSA established a national database which matches the SSNs of recently incarcerated prisoners with SSA's records to initiate the suspension of benefits. Also, our Office of the Inspector General has secured access to information exchange systems maintained by the Department of Justice. These systems provide timely information related to criminal histories, fugitives, missing persons, stolen property, as well as access to State motor vehicle and driver's license records.

The SSI program is vulnerable to potential abuse related to financial eligibility. For example, many applicants minimize their income and resources by transferring ownership of homes, cash, land and other items to qualify for SSI benefits.

In addition to the verification of financial eligibility information, SSA has also been susceptible to fraud and abuse in determining disability eligibility. A recent problem is interpreter fraud schemes where an interpreter representing non-english speaking claimants coaches them to behave as though they have a mental illness. SSA has expanded efforts to combat this problem by increasing both the number of bilingual field office staff and training efforts to spot possible fraud.

In the early 1990s, younger individuals with mental impairments began applying for and subsequently receiving benefits in greater numbers. Generally, mental impairments are more difficult to evaluate than physical impairments, leading to higher allowance rates for claimants with mental impairments. Recent legislation requiring SSA to conduct a CDR at least once every three years on children under age 18 whose medical condition may be likely to improve should help to pare the disability roles of those not entitled. In addition, SSA is focusing more resources to conduct CDRs on other SSI recipients as discussed in the previous section.

GAO also cited SSA for not emphasizing efforts to move or assist recipients off the SSI rolls through return to work and vocational rehabilitation programs. Both SSA and Congress are exploring options to increase the number of recipients who return to work by establishing a "ticket to independence" and by extending medical coverage to recipients who enter the workforce.

SSA recently developed a tactical plan to further promote the prevention, detection and resolution of SSI program overpayments. This plan will help ensure that public and Congressional confidence in SSA's administration of the SSI program is restored.

Expediting the Issuance of SIPEBES to reduce Workload Spikes

SSA was mandated to send an SSA-Initiated Personal Earnings and Benefit Estimate Statement (SIPEBES) to individuals not receiving benefits age 60 and over in FY 1995; to individuals as they turn 60 in FYs 1996-1999; and to eligible individuals age 25 and over annually, beginning in FY 2000. SSA expects these initial statements to produce significant general inquiry, earnings correction and other public-contact workloads, particularly when the process is extended to workers under age 60. To better manage this workload, SSA is increasing the number of SIPEBES issued in FYs 1995 - 1999. The following graph shows the estimated number of SIPEBES required to be issued from FY 1995 - FY 2000 and the number SSA is issuing to reduce the FY 2000 workload spike.

Accelerated SIPEBES Mailings (In Millions)

	FY95	FY96	FY97	FY98	FY99	FY2000
Mandated SIPEBES Mailings	6.7	1.6	1.7	1.8	1.8	123.0
Total SIPEBES Mailings	7.1	5.6	12.4	20.0*	30.0*	123.0**

* *Estimate*
** *This figure includes an estimated 47.9 million SIPEBES issued to an individual for the first time.*

Focus group testing found that older workers would prefer to receive SIPEBES before they reach age 60 since these statements can be a valuable retirement planning tool. Therefore, in FY 1996 SSA expedited the first time issuance of statements to workers who will turn 60 in the 3-year period from FY 1996 through FY 1998. Workers turning 60 in FY 1999 received their first SIPEBES in FY 1997, two years earlier than required by law.

SSA remains committed to addressing the workload challenges associated with these issues and I will ensure that resources are made available to complete these tasks in a timely and efficient manner.

Dale W. Sopper
Acting Chief Financial Officer

A Message from the Deputy Chief Financial Officer

Because of SSA's longstanding commitment to protect the public's investment in the Social Security trust funds, I am pleased to disclose the Agency's financial condition and results of operations. FY 1997 marks the fourth consecutive year that SSA's financial statements have received an unqualified audit opinion. Our financial statements were prepared consistent with requirements of the Federal Accounting Standards Advisory Board, the Office of Management and Budget, the Chief Financial Officers' Act and other relevant Federal statutes.

These financial statements cover all programs and business processes administered by SSA. Amounts disclosed in the consolidated statements are reported by program beginning on page 37.

For FY 1997, the Statement of Financial Position displayed on page 26 reflects total assets of $649 billion, a 14 percent increase over the previous year. This increase is attributable to the steady growth of the OASDI Trust Fund reserves which were invested to generate $42 billion of interest income, an increase of $5 billion compared to FY 1996. The OASDI Trust Funds own 99 percent of SSA's assets of which $631 billion are investments that are only converted to cash when needed to pay benefits and other expenses. The investment portfolios, yields and maturities are detailed on pages 47 and 48.

The presentation of revenues and expenses is reflected in the Statement of Operations and Changes in Net Position on page 27. Revenues and other financing sources increased by 7 percent to $481 billion. In FY 1997, administrative expenses for all SSA programs only used about 1.4 percent of our total revenue and financing sources. This illustrates our commitment to efficiency and our success in directing most revenues to current and future beneficiaries. Finally, the Statement of Cash Flows presented on pages 28 and 29 shows the substantial impact of SSA's programs on the cash taken from and placed back into the nation's economy.

Thomas G. Staples
Deputy Chief Financial Officer

Consolidated Statement of Financial Position as of September 30, 1997 and 1996

	(Dollars in Millions)	
Assets	**1997**	1996
Intragovernmental Entity Assets:		
Fund Balance with Treasury (Note 4)	**$ 2,341**	$ 2,434
Investments (Note 5)	**631,007**	549,503
Interest Receivable, Net (Note 6)	**11,048**	9,811
Accounts Receivable, Net (Note 6)	**30**	32
Other	**20**	109
Governmental Entity Assets:		
Accounts Receivable, Net (Note 6)	**2,262**	2,314
Advances and Prepayments	**107**	74
Property, Plant and Equipment, Net	**301**	308
Other	**96**	26
Total Entity Assets	**$647,212**	$564,611
Non-Entity Assets:		
SSI Intragovernmental Receivable (Note 6)	**$ 384**	$ 294
SSI Governmental Receivable (Note 6)	**1,037**	999
Total Non-Entity Assets	**$ 1,421**	$ 1,293
Total Assets	**$648,633**	$565,904
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental Liabilities		
Accrued Railroad Retirement Interchange	**$ 3,708**	$ 3,690
Accounts Payable	**343**	196
Other Liabilities	**296**	206
Governmental Liabilities:		
Accrued Benefit Entitlements	**34,291**	34,038
Accounts Payable	**622**	709
Accrued Payroll, Benefits and Other Liabilities	**177**	158
Total Liabilities Covered by Budgetary Resources	**$ 39,437**	$ 38,997
Liabilities Not Covered by Budgetary Resources (Note 7)		
Intragovernmental Liabilities:		
SSI Receivables Owed to Treasury	**$ 1,421**	$ 1,293
Capital Lease	**108**	124
Interest Payable	**2**	3
Other Liabilities	**35**	35
Governmental Liabilities:		
Accrued Benefit Entitlements	**1,016**	1,082
Accrued Leave	**219**	213
Black Lung Actuarial	**0**	4,551
Other Liabilities	**247**	208
Total Liabilities Not Covered by Budgetary Resources	**$ 3,048**	$ 7,509
Total Liabilities	$ **42,485**	**$ 46,506**
Net Position (Note 8)		
Unexpended Appropriations	**$ 3,391**	$ 3,314
Cumulative Results of Operations	**602,757**	516,084
Total Net Position	$**606,148**	$519,398
Total Liabilities and Net Position	$**648,633**	$565,904

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Operations and Changes in Net Position for the Period Ended September 30, 1997 and 1996

	(Dollars in Millions)	
	1997	1996
Revenue and Financing Sources		
Tax Revenues (Note 9)	**$405,335**	$381,220
Appropriated Capital Used	**29,513**	27,084
Revenue from Sale of Goods and Services:		
To the Public	**2,925**	2,788
Intragovernmental	**717**	837
Interest, Federal/Gifts and Other Revenues	**42,468**	37,574
Imputed Financing (Note 2)	**267**	0
SSI Receivables Recovered	**1,150**	1,037
Less: SSI Receivables Transferred to Treasury	**1,150**	1,037
Total Revenue and Financing Sources	**$481,225**	$449,503
Expenses		
Program/Operating Expenses (Note 11)	**$398,229**	$380,871
Interest	**177**	177
Depreciation and Amortization	**84**	43
Bad Debts and Writeoffs	**280**	279
Vocational Rehabilitation and Other	**158**	158
Total Expenses	**$398,928**	$381,528
Excess of Revenue and Financing Sources Over Total Expenses	**$ 82,297**	$ 67,975
Net Position, Beginning Balance	**$519,398**	$452,340
Excess of Revenue and Financing Sources Over Total Expenses	**82,297**	67,975
Plus (Minus) Non-Operating Changes (Note 8)	**4,453**	(917)
Net Position, Ending Balance	**$606,148**	$519,398

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Period Ended September 30, 1997 and 1996

	(Dollars in Millions)	
	1997	1996
Cash Provided (Used) by Operating Activities		
Cash Provided:		
Tax Collections	**$406,389**	$381,544
Services Provided	**3,746**	3,889
Interest and Penalties	**41,227**	36,520
Benefit Programs	**7,432**	6,456
Other Operating Cash Provided:		
Payments to the Trust Funds	**16**	(133)
Gifts and Deposit Funds	**2**	0
Non-Entity Cash Provided:		
SSI Receivables Recovered	**1,150**	1,037
Total Cash Provided	**$459,962**	$429,313
Cash Used:		
Insurance Claims and Indemnities	**$369,663**	$353,890
Goods and Services	**256**	246
Personnel Services and Benefits	**3,428**	3,185
Travel and Transportation	**60**	36
Rent, Communications and Utilities	**580**	511
Printing and Reproduction	**19**	27
Other Contractual Services	**1,586**	1,322
Supplies and Materials	**39**	74
Grants, Subsidies and Contributions	**29,825**	27,428
Other Operating Cash Used:		
Interest Paid	**14**	16
Refund of Employment Taxes	**1,053**	1,662
Administrative Expenses	**144**	179
Vocational Rehabilitation and Other	**145**	132
Non-Entity Cash Used:		
SSI Receivables Returned to Treasury	**1,150**	1,037
Total Cash Used	**$407,962**	$389,745
Net Cash Provided (Used) by Operating Activities	**$ 52,000**	$ 39,568

Consolidated Statement of Cash Flows for the Period Ended September 30, 1997 and 1996, Continued

	(Dollars in Millions)	
	1997	1996
Cash Provided (Used) by Investing Activities		
Purchase of Property, Plant and Equipment, Net of Sales	**$ (16)**	$ (50)
Sale of Securities	**458,355**	432,167
Purchase of Securities	**(539,857)**	(498,498)
Net Cash Provided (Used) by Investing Activities	**$(81,518)**	$ (66,381)
Cash Provided (Used) by Financing Activities		
Appropriations (Current Warrants)	**$29,437**	$ 26,286
Withdrawals From All Years	**(12)**	0
Net Cash Provided (Used) by Financing Activities	**$29,425**	$ 26,286
Fund Balance with Treasury, Beginning of Period	**$2,434**	$ 2,961
Net Change in Cash	**(93)**	(527)
Fund Balance with Treasury, End of Period	**$2,341**	$ 2,434
Reconciliation of Excess of Revenue and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities		
Excess of Revenue and Financing Sources Over Total Expenses	**$ 82,297**	$ 67,975
Adjustments to Reconcile Excess of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities		
Appropriated Capital Used	**$(29,513)**	$(27,084)
Decrease (Increase) in Accounts Receivable	**(1,311)**	(1,297)
Decrease (Increase) in Other Assets	**(117)**	207
Increase (Decrease) in Accounts Payable	**60**	(1,186)
Increase (Decrease) in Other Liabilities	**490**	1,396
Depreciation and Amortization	**84**	43
Other Unfunded Expenses	**(9)**	(48)
Other Adjustments	**19**	(438)
Total Adjustments	**$(30,297)**	$(28,407)
Net Cash Provided by Operating Activities	**$ 52,000**	$ 39,568

The accompanying notes are an integral part of these financial statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

1 Summary of Significant Accounting Policies

Reporting Entity

The Social Security Administration (SSA), as an independent agency of the United States Government, is responsible for administering the Nation's Old Age and Survivors, and Disability Insurance Programs (OASDI), the Supplemental Security Income (SSI) Program and Part B of the Black Lung (BL) Program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position and results of operations of SSA, as required by the Chief Financial Officers Act of 1990. The financial statements have been prepared from the accounting records of SSA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01, certain provisions of OMB Bulletin 97-01, the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards and SSA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by SSA pursuant to OMB directives, that are used to monitor and control SSA's use of budgetary resources.

In accordance with OMB Bulletin 97-01, SSA is presenting consolidated financial statements. The FY 1996 financial statements, previously presented as combined statements, do not require adjustment to be classified as consolidated. Also, no inter-agency elimination entries were necessary to appropriately term the FY 1997 financial statements as consolidated.

The consolidated financial statements include the accounts of all funds under SSA control, consisting of two trust funds, three general fund appropriations and five deposit funds. The trust funds are the Old Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. SSA's statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, and BL-Part B and Other.

Investments

Trust fund balances may only be invested "in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States" as provided by Section 201(d) of the Social Security Act. These investments are carried at amortized cost.

Property, Plant and Equipment

All of SSA's capitalized (fixed) assets acquired before October 1, 1994 are considered assets of the OASI, DI and the Hospital Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. All obligations for the acquisition of such assets are charged only to the four trust funds. Capital assets purchased after September 30, 1994 are considered assets of the OASI and DI Trust Funds only. SSA's Cost Analysis System (CAS) calculates total user charges for capital assets based on the net book value of capital assets and on the investment interest rate established by the Department of Treasury. User charges are allocated in the CAS to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of trust fund assets through the CAS's calculation of user charge credits.

During FY 1996, SSA increased the capitalization threshold for all new property, plant and equipment acquisitions from $5,000 to $100,000. All property, plant and equipment assets previously capitalized which now fall below the new threshold were expensed in FY 1996. This expense totaled $38.3 million.

SSA no longer capitalizes and depreciates internally developed software. These costs are now expensed as incurred. All previously capitalized internally developed software costs which had not been fully amortized were expensed in FY 1996. This expense totaled $62.4 million.

Recognition of Financing Sources

Financing sources are provided through Congressional appropriations, on both an annual and multi-year basis. In addition to appropriations, some financing is provided in the form of gifts from the public and interest on investments. Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance

Contribution Act [FICA] and Self Employment Contributions Act [SECA]), appropriations and gifts. Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes paid by the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), credit for military service, income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See NOTE 9: Tax Revenues).

Payments to the trust funds from appropriations are recognized as appropriated capital used in the period received for interest on trust fund unnegotiated checks, benefit payments for uninsured persons and pension reform costs. Appropriated capital used also includes Treasury payments and accruals for the SSI and BL programs.

SSA receives payments from those States choosing to have SSA administer their State supplementation of Federal SSI benefits.

Capitalized expenditures and long-term assets are recognized in the Statement of Operations and Changes in Net Position as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Interest income is compounded semi-annually (June and December) and has been adjusted to include an accrual for interest earned from July 1 to September 30 and to exclude the prior year's accrual.

Other financing sources consist of reimbursable services and miscellaneous sales (waste paper). Reimbursements are recognized as the services are performed (See NOTE 3: Inter-Governmental Financing Activities). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment and other long-term assets as specified by law.

Administrative Expenses

SSA initially charges administrative expenses to the Limitation on Administrative Expenses (LAE) appropriation. Section 201(g) of the Social Security Act requires the Commissioner of Social Security to determine the proper share of costs incurred during the FY to be charged to the appropriate trust or general fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate trust and general funds account. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code. The Social Security Independence and Program Improvements Act of 1994 established SSA's own Office of Inspector General (OIG). Administrative expenses of the OIG are funded by a separate appropriation account and charged to the appropriate trust or general fund.

Accrued Benefit Entitlements

Liabilities are accrued for OASI, DI and BL benefits to which recipients are entitled for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid pending receipt of a correct address, and adjudicated and unadjudicated hearings and appeals and civil litigation cases which were not paid at the close of the fiscal year.

SSI Receivables

The FY 1991 Appropriations Act, P.L. 101-517, requires that all collections from repayment of SSI overpayments be deposited in the general fund of the Treasury. These funds, upon deposit, are assets of the general fund of the Treasury and shall not be used by SSA as an SSI budgetary resource to pay SSI benefits and accordingly, are classified as non-entity assets on the Statement of Financial Position.

2 Centralized Federal Financing Activities

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance and health benefit programs. Accordingly, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the whole Government.

These statements are not intended to report SSA's proportionate share of the Federal deficit. Financing for general fund appropriations reported on the Consolidated Statement of Operations and Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the two trust funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS while employees hired prior to that could elect to either join FERS or remain in CSRS.

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were $132.9 and $130.6 million for FY 1997 and 1996, respectively. SSA contributions to FERS were $87.7 and $78.1 million for FY 1997 and 1996, respectively. In addition, SSA contributions to the FERS savings plan were $29.1 and $25.3 million for FY 1997 and 1996, respectively. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since these data are only reported in total by the Office of Personnel Management.

In accordance with FASAB standards, the Statement of Operations and Changes in Net Position recognizes a post-employment benefit expense of $427.4 million and an imputed financing source of $267.3 million for FY 1997. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The imputed financing source represents the FY 1997 service cost not paid by SSA.

3 Inter-Governmental Financing Activities

SSA, while performing its operations, provides services to other Federal and State agencies, and as provided for by law, other Federal and State agencies also perform services for SSA. SSA's statements include amounts reimbursed by other Federal and State agencies for services provided by SSA.

Federal

Some of the more significant Federal agencies and programs for which SSA performs administrative services on a reimbursable basis are: the Health Care Financing Administration's Medicare program, funded by the HI/SMI Trust Funds, the Department of Labor's Black Lung (Part A) program, and the Department of Agriculture's Food Stamp program. The following amounts were reimbursed to SSA from other Federal sources:

	(In Millions)	
	1997	1996
HI/SMI Trust Funds	$862	$812
All Others	16	13

The Railroad Retirement Board (RRB) expense and accrued liability are for the annual interchange required to place the OASI and DI Trust Funds in the same position they would have been, if railroad employment had been covered by the Social Security program. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses. However, the payments are made to the qualifying railroad workers by the RRB on behalf of SSA. SSA reimbursed RRB in the amount of $1.1 billion for both FY 1997 and 1996. SSA's expenses for administrative services performed by the Department of Treasury consist of $255 and $246 million for FY 1997 and FY 1996, respectively.

State

SSA's expenses for services include reimbursement to States for Disability Determination Services in the amount of $1.1 billion for both FY 1997 and 1996.

4 Fund Balance with Treasury

The amount represents a total of all SSA's account balances with the U.S. Treasury. Trust fund investments are not converted to cash until beneficiary checks are presented for payment approximately 3.6 business days after issuance. This cash management practice was mandated by the "Social Security Amendments of 1983."

1997 *(In Millions)*

Program	Fund Balances	Deposit Accounts	Total
OASI	$(49)	$0	$(49)
DI	(79)	0	(79)
SSI	2,350	0	2,350
Black Lung	63	0	63
Other	56	0	56
Total	$2,341	$0	$2,341
Unobligated	$2,414	$0	$2,414
Obligated			
(not disbursed)	(73)	0	(73)
Total	$2,341	$0	$2,341

1996 *(In Millions)*

Program	Fund Balances	Deposit Accounts	Total
OASI	$75	$0	$75
DI	(17)	0	(17)
SSI	2,258	0	2,258
Black Lung	63	0	63
Other	55	0	55
Total	$2,434	$0	$2,434
Unobligated	$2,316	$0	$2,316
Obligated			
(not disbursed)	118	0	118
Total	$2,434	$0	$2,434

5 Investments

Investments held for the trust funds mature at various dates ranging from the present to the year 2012. The interest rates on these investments range from 13.75 to 6.25 percent. U.S. Treasury special issues are special public debt obligations for purchase exclusively by the trust funds. Special issues are always purchased and redeemed at face value which is the same as their carrying value in the Statement of Financial Position.

(In Millions)

	1997	1996
Special Issue U.S. Treasury Securities	$630,958	$549,454
U.S. Treasury Bonds - carrying value	49	49
Total Investments	$631,007	$549,503

6 Interest, Accounts and SSI Receivables

Accounts receivable due from individuals and corporations consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement under the OASI, DI, SSI and BL programs.

SSI receivables do not include State supplementation receivables of $250.7 and $380.2 million, net of a loss allowance, for FY 1997 and 1996, respectively. These amounts are accounted for in Governmental Accounts Receivables.

Intragovernmental receivables consist primarily of accrued interest receivables on investments. These were $11,048 and $9,811 million on trust fund investments with the U.S. Treasury for the period from the last payment date to September 30, 1997 and 1996, respectively.

	(In Millions) 1997	1996
Accounts Receivable - Individuals/Corporations		
Current	$3,326	$3,435
Non-current	1,049	1,207
Delinquent	744	331
Subtotal	$5,119	$4,973
Allowance for Doubtful Accounts	(1,436)	(1,366)
Accounts Receivable - Intragovernmental	30	32
Interest Receivable - Intragovernmental	11,048	9,811
Total Accounts Receivable, Net	$14,761	$13,450

7 Liabilities Not Covered by Budgetary Resources

Black Lung

In FY 1996, SSA recognized an unfunded actuarial liability in the financial statements for the Black Lung program. This amount represented the present value of projected annual benefit payments to be paid to program participants under the jurisdiction of SSA. The estimate reported as an unfunded actuarial liability was based on assumptions similar to those underlying Alternative II in the 1996 Trustees Report. The present value as of October 1, 1996 of total estimated liability for future benefits payable from Part B of the Black Lung program was $4.6 billion.

In accordance with FASAB standards, SSA no longer presents an unfunded actuarial liability for Part B of the Black Lung program. These standards only require SSA to recognize the benefit payments due and payable as of September 30, 1997 as a liability.

Other Unfunded Liabilities

In addition to the unfunded actuarial liability for Part B of the Black Lung program, SSA recognized an unfunded liability for leave earned but not taken, amounts billed by the Department of Labor (DOL) for FY 1996 and FY 1997 Federal Employees' Compensation Act (FECA) payments, capital assets acquired under a lease purchase prior to FY 1991, vocational rehabilitation services, accrued benefits and administrative cost in the SSI program and accrued interest payable, not billed. These unfunded liabilities totaled $3.0 billion for both FY 1997 and 1996. SSA's total unfunded liabilities for FY 1997 and 1996 were $3.0 and $7.5 billion, respectively.

OASDI

The probable future cost SSA will incur for benefits it is committed to pay under OASDI programs is presented in detail in the Supplemental Financial and Management Information section of this report.

Workers Compensation

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for

SSA employees under FECA are administered by DOL and are ultimately paid by SSA. SSA recorded an estimated actuarial liability of $171 million for claims incurred as of September 30, 1997 and expected to be paid in future periods. This actuarial liability was calculated using historical payment data to project future costs.

8 Net Position

SSA's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by Treasury, and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses for that account since its inception. Non-operating changes in FY 1997 include a reversal of the accrual of the Black Lung actuarial liability.

9 Tax Revenues

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security trust funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the trust funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year or errors made and corrected with either IRS or SSA but not both. Revenues to the trust funds are reduced for excess employment taxes which are refunded by offset against income taxes.

The amounts for estimated employment taxes, adjustments for actual taxes payable, and refunds as well as other tax revenues follows. Other tax revenues include certain military wage credits and income tax on benefits.

	(In Millions)	
	1997	1996
Estimated Employment Taxes Credited to SSA	$400,928	$375,545
Adjustments	(1,666)	177
Refunds	(1,090)	(925)
Employment Tax Revenues	$398,172	$374,797
Other Tax Revenues	7,163	6,423
Total Tax Revenues	$405,335	$381,220

10 Contingent Liabilities

SSA has certain claims and lawsuits pending against it. When pending claims will probably result in payment and these amounts are estimable, appropriate provision has been made in the accompanying financial statements.

As the result of a Supreme Court decision in Zebley v. Sullivan in 1990, SSA recognized an unfunded liability of $1.9 billion to pay SSI benefits which had previously been denied. During FY 1996, SSA reevaluated this liability and determined that $50 million will be paid in the future for SSI benefits which had previously been denied. During FY 1997, Zebley claims were processed that reduced the unfunded liability to $35 million.

SSA also has other class action suits which may affect major client populace, that may be lost, in whole or in part, in lower courts and or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. However, at this time SSA is unable to determine an estimate of loss for any class action suits. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

11 Program/Operating Expenses

The following tables show SSA's operating expenses by OMB object classification and by major program.

Expenses By Object Classification	1997	1996
	(In Millions)	
Insurance Claims & Indemnities	$358,758	$344,684
Personnel Services/Benefits	3,522	3,296
Travel & Transportation	57	40
Rental, Communications & Utilities	549	571
Printing & Reproduction	19	30
Contractual Services	1,795	1,742
Supplies & Materials	37	82
Grants, Subsidies & Contributions	29,476	26,710
Leave Expense	5	7
RRB Interchange	3,601	3,507
Other	410	202
Total	$398,229	$380,871

Expenses By Program	1997	1996
	(In Millions)	
OASI	$319,198	$306,044
DI	45,768	44,553
SSI	31,660	28,731
Black Lung	627	667
Other	976	876
Total	$398,229	$380,871

Schedule of Financial Position by Major Program as of September 30, 1997

	(Dollars in Millions)					
Assets	OASI	DI	SSI	Black Lung	Other	Consolidated
Intragovernmental Entity Assets:						
Fund Balance with Treasury	$ (49)	$ (79)	$2,350	$ 63	$ 56	$ 2,341
Investments	567,445	63,562	0	0	0	631,007
Interest Receivable, Net	10,024	1,024	0	0	0	11,048
Accounts Receivable, Net	25	2	0	0	3	30
Other	0	0	20	0	0	20
Governmental Entity Assets:						
Accounts Receivable, Net	1,192	814	251	3	2	2,262
Advances and Prepayments	63	41	3	0	0	107
Property, Plant and Equipment, Net	227	74	0	0	0	301
Other	58	38	0	0	0	96
Total Entity Assets	$578,985	$65,476	$2,624	$ 66	$ 61	$647,212
Non-Entity Assets:						
SSI Intragovernmental Receivable	0	0	0	0	384	384
SSI Governmental Receivable	0	0	0	0	1,037	1,037
Total Non-Entity Assets	$ 0	$ 0	$ 0	$ 0	$1,421	$ 1,421
Total Assets	$578,985	$65,476	$2,624	$ 66	$1,482	$648,633
Liabilities						
Liabilities Covered by Budgetary Resources						
Intragovernmental Liabilities:						
Accrued Railroad Retirement Interchange	$ 3,617	$ 91	$ 0	$ 0	$ 0	$ 3,708
Accounts Payable	90	10	232	0	11	343
Other Liabilities	274	21	1	0	0	296
Governmental Liabilities:						
Accrued Benefit Entitlements	28,082	6,158	0	51	0	34,291
Accounts Payable	28	24	555	0	15	622
Accrued Payroll, Benefits/Other Liabilities	50	32	67	0	28	177
Total Liab. Covered by Budgetary Resources	$ 32,141	$ 6,336	$ 855	$ 51	$ 54	$ 39,437
Liabilities Not Covered by Budgetary Resources						
Intragovernmental Liabilities:						
SSI Receivables Owed to Treasury	$ 0	$ 0	$ 0	$ 0	$1,421	$ 1,421
Capital Lease	73	35	0	0	0	108
Interest Payable	1	0	1	0	0	2
Other Liabilities	10	7	12	0	6	35
Governmental Liabilities:						
Accrued Benefit Entitlements	0	0	1,016	0	0	1,016
Accrued Leave	66	43	75	0	35	219
Black Lung Actuarial	0	0	0	0	0	0
Other	51	64	105	0	27	247
Total Liab. Not Covered by Budgetary Resources	$ 201	$ 149	$1,209	$ 0	$1,489	$ 3,048
Total Liabilities	$ 32,342	$ 6,485	$2,064	$ 51	$1,543	$ 42,485
Net Position						
Unexpended Appropriations	$ 119	$ 60	$1,769	$ 15	$1,428	$ 3,391
Cumulative Results of Operations	546,524	58,931	(1,209)	0	(1,489)	602,757
Total Net Position	$546,643	$58,991	$ 560	$ 15	$ (61)	$606,148
Total Liabilities and Net Position	$578,985	$65,476	$2,624	$ 66	$1,482	$648,633

Schedule of Operations and Changes in Net Position by Major Program for the Period Ended September 30, 1997

(Dollars in Millions)

	OASI	DI	SSI	Black Lung	Other	Consolidated
Revenue and Financing Sources						
Tax Revenues	$348,773	$56,562	$ 0	$ 0	$ 0	$405,335
Appropriated Capital Used	5	1	28,874	627	6	29,513
Revenue from Sale of Goods and Services:						
To the Public	0	0	2,917	0	8	2,925
Intragovernmental	0	0	0	0	717	717
Interest, Federal/Gifts and Other Revenues	38,694	3,772	0	0	2	42,468
Imputed Financing	0	0	0	0	267	267
SSI Receivables Recovered	0	0	0	0	1,150	1,150
Less: SSI Receivables Transferred to Treasury	0	0	0	0	1,150	1,150
Total Revenue and Financing Sources	$387,472	$60,335	$31,791	$ 627	$ 1,000	$481,225
Expenses						
Program/Operating Expenses	$319,198	$45,768	$31,660	$ 627	$976	$398,229
Interest	166	5	4	0	2	177
Depreciation and Amortization	38	25	0	0	21	84
Bad Debts and Writeoffs	91	189	0	0	0	280
Vocational Rehabilitation and Other	0	68	90	0	0	158
Total Expenses	$319,493	$46,055	$31,754	$ 627	$999	$398,928
Excess of Revenues and Financing Sources Over Total Expenses	$ 67,979	$14,280	$ 37	$ 0	$ 1	$ 82,297
Net Position, Beginning Balance	$478,664	$44,711	$ 614	$(4,539)	$(52)	$519,398
Excess of Revenue and Financing Sources Over Total Expenses	67,979	14,280	37	0	1	82,297
Plus (Minus) Non-Operating Changes	0	0	(91)	4,554	(10)	4,453
Net Position, Ending Balance	$546,643	$58,991	$ 560	$ 15	$(61)	$606,148

Schedule of Cash Flows by Major Program for the Period Ended September 30, 1997

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Cash Provided (Used) by Operating Activities						
Cash Provided:						
Tax Collections	$349,669	$56,720	$ 0	$ 0	$ 0	$406,389
Services Provided	19	0	2,865	0	862	3,746
Interest and Penalties	37,698	3,529	0	0	0	41,227
Benefit Programs	5,475	1,571	380	6	0	7,432
Other Operating Cash Provided:						
Payments to the Trust Funds	5	1	0	0	10	16
Gifts and Deposit Funds	0	0	2	0	0	2
Non-Operating Cash Provided:						
SSI Receivables Recovered	0	0	0	0	1,150	1,150
Total Cash Provided	$392,866	$61,821	$3,247	$ 6	$2,022	$459,962
Cash Used:						
Insurance Claims and Indemnities	$322,037	$46,990	$ 3	$632	$ 1	$369,663
Goods and Services	217	39	0	0	0	256
Personnel Services and Benefits	1,024	673	1,172	3	556	3,428
Travel and Transportation	19	12	22	0	7	60
Rent, Communication and Utilities	183	117	209	0	71	580
Printing and Reproduction	6	4	7	0	2	19
Other Contractual Services	499	321	570	1	195	1,586
Supplies and Materials	12	8	14	0	5	39
Grants, Subsidies and Contributions	0	0	29,825	0	0	29,825
Other Operating Cash Used:						
Interest Paid	4	3	6	0	1	14
Refund of Employment Taxes	895	158	0	0	0	1,053
Administrative Expenses	46	29	52	0	17	144
Vocational Rehabilitation and Other	0	63	82	0	0	145
Non-Operating Cash Used:						
SSI Receivables Returned to Treasury	0	0	0	0	1,150	1,150
Total Cash Used	$324,942	$48,417	$ 31,962	$ 636	$2,005	$407,962
Net Cash Provided (Used) by Operating Activities	$ 67,924	$13,404	$(28,715)	$(630)	$ 17	$ 52,000

	OASI	DI	SSI	Black Lung	Other	Consolidated
	(Dollars in Millions)					
Cash Provided (Used) by Investing Activities						
Pur. of Property, Plant and Equip., Net of Sales	$ (7)	$ (5)	$ 0	$ 0	$(4)	$ (16)
Sale of Securities	396,558	61,797	0	0	0	458,355
Purchase of Securities	(464,599)	(75,258)	0	0	0	(539,857)
Net Cash Provided (Used) by Investing Activities	$ (68,048)	$(13,466)	$ 0	$ 0	$(4)	$ (81,518)
Cash Provided (Used) by Financing Activities						
Appropriations (Current Warrants)	$ 0	$ 0	$28,807	$630	$ 0	$29,437
Withdrawals From All Years	0	0	0	0	(12)	(12)
Net Cash Provided (Used) by Financing Activities	$ 0	$ 0	$28,807	$630	$(12)	$29,425
Fund Balance with Treasury, Beginning of Period	$ 75	$ (17)	$ 2,258	$ 63	$ 55	$ 2,434
Net Change in Cash	(124)	(62)	92	0	1	(93)
Fund Balance with Treasury, End of Period	$ (49)	$ (79)	$ 2,350	$ 63	$ 56	$ 2,341

Reconciliation of Excess of Revenue and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities

	OASI	DI	SSI	Black Lung	Other	Consolidated
Excess of Revenue and Financing Sources Over Total Expenses	$67,979	$14,280	$ 37	$ 0	$ 1	$ 82,297
Adjustments to Reconcile Excess of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities						
Appropriated Capital Used	$ (5)	$ (1)	$(28,874)	$(627)	$ (6)	$(29,513)
Decrease (Increase) in Accounts Receivable	(973)	(342)	130	0	(126)	(1,311)
Decrease (Increase) in Other Assets	(103)	(11)	39	0	(42)	(117)
Increase (Decrease) in Accounts Payable	61	(8)	7	0	0	60
Increase (Decrease) in Other Liabilities	909	(553)	6	(3)	131	490
Depreciation and Amortization	38	25	0	0	21	84
Other Unfunded Expenses	11	12	(37)	0	5	(9)
Other Adjustments	7	2	(23)	0	33	19
Total Adjustments	$ (55)	$ (876)	$(28,752)	$(630)	$ 16	$(30,297)
Net Cash Provided (Used) by Operating Activities	$67,924	$13,404	$(28,715)	$(630)	$ 17	$ 52,000

Schedule of Net Costs for the Period Ended September 30, 1997

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Program Costs						
Intragovernmental:						
Operating Expenses	$ 557	$ 268	$ 501	$ 4	$184	$ 1,514
Railroad Retirement Interchange	3,508	93	0	0	0	3,601
Interest	166	5	4	0	2	177
With the Public:						
Program and Operating Expenses	315,133	45,407	31,159	623	790	393,112
Depreciation and Amortization	38	25	0	0	21	84
Bad Debts and Writeoffs	91	189	0	0	0	280
Vocational Rehabilitation and Other	0	68	90	0	0	158
Total Program Costs	$319,493	$46,055	$31,754	$627	$997	$398,926
Less: Earned Revenues						
Intragovernmental	0	0	0	0	11	11
With the Public	0	0	2,917	0	8	2,925
Net Cost of Operations	$319,493	$46,055	$28,837	$627	$978	$395,990

Schedule of Changes in Net Position for the Period Ended September 30, 1997

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Net Costs of Operations	$319,493	$46,055	$28,837	$627	$978	$395,990
Financing Sources (other than Exchange Revenues)						
Appropriations Used	$ 5	$ 1	$28,874	$627	$ 6	$ 29,513
Tax Revenues	348,773	56,562	0	0	0	405,335
Imputed Financing	0	0	0	0	267	267
Interest-Federal, Donations and Other Revenues	38,694	3,772	0	0	706	43,172
Total Financing Sources	$387,472	$60,335	$28,874	$ 627	$979	$478,287
Net Results of Operations	$ 67,979	$14,280	$ 37	$ 0	$ 1	$ 82,297
Increase (Decrease) in Unexpended Approp.	0	0	(91)	4,554	(10)	4,453
Change in Net Position	$ 67,979	$14,280	$ (54)	$ 4,554	$ (9)	$ 86,750
Net Position, Beginning Balance	478,664	44,711	614	(4,539)	(52)	519,398
Net Position, Ending Balance	$546,643	$58,991	$ 560	$ 15	$ (61)	$606,148

Schedule of Budgetary Resources for the Period Ended September 30, 1997

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Budgetary Resources Made Available						
Budget Authority	$386,485	$ 60,100	$28,772	$630	$144	$ 476,131
Unobligated Balances - Beginning of Period	499,401	50,100	1,671	9	347	551,528
Spending Authority from Offsetting Collections	0	0	2,917	0	24	2,941
Adjustments	0	0	18	1	0	19
Total Budgetary Resources Made Available	$885,886	$110,200	$33,378	$640	$515	$1,030,619
Status of Budgetary Resources						
Obligations Incurred	$319,431	$ 46,133	$31,773	$628	$ 27	$397,992
Unobligated Balances - Available	566,455	64,067	1,587	11	488	632,608
Unobligated Balances - Not Available	0	0	18	1	0	19
Total Status of Budgetary Resources	$885,886	$110,200	$33,378	$640	$515	$1,030,619
Outlays						
Obligations Incurred, Net	$319,431	$46,133	$31,773	$628	$27	$397,992
Spending Authority from Offsetting Collections and Adjustments	0	0	(2,935)	(1)	(24)	(2,960)
Obligated Balances - Beginning of Period	31,194	7,055	448	54	44	38,795
Less: Obligated Balance - End of Period	32,099	6,486	593	51	51	39,280
Total Outlays	$318,526	$46,702	$28,693	$630	$(4)	$394,547

Schedule of Financing for the Period Ended September 30, 1997

	(Dollars in Millions)					
	OASI	DI	SSI	Black Lung	Other	Consolidated
Obligations and Nonbudgetary Resources						
Obligations Incurred	$319,431	$46,133	$31,773	$628	$ 27	$397,992
Spending Authority from Offsetting Collections and Adjustments	0	0	(2,935)	(1)	(24)	(2,960)
Donations and Other Resources	0	0	0	0	706	706
Financing Imputed for Cost Subsidies	0	0	0	0	267	267
Exchange Revenue	30	(107)	0	0	2	(75)
Non-Exchange Revenue	1	0	0	0	0	1
Total Obligations and Non-Budgetary Resources	$319,462	$46,026	$28,838	$627	$978	$395,931
Other Resources That Do Not Fund Net Costs of Operations:						
Change in Undelivered Orders	(30)	(16)	35	0	(1)	(12)
Financing Sources that Fund Costs of Prior Periods	0	0	(36)	0	0	(36)
Costs Capitalized on the Balance Sheet	(23)	(22)	0	0	(19)	(64)
Total Resources Not Funding Net Costs of Operations	$ (53)	$ (38)	$ (1)	$ 0	$ (20)	$ (112)
Costs that Do Not Require Resources:						
Depreciation and Amortization	38	25	0	0	21	84
Revaluation of Assets and Liabilities	4	2	0	0	0	6
Other	38	32	0	0	(3)	67
Total Costs that Do Not Require Resources	$ 80	$ 59	$ 0	$ 0	$ 18	$ 157
Financing Sources Yet to be Provided	4	8	0	0	2	14
Net Costs of Operations	$319,493	$46,055	$28,837	$627	$978	$395,990

	FY 1994	FY 1995	FY 1996	FY 1997
OASI PROGRAM				
Baseline Information				
Administrative expenses (in millions)	$1,666	$1,769	$1,763	$1,840
Beneficiaries on the rolls (in millions)	37.2	37.5	37.6	37.8
Year trust fund will be exhausted	2036	2031	2031	2031
Long range actuarial surplus (deficit) expressed as percent of taxable payroll	(1.46)	(1.87)	(1.85)	(1.84)
% of beneficiaries' average earnings replaced when retiring at age 65	42.5%	43.2%	43.1%	43.6%
Population 65 or over receiving benefits	93.0%	92.0%	92.0%	92.0%
Performance Measures				
Initial claims processed (in millions)	3.2	3.2	3.1	3.1
Initial claims processing times (in days)	14.7	14.0	13.5	14.5
% of available initial claims processed	98.9%	98.7%	98.6%	98.7%
% of applications completed before the first regular payment is due or within 15 days from effective date of filing, if later*	81.1%	83.0%	84.3%	82.9%
DI PROGRAM				
Baseline Information				
Administrative expenses (in millions)	$952	$1,036	$1,107	$1,210
Beneficiaries on the rolls (in millions)	5.5	5.8	6.0	6.1
Year trust fund will be exhausted	1995	2016	2015	2015
Long range actuarial surplus (deficit) expressed as percent of taxable payroll	(.66)	(.31)	(.34)	(.39)
% of disabled workers' average earnings replaced upon onset of disability	43.9%	43.5%	43.2%	43.2 %
Performance Measures				
Initial claims processed (in millions)	1.9	1.9	1.7	1.7
Initial claims processing times (in days)	86.9	83.8	77.9	86.3
% of available initial claims processed	86.1%	88.9%	88.2%	92.9%
% of initial claims processed within 6 months after onset or 60 days of effective filing date, whichever is later*	45.4%	50.8%	57.5%	52.4%

* *FY 1997 GPRA performance measure*

	FY 1994	FY 1995	FY 1996	FY 1997
SSI PROGRAM				
Baseline Information				
Administrative expenses (in millions)	$1,876	$1,716	$2,026	$2,188
Recipients on the rolls (in millions)	6.2	6.5	6.6	6.6
% of poverty gap filled by SSI Federal benefit:				
- Individual	72.7%	73.6%	72.9%	73.6%
- Couple	81.6%	82.2%	81.7%	82.1%
% of SSI recipients also receiving OASDI benefits:				
- Aged recipients	64.4%	63.2%	61.9%	61.8%
- Blind/disabled recipients	31.8%	31.1%	30.6%	30.6%
Performance Measures				
Initial blind/disabled claims processed (in millions)	2.1	2.0	1.8	1.5
Initial blind/disabled claims processing times (in days)	109.6	109.2	94.4	108.4
% of available blind/disabled claims processed	81.1%	84.2%	82.4%	80.2%
% of disability claims paid or denied within 60 days of the filing date*	23.4%	26.6%	29.5%	25.0%
DI/SSI DISABILITY WORKLOADS				
Baseline Information				
Number of initial disability cases received by DDS	2,609,498	2,488,878	2,439,658	2,076,201
Number of total cases received by DDS	3,611,377	3,647,337	3,714,060	3,805,920
Number of initial disability cases pending in DDS at end of FY*	549,167	430,805	510,454	399,392
Number of total cases pending in DDS at end of FY	721,307	590,045	702,316	703,696
Number of hearing request pending in OHA at end of FY*	480,102	547,690	510,895	483,712
Performance Measures				
Number of initial disability cases processed by DDS*	2,615,809	2,611,622	2,360,034	2,187,263
Number of total cases processed by DDS	3,607,482	3,786,535	3,601,856	3,804,111
Total cases processed per workyear in DDS	272	281	278	269
% of accurate initial disability determinations by DDS*	96.8%	96.6%	96.9%	96.5%
Number of hearings processed by OHA*	417,333	526,743	580,832	574,795
% of hearings with decision made and notices sent within 120 days after filing date*/**	9.0%	13.3%	10.1%	10.0%
Number of periodic review CDRs processed*	86,054	217,184	498,445***	690,478***

** FY 1997 GPRA performance measure*

*** Actual data are for September of each fiscal year.*

**** In addition, SSA processed 19,239 and 20,224 additional medical reviews related to work issues in FYs 1996 and 1997, respectively.*

PROVIDING OFFICE

BUREAU OF PUBLIC DEBT
PARKERSBURG, WV 26106-1328
TELEPHONE: (304) 480-5150

STATEMENT OF ACCOUNT

ACCOUNT TITLE AND NUMBER

OLD AGE AND SURVIVORS INSURANCE
TRUST FUND, 2820X8006

DESCRIPTION OF HOLDINGS AS OF: 9/30/97
INVESTED BALANCE: $567,444,638,000.00

(Dollars in Millions)

Bonds Maturing June 30, 1998

Amount	Percent
$ 470	13.750%
1,022	10.750%
565	10.375%
2,240	9.250%
7,100	8.750%
1,302	8.625%
313	8.375%
3,611	8.125%
2,701	7.375%

Bonds Maturing June 30, 1999

Amount	Percent
$1,492	13.750%
565	10.375%
2,240	9.250%
7,100	8.750%
1,302	8.625%
313	8.375%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2000

Amount	Percent
$2,057	10.375%
2,240	9.250%
7,100	8.750%
1,302	8.625%
313	8.375%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2001

Amount	Percent
$2,240	9.250%
7,100	8.750%
1,302	8.625%
2,371	8.375%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2002

Amount	Percent
$ 2,240	9.250%
7,100	8.750%
3,672	8.625%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2003

Amount	Percent
$5,913	9.250%
7,100	8.750%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2004

Amount	Percent
$13,012	8.750%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2005

Amount	Percent
$13,012	8.750%
3,611	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2006

Amount	Percent
$16,624	8.125%
3,575	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2007

Amount	Percent
$20,199	7.375%
3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
3,151	6.250%

Bonds Maturing June 30, 2008

Amount	Percent
$3,962	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%
23,350	6.250%

Bonds Maturing June 30, 2009

Amount	Percent
$27,312	7.250%
3,372	7.000%
3,975	6.875%
2,431	6.500%

Bonds Maturing June 30, 2010

Amount	Percent
$3,372	7.000%
3,975	6.875%
29,743	6.500%

Bonds Maturing June 30, 2011

Amount	Percent
$33,114	7.000%
3,975	6.875%

Bonds Maturing June 30, 2012

Amount	Percent
$37,090	6.875%

Certificates of Indebtedness Maturing June 30, 1998

Amount	Percent
$28,866	6.625%

PROVIDING OFFICE
BUREAU OF PUBLIC DEBT PARKERSBURG, WV 26106-1328 TELEPHONE: (304) 480-5150

STATEMENT OF ACCOUNT
ACCOUNT TITLE AND NUMBER
DISABILITY INSURANCE TRUST FUND, 2820X8007

DESCRIPTION OF HOLDINGS AS OF: 9/30/97
INVESTED BALANCE: $63,561,728,000.00

(Dollars in Millions)

Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Bonds Maturing June 30, 1998		*Bonds Maturing June 30, 1999*		*Bonds Maturing June 30, 2000*		*Bonds Maturing June 30, 2001*	
$1,116	7.000%	$1,116	7.000%	$1,116	7.000%	$1,116	7.000%
220	6.875%	265	6.875%	265	6.875%	265	6.875%
		2,148	6.500%	2,148	6.500%	2,148	6.500%
Bonds Maturing June 30, 2002		*Bonds Maturing June 30, 2003*		*Bonds Maturing June 30, 2004*		*Bonds Maturing June 30, 2005*	
$1,116	7.000%	$174	8.750%	$ 719	8.750%	$ 719	8.750%
265	6.875%	1,116	7.000%	150	8.125%	150	8.125%
2,148	6.500%	265	6.875%	48	7.375%	48	7.375%
		2,148	6.500%	1,116	7.000%	1,116	7.000%
				265	6.875%	265	6.875%
				2,148	6.500%	2,148	6.500%
Bonds Maturing June 30, 2006		*Bonds Maturing June 30, 2007*		*Bonds Maturing June 30, 2008*		*Bonds Maturing June 30, 2009*	
$869	8.125%	$916	7.375%	$1,116	7.000%	$4,180	7.000%
48	7.375%	1,116	7.000%	265	6.875%	265	6.875%
1,116	7.000%	265	6.875%	3,064	6.500%		
265	6.875%	2,148	6.500%				
2,148	6.500%						
Bonds Maturing June 30, 2010		*Bonds Maturing June 30, 2011*		*Bonds Maturing June 30, 2012*		*Certificates of Indebtedness Maturing June 30, 1998*	
$4,446	6.875%	$4,446	6.875%	$4,446	6.875%	$62	6.750%
						4,285	6.625%

Marketable U.S. Treasury Bonds

$5 of 3.500% bonds due November 15, 1998
$4 of 8.250% bonds due May 15, 2000 - 2005
$10 of 7.625% bonds due February 15, 2002 - 2007
$30 of 11.750% bonds due February 15, 2005 - 2010

Financial Accountability

Adequacy of Program Financing

Trust Fund Financing

	Calendar Year					
° Trends in factors affecting revenues	**1947**	**1957**	**1967**	**1977**	**1987**	**1997**
— Taxable wage base for coverage:						
Social Security	$3,000	$4,200	$6,600	$16,500	$43,800	$65,400
Medicare (HI)	NA	NA	6,600	16,500	43,800	No Limit
— Tax contribution & distribution rates:						
° FICA tax rate (employers and employees, each)						
OASI (initiated 1937)	1.00%	2.00%	3.55%	4.375%	5.20%	5.35%
DI (initiated 1957)	NA	.25	.35	.575	.50	.85
HI (initiated 1966)	NA	NA	.50	.90	1.45	1.45
Combined	1.00%	2.25%	4.40%	5.85%	7.15%	7.65%
° SECA tax rate						
OASI (initiated 1951)	NA	3.00%	5.375%	6.185%	10.40%	10.70%
DI (initiated 1957)	NA	.375	.525	.815	1.00	1.70
HI (initiated 1966)	NA	NA	.50	.90	2.90	2.90
Combined	NA	3.375%	6.40%	7.90%	14.30%	15.30%
— Percent of benefits taxed	NA	NA	NA	NA	50.0%[1]	85.0%[2]
° Trends in factors affecting outlays						
— No. of beneficiaries (in millions)[3]	2.0	11.1	23.7	34.1	38.2	44.3[4]
Retirees/dependents	1.2	8.2	15.9	21.6	27.0	30.6[4]
Survivors of deceased workers	0.8	2.8	5.7	7.6	7.2	7.4[4]
Disabled workers/dependents	NA	0.1	2.1	4.9	4.0	6.3[4]
— Benefit payment COLA increase[5]	NA	NA	NA	6.4%	1.3%	2.9%
— No. of workers per beneficiary[6]	27.0	7.0	3.9	3.2	3.3	3.3[4]
— Retirement age						
Full benefits	65 yrs	65 yrs.	65 yrs.	65 yrs.	65 yrs.	65 yrs.
Reduced benefits	NA[7]	62 yrs.[7]	62 yrs.	62 yrs.	62 yrs.	62 yrs.

1 Earnings over $25,000 for an individual or $32,000 for a couple.
2 Earnings over $34,000 for an individual and $44,000 for a couple; earnings between $25,000 and $34,000 for an individual and between $32,000 and $44,000 for a couple are taxed at 50%.
3 The first old-age and survivors benefit checks were issued in 1940 and the first disability benefit checks in 1957. Number of beneficiaries are those in current-payment status for December 31.
4 Estimated, based on the intermediate economic and demographic assumptions in the 1997 Trustees Report.
5 Prior to 1975 benefit increases were at the discretion of Congress.
6 Per OASI beneficiary in 1947; per OASDI beneficiary in 1957, 1967, 1977, 1987 & 1997.
7 Reduced benefits were not offered until 1956 for women and 1961 for men.

Chief Actuary's "Statement of Actuarial Opinion*"

It is my opinion that (1) the techniques and methodology used herein to evaluate the financial and actuarial status of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds are generally accepted within the actuarial profession; and (2) the assumptions used and the resulting actuarial estimates are, in the aggregate, reasonable for the purpose of evaluating the financial and actuarial status of the trust funds, taking into consideration the experience and expectations of the program.

Harry C. Ballantyne

Harry C. Ballantyne
Associate of the Society of Actuaries,
Member of the American Academy of Actuaries,
Chief Actuary, Social Security Administration

Taken from the 1997 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Adequacy of Trust Fund Assets

	OASI	DI	COMBINED
° Trend of estimates for year of trust fund exhaustion			
— 1993 Trustees Report	2044	1995	2036
— 1994 Trustees Report	2036	1995	2029
— 1995 Trustees Report	2031	2016	2030
— 1996 Trustees Report	2031	2015	2029
— 1997 Trustees Report	2031	2015	2029
° Trend of estimates for long range (75 years) actuarial surplus (deficit) expressed as percent of taxable payroll			
— 1993 Trustees Report	(.97)	(.49)	(1.46)
— 1994 Trustees Report	(1.46)	(.66)	(2.13)
— 1995 Trustees Report	(1.87)	(.31)	(2.17)
— 1996 Trustees Report	(1.85)	(.34)	(2.19)
— 1997 Trustees Report	(1.84)	(.39)	(2.23)

Future Contributions and Expenditures of the OASI and DI Trust Funds

Covered workers contribute a percentage of their earnings, up to an annual maximum taxable amount, into the OASI and DI Trust Funds. Contributions also include general fund appropriations for military service and self-employment income tax credits. Beneficiaries pay Federal income taxes on up to 85 percent of their Social Security benefits if the sum of their adjusted gross income, tax-exempt interest income and one-half of their Social Security benefits exceeds certain fixed threshold amounts. Amounts equivalent to such income taxes are transferred from the general fund to the trust funds.

Workers who subsequently become insured receive benefits, along with their eligible spouses and children, after they retire or become disabled. In addition, eligible spouses and children receive benefits after the death of an insured worker. For FY 1997 and 1996, OASI net benefits were $312.6 and $300.0 billion and DI benefits were $46.6 and $43.3 billion, respectively.

Expenses required to administer the OASI and DI programs are paid from the two trust funds. The Railroad Retirement Board (RRB) program pays benefits to its beneficiaries equivalent to amounts that would be paid if railroad employment were covered under the OASI and DI programs plus additional benefits unique to that program, and it collects contributions in a similar manner. Funds are transferred annually between the Social Security trust funds and the RRB's Social Security Equivalent Benefit Account so as to put the trust funds into the same position in which they would have been if railroad employment had been covered under Social Security.

The following statements of Present Value of Actuarial Estimates show present values as of September 30, 1997, for the contributions and expenditures mentioned above. In determining the present values, contributions and expenditures are estimated for a period of 75 years into the future. The estimates include contributions and expenditures relating to future new entrants as well as to present covered workers. The present values are computed on the basis of the economic and demographic assumptions described as intermediate (alternative II) in the 1997 Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds (House Document 105 - 72 dated April 24, 1997). Because the timing of SSA's Accountability Report precedes the issuance of the 1998 Report of the Board of Trustees, it is impossible for the estimates published in this accountability report to reflect the assumptions from the 1998 Trustees Report.

Although three alternative sets of assumptions are shown in the 1997 Trustees Report, the estimates shown in this report are based on alternative II because it is the set that is typically used when estimating the effects of legislative changes proposed during the year. In particular, these estimates are based on interest rates ranging from 6.7 percent to 6.2 percent for 1997 - 2006 and 6.2 thereafter. For alternative II, the assumed average annual unemployment rate (on a non-age-sex-adjusted basis) increased from 5.4 percent in 1997 to 6.0 percent by 2002. In spite of the changing age structure of the population, the equivalent age-sex-adjusted average annual unemployment rate for 2007 (adjusted to the estimated total labor force on July 1, 1995) is also about 6.0 percent, which is assumed thereafter. The annual rate of increase in the average wage in covered employment is assumed to be 4.0 percent in 1997, to fluctuate between 3.2 and 4.5 percent for 18 years thereafter before maintaining its ultimate rate of 4.4 percent beginning in 2015. The annual rate of increase in the Consumer Price Index is assumed to increase from a low of 3.2 percent for 1997 to the ultimate rate of 3.5 percent by 2001.

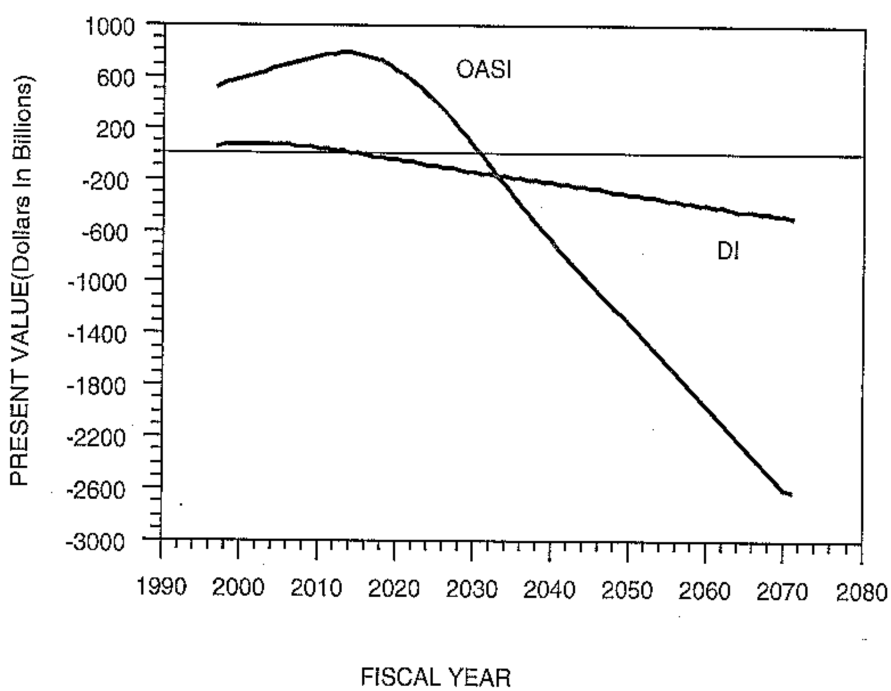
The assumed ultimate total fertility rate of 1.9 children per woman is attained in 2021, after a gradual decrease from the estimated 1996 level of 2.0 children per woman. The age-sex-adjusted death rate is assumed to decrease gradually during the entire projection period, with a reduction of 35 percent from the 1996 level by 2071. The assumed level of total net annual immigration of 900,000 persons per year, reached by the year 2000, is the combination of 600,000 net legal immigrants per year and 300,000 net other-than-legal immigrants per year.

Based on these intermediate assumptions, projections of trust fund balances show sufficient funds to make benefit payments until 2015 for the DI Trust Fund (as shown last year) and 2031 for the OASI Trust Fund (as shown last year).

The present values of estimated net assets by trust fund and year, based upon the 1997 Trustees Report, are presented graphically below. As shown, the present value of estimated future DI net assets increases from 1998 to 2003, at which time it reaches $82.3 billion; it steadily decreases starting in 2004, when yearly expenditures begin to exceed tax income. The DI Trust Fund will be exhausted in 2015. The present value of estimated future OASI net assets increases from 1998 to 2013, at which time it reaches $847.5 billion; it steadily decreases thereafter until it is exhausted by 2031. When the projected yearly expenditures for OASI and DI begin to exceed tax income, the shortfall is assumed to be made up by redemption for cash of the special issue investment securities held by the trust funds. Also, if the OASDI fund ratio for any year is less than 20 percent and wages (as measured by the CPI-W, the Consumer Price Index for Urban Wage Earners and Clerical Workers), the automatic benefit increase for that year will be based on the wage growth rather than price inflation. The OASDI fund ratio is the combined assets of the OASI and DI Trust Funds at the beginning of the year expressed as a percentage of the combined expenditures of those funds during the year.

Each year the assumptions upon which these projections are based and the projection methods are reviewed and revised as needed. Several demographic assumptions were modified. The starting population was updated to reflect revised postcensal estimates made by the Bureau of the Census for 1990 - 1995, which showed more people at working ages than did earlier estimates. Projected mortality rates were decreased to reflect data for 1992 - 1995, which were generally lower than expected. Projected fertility rates were decreased slightly through 2010, consistent with recent data showing lower birth rates than estimated. The assumed difference between death rates for the general population and those for the disabled was reduced, based on trends observed in recent data. Several economic assumptions were changed as a result of improvements made during 1995 - 1996 by the Bureau of Labor Statistics in the methods of measuring price changes, and as a result of a revised historical analysis. The ultimate rate of change in the Consumer Price Index was reduced by 0.5 percentage point, the ultimate rates of change in real Gross Domestic Product and in real wages were reduced by 0.1 percentage point, and the assumed real interest rate for long-term U.S. Government securities was increased from 2.3 to 2.7 percent. Finally, labor force participation rates and rates of OASDI covered employment were increased, based on recent data. No substantive changes were made to the projection methods, themselves. The net effect of all changes leaves the year of exhaustion of both the DI Trust Fund and the OASI Trust Fund unchanged.

Present Value (As of September 30, 1997) of Estimated Net Assets by Trust Fund, Fiscal Years 1998-2072



Old Age and Survivors Insurance Trust Fund Statement of Present Value as of September 30, 1997 of 75-Year Actuarial Estimates by Fiscal Year

(In Billions)\1

	1998	1999	2000	2001	2002	Thereafter	Total
Contributions							
Contribution Income	$342.9	$333.0	$323.0	$315.8	$309.7	$12,914.2	$14,538.6
Income from Taxation of Benefits	7.0	6.9	6.8	6.9	7.0	699.3	733.8
Total Contributions	$349.9	$339.9	$329.8	$322.7	$316.6	$13,613.5	$15,272.4
Expenditures							
Benefit Payments:							
Retired Workers	$223.3	$218.1	$213.4	$209.4	$205.8	$13,253.0	$14,322.9
Spouses and Children of Retired Workers	20.4	19.9	19.4	19.1	18.8	757.9	855.5
Survivors of Deceased Workers	73.1	71.3	69.7	68.2	66.9	2,568.1	2,917.4
Subtotal	$316.8	$309.3	$302.6	$296.7	$291.4	$16,579.1	$18,095.8
Administrative Expenses	2.3	2.1	2.0	1.8	1.8	67.2	77.1
Railroad Retirement Interchange	3.6	3.4	3.2	3.1	2.9	52.5	68.7
Total Expenditures	$322.6	$314.8	$307.8	$301.6	$296.1	$16,698.8	$18,241.7
Excess of Contributions Over Expenditures							
Annual	$27.2	$25.1	$22.0	$21.1	$20.5	$(3,085.2)	$(2,969.3)
Cumulative	27.2	52.3	74.3	95.4	116.0	(2,969.3)	
Net Assets\2	$592.8	$617.9	$639.9	$661.0	$681.5	$(2,403.7)	

\1 The actuarial totals do not necessarily equal the sum of the individual items because of rounding. The totals in the "Thereafter" and "Total" columns are not intended to imply that the projection of events 75 years into the future can be made with the same precision as the five immediate fiscal years.

\2 Net assets include cash and investments available in the Federal Old Age and Survivors Insurance Trust Fund as of September 30, 1997.

Program expenditures would include accrued and undelivered orders.

Disability Insurance Trust Fund Statement of Present Value as of September 30, 1997 of 75-Year Actuarial Estimates by Fiscal Year

(In Billions)\1

	1998	1999	2000	2001	2002	Thereafter	Total
Contributions							
Contribution Income	$54.6	$52.9	$53.9	$53.6	$52.6	$2,193.0	$2,460.5
Income from Taxation of Benefits	.4	.4	.4	.4	.5	42.2	44.4
Total Contributions	$55.0	$53.3	$54.3	$54.0	$53.1	$2,235.1	$2,504.8
Expenditures							
Benefit Payments:							
Disabled Workers	$44.0	$44.3	$44.3	$44.7	$45.3	$2,625.1	$2,847.7
Spouses and Children of Disabled Workers	4.5	4.3	4.2	4.1	4.1	170.2	191.4
Subtotal	$48.5	$48.6	$48.5	$48.8	$49.4	$2,795.3	$3,039.1
Administrative Expenses	1.2	1.1	1.1	1.1	1.1	41.5	47.2
Railroad Retirement Interchange	.1	.1	.1	.1	.1	(1.2)	(.6)
Total Expenditures	$49.8	$49.8	$49.8	$50.1	$50.6	$2,835.7	$3,085.7
Excess of Contributions Over Expenditures							
Annual	$5.2	$3.5	$4.5	$4.0	$2.5	$(600.5)	$(580.8)
Cumulative	5.2	8.7	13.2	17.2	19.7	(580.8)	
Net Assets\2	$66.8	$70.3	$74.9	$78.8	$81.3	$(519.2)	

\1 The actuarial totals do not necessarily equal the sum of the individual items because of rounding. The totals in the "Thereafter" and "Total" columns are not intended to imply that the projection of events 75 years into the future can be made with the same precision as the five immediate fiscal years.

\2 Net assets include cash and investments available in the Federal Disability Insurance Trust Fund as of September 30, 1997.

Program expenditures would include accrued and undelivered orders.

Future Liability for Black Lung Benefits

Coal Miners and their dependents receive benefits if the miner was totally disabled or died due to pneumoconiosis (black lung). Benefits under the Black Lung program are reduced if the beneficiary receives State workers' compensation, unemployment compensation or State disability insurance, because of the disability of the miner due to pneumoconiosis. Certain pension benefits are subject to an excess-earnings test.

The Department of Labor has been designated to assume eventual responsibility for the Black Lung program. All claims filed prior to July 1, 1973, remain within the jurisdiction of SSA. Survivor claims filed in July-December 1973 or, if later, within 6 months of the miner's death also remain within SSA jurisdiction. These claims under SSA's jurisdiction are commonly referred to as Part B of the Black Lung program. For FY 1997 and 1996, Part B benefits were $626 and $667 million, respectively. The SSA budget for future years will need to provide for Part B benefits expected to be paid in future fiscal years to miners and, if applicable, their survivors who have met or are expected to meet defined eligibility criteria. The future liability of Part B of the Black Lung program is not currently funded, nor is there any intent to do so. Rather, payments for benefits that become due in a particular fiscal year are financed from that year's appropriation, in effect, on a pay as you go basis. Payments of the future liability, as they become due, rely on Congressional authorization of future tax revenues or other methods such as public borrowing, for their financing.

The future liability for Part B benefits represents the present value of projected annual benefit payments, using interest rates ranging from 7.5 percent to 6.5 percent for 1996-2009 and 6.4 percent thereafter. Projected benefit payments were based on assumed benefit increases of 1.8 percent for 1996, 2.0 percent for 1997, 1.8 percent for 1998, 2.0 percent for 1999, 2.1 percent for 2000, 2.3 percent for 2001, 2.3 percent for 2002, 2.5 percent for 2003, 2.8 percent for 2004, 3.0 percent for 2005 and 3.2 percent for 2006 and later. In addition, the mortality and accession rates used were based on trends in the current miner population. The Trustees Report presents a range of actuarial estimates based on three alternative sets of economic and demographic assumptions. The estimates reported as unfunded actuarial liabilities are based on assumptions similar to those underlying alternative II in the 1996 Trustees Report, where possible.

The present value, as of October 1, 1996, of the estimated future liability for benefits payable from Part B of the Black Lung program for the next 5 years and thereafter is $4.6 billion. This amount is reflected on SSA's FY 1996 Statement of Financial Position as an unfunded actuarial liability and discussed in Note 7 to the financial statements.

In accordance with FASAB standards, SSA is not presenting an actuarial unfunded liability for the Black Lung program on the Statement of Financial Position for FY 1997. These standards only require SSA to recognize the benefits due and payable as of September 30, 1997. Information related to this future liability for Black Lung benefits will not be reported in future reports.

Program Administration

Sources of Funds *(In Billions)*	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Tax Revenues	$318.0	$339.3	$356.2	$381.2	$405.3
Interest Income	27.3	30.1	34.2	37.6	42.5
Payments from General Fund	7.3	6.8	6.6	0.8	1.0
Total Trust Fund Financing	$352.6	$376.2	$397.0	$419.6	$448.8
General Fund Activity	26.8	30.2	30.4	29.9	32.4
Total Revenues & Financing Sources	$379.4	$406.4	$427.4	$449.5	$481.2

Uses of Funds

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° % of total revenues and financing sources used to fund program entitlements	86.5%	85.5%	85.1%	83.6%	81.5%
° Use of residual revenue and financing sources					
— Administrative expenses	1.4%	1.4%	1.3%	1.3%	1.4%
— Build trust fund reserves	12.0	13.1	13.6	15.1	17.1
— Returned to general fund	0.1	0.0	0.0	0.0	0.0

Administrative outlays continue to be a very small percentage (1.6%) of benefits paid to recipients. Costs to deliver benefits continues to be the highest in the OASI and SSI programs consuming 30.6 percent and 32.0 percent, respectively, of SSA's total administrative resources. The initial claims function consumed the largest percent (38.3%) while costs incurred to maintain the public's earnings records remained relatively low (2.7%) during FY 1997. Relative costs for due process workloads declined slightly during FY 1997 (22.6%).

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° Ratio of administrative outlays to benefit outlays	1.6%	1.6%	1.6%	1.5%	1.6%
— OASI	0.8	0.7	0.6	0.6	0.6
— DI	2.8	2.8	2.7	2.5	3.2
— SSI	7.4	7.3	8.0	8.0	7.4
— BL	0.5	0.5	0.5	0.6	0.6
° Use of administrative resources by program					
— OASI	32.3%	31.1%	30.2%	29.8%	30.6%
— DI	18.0	18.5	18.7	19.3	23.6
— SSI	33.7	34.1	34.8	34.5	32.0
— BL	0.1	0.1	0.1	0.1	0.1
— Medicare/Other	15.9	16.2	16.2	16.3	13.7
° Use of administrative resources by function					
— Enumeration	3.2%	3.2%	3.3%	3.4%	3.4%
— Earnings Maintenance	2.9	3.0	3.2	2.9	2.7
— Initial Claims	48.6	48.0	43.9	40.7	38.3
— Maintenance of Rolls	23.5	23.1	24.6	26.9	29.0
— Due Process	18.6	19.5	21.5	22.9	22.6
— Other Work	3.2	3.2	3.5	3.2	4.0

Federal Managers' Financial Integrity Act (FMFIA)

SSA continually evaluates the efficiency of its operations by using information obtained from reviews that are conducted under its FMFIA compliance program. During the year, SSA conducts FMFIA reviews of management controls in both SSA's administrative and programmatic processes and of accounting controls in financial management systems. These reviews include evaluation of such business processes as enumeration, earnings, claims, postentitlement, debt management and SSA's financial management systems.

Agency managers and staff analyze the deficiencies found through FMFIA reviews, GAO and OIG audits or other studies and using those reports and other information available to them as a result of normal operations, determine whether the weaknesses should be classified as material as defined in Office of Management and Budget Circular A-123. This designation requires a judgement by agency managers as to the relative risk and significance of the deficiencies. The matter is then referred to SSA's Executive Internal Control Council, whose membership includes the Principal Deputy Commissioner, the Inspector General and the Deputy Commissioners, for Agency-level approval. The Commissioner of Social Security then makes the final decision as to whether the weakness is significant enough to be reported outside the Agency (i.e., included in the annual Accountability Report to the President and Congress).

During FY 1997, SSA conducted onsite field office reviews of management controls in both administrative and programmatic processes as part of a 5-year review plan which began in FY 1993. In addition, during FY 1997, an independent CPA firm conducted the three detailed financial system reviews listed in the graphic to the right. No material weaknesses were identified by these reviews.

Status of Material Weaknesses	
Beginning of FY	2
New	0
Cleared	(1)
End of FY	1

We are pleased to report that in FY 1997 SSA cleared the title XVI Supplemental Security Income Record Reestablishment material weakness. In conjunction with previous system enhancements implemented over the last five years, the implementation of the Modernized Supplemental Security Income Claims System (MSSICS) Release 4.4 in May 1997 established a new process to automatically reestablish records and eliminate errors previously associated with manual processing. SSA is subsuming several MSSICS limitations which do not support automatic record reestablishment into the remaining title XVI debt management (DM) weakness, "Inaccurate Reporting and Accounting of Title XVI Overpayments and Underpayments."

SSA is making good progress with efforts to correct the remaining title XVI DM weakness. In January 1997, SSA developed a strategy plan to correct this weakness by September 30, 2000. This plan prescribes implementing DM improvements on reengineering and modernization tracks and will establish a new accounting system to accurately account for and report debt detections and clearances. The new accounting system will include new data input screens and transaction-based processing for financial reporting.

On the strategy's reengineering track, SSA implemented two improvements to correct processing errors in the title XVI Overpayment/Underpayment System. These improvements increased the accounting accuracy for debt detections and clearances by about $47.5 million each year. Also, SSA established a series of new supplemental security record (SSR) codes to mark terminated SSRs established before 1984 which contained erroneous and uncollectible debt. Establishing these new codes will allow SSA to identify accurate SSR data for the new accounting system. Efforts are underway to develop this accounting system through the modernization track of the strategy plan.

Management Follow-up to OIG Recommendations

SSA's follow-up actions on audit findings and recommendations are essential to improving the effectiveness and efficiency of SSA's program operations. For FY 1997, SSA began the year with 19 reports carried over from FY 1996 which contained approximately $378,000 in costs that management determined should not be charged to the Agency's programs (disallowed costs) and $438 million which could be used more efficiently (funds put to better use). During the year, SSA has monitored and analyzed 138 audits with 301 recommendations. These audits contained approximately $8 million in disallowed costs and approximately $492 million in funds which could be put to better use.

Management completed action on 9 audit reports containing 24 recommendations relating to DDS initial disability claims processing. As a result, over $6.9 million was recovered in disallowed costs. In addition, SSA completed action on 5 recommendations related to the postentitlement process, 2 recommendations related to the claims process and 1 recommendation related to an administrative action which will put over $1.5 billion to use more efficiently.

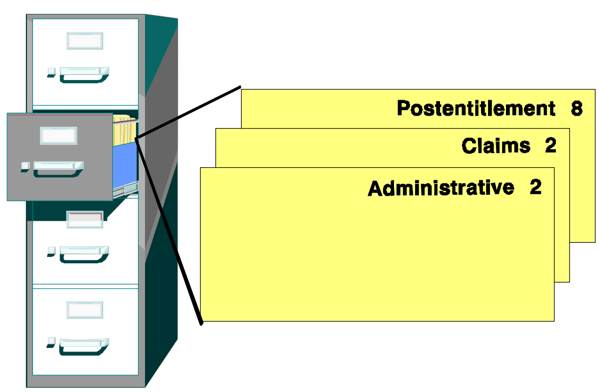
	# of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	# of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
Beginning of FY	3	$378,252	16	$437,703,334
New Audits During FY	11	$7,587,511	3	$54,100,000
Implemented Action	(9)	$(6,937,096)	(8)	$(1,532,764,000)*
End of FY	5	$1,028,667	11	$59,039,334

* Included $1.1 billion not carried over from previous year. $1.1 billion in cost avoidance was omitted by HHS OIG in their original report.

SSA is currently tracking 16 audits containing 35 recommendations for which final action has not been taken. These audits contain over $1 million in disallowed costs and recommended actions which when implemented could result in up to $59 million being better used. The Agency is working to bring to close the 12 audits (see graphic below) more than one year old as well as continuing to work on the remaining 4.

12 Audits Over One Year Old Requiring Final Action

(Categorized by Business Process)



Commercial Payment Practices

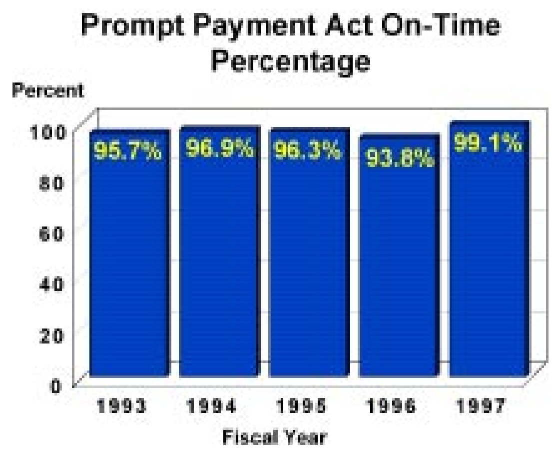
SSA continues to introduce modern technology and business practices to enhance its payment delivery. During FY 1997, SSA continued to expand and enhance payments made through SSA's automated accounts payable system. Specifically, SSA's automated accounts payable system includes the capability to monitor the status of invoices through the payment process, initiate an electronic payment to the vendor's financial institution, and automatically compute the appropriate interest penalty if the payment is late.

The passage of the Debt Collection Improvement Act of 1996 mandated electronic funds transfer (EFT) for Federal payment to new recipients starting on July 26, 1996. It also mandated EFT for all Federal payments after January 1, 1999. As a result of this legislation, SSA successfully converted numerous vendors from check payments to electronic payments, which resulted in 71 percent of SSA's total payments and 80 percent of total dollar payments being paid electronically (i.e., either through charge card or the automated clearinghouse). This represents a 15 percent increase in electronic payments from the prior FY including an 88 percent increase in charge card use.

In working toward an expanded electronic, paperless environment, SSA continues to enhance its Electronic Commerce capability which permits vendors to deal with SSA's procurement and payment operations using electronic data interchange technology. During FY 1997, SSA initiated a pilot project to automate the process for paying for telephone service which will be offered to other interested telephone and utility companies.

The Prompt Payment Act (PPA) and its implementing regulations are focused on ensuring timely and accurate payment of vendor invoices by Federal agencies. The Act requires payment within 30 days of receipt of a proper invoice for goods or services, whichever is later. If the payment is late, an interest penalty must be paid.

During FY 1997, significant progress was made in reducing interest penalties by 93 percent with the ultimate goal of eliminating all interest penalties. Establishment of a central customer service group and telephone response system has contributed toward SSA's goal of being responsive to vendors and ensuring all payments are made timely and accurately.



SSA's FY 1997 Prompt Payment Activities

		FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
°	Payments Made on Time	315,724	312,428	301,527	374,378	539,376
°	Interest Penalties Paid as a Percent of Total Payments	0.03%	0.05%	0.04%	0.06%	0.003%
°	Early Payments	0	0	0	0	0
°	Late Payments with Interest Paid	5,810	8,376	5,178	19,636	1,045
°	Late Payments with Interest Not Due*	5,210	1,692	4,513	5,061	3,747
°	Late Payments with Interest Due But Not Paid**	3,025	0	1,754	0	0
°	Total Invoices Subject to PPA	329,769	322,496	312,972	399,075	544,168
°	Amount of Payments Subject to the PPA (000's)	$307,853	$327,226	$467,019	$560,088	$677,131
°	Amount of Interest Penalties Paid (000's)	$85	$167	$185	$312	$21

* Interest was not due because interest was less than $1.

** Interest was not paid due to vendor request.

Debt Management

SSA is continuing its efforts to expand and enhance its Debt Management capabilities. These efforts ensure the Agency's consistent compliance with legal policy as well as our accurate disclosure of both dollars spent and program objectives achieved. The following discussion highlights SSA's collection efforts and accomplishments for this year.

The Tax Refund Offset (TRO) Program continues to collect title II delinquent debts in an efficient and effective manner. Since implementing this program in 1992, SSA has collected over $142 million in delinquent debts. In FY 1997, SSA collected over $23 million via the TRO program. During FY 1997, SSA completed many of the major tasks required to expand the TRO program in 1998 to include SSI debtors.

The Treasury Offset Program (TOP) is a government-wide matching system that will enable agencies to collect their delinquent debts from Federal payments in addition to tax refunds. During FY 1997, SSA developed the system, policy and procedure to enable use of TOP in 1998.

As a result of legislation, SSA was given the authority to report delinquent title II debtors to credit bureaus as a way of persuading people to repay their programmatic debts. In FY 1997, SSA developed the major tasks required to conduct credit bureau reporting, which will begin in January 1998 and continue each month thereafter.

SSA's program to use credit bureau reports to locate delinquent debtors and to acquire information about their ability to repay debts, implemented in 1995, has continued to be successful. SSA obtains debtor address and financial information online from Equifax Credit Information Services, Inc. In FY 1997, SSA requested over 20,000 reports from Equifax. The match rate for obtaining these reports was over 80 percent. The match rate, easy online access, and low cost of these reports have made them the skiptracing tool of first resort in the debt management sections. During this time, SSA also used the credit bureau reports project to enhance the TRO program. By using debtor addresses furnished electronically by Equifax, SSA was able to deliver about 3,800 pre-offset notices to delinquent debtors, resulting in about $1 million in collections that would otherwise have been forfeited.

In addition, early in 1997, SSA expanded its credit card program to accept the Discover Card. This was added to the existing program which accepted Visa and MasterCard for debt repayment. The credit card program was implemented nationwide for OASDI debtors in FY 1995 and in FY 1996 for SSI debtors.

In FY 1996, SSA cleared the title II DM material weakness. Building on system enhancements which cleared this weakness, SSA implemented a new title II aged debt report in December 1996. This report allows SSA to correctly age debt and capture delinquencies not previously reported, especially those debts which are delinquent for 90 days or less. As a result, the delinquent amount of title II debt reported through FY 1997 increased as we expected, based on the new aged debt report.

Further, SSA is implementing a January 1997 Commissioner's decision to write off erroneous and uncollectible title XVI debt. In September 1997, SSA implemented the first of three phases to complete the write off. Based on the results of the first phase, SSA improved the accuracy of title XVI accounts receivable by $345 million and accounts payable by $28 million. As a result, total write offs increased significantly in FY 1997 (see asterisks on the following page). SSA is now developing an automatic process to control debt transfers between SSRs to support the second phase. The third phase will write off erroneous and uncollectible title XVI debt on SSRs established after 1983.

As a result of software implemented in FY 1996 that captures additional cash withholding transactions, collections increased in FY 1997. However, a special study is underway to identify the extent to which any FY 1997 collections should have otherwise been classified as debt adjustment. This study will establish a basis for refining the cash withholding software to ensure that only cash collections are reported as collections. The preliminary results of this study indicate that about $167 million in OASI collections should have been classified as debt adjustments. Except for the quarterly data, the FY 1997 Debt Management Statistics on the following page reflect a correction for this preliminary $167 million discrepancy.

SSA's FY 1997 Debt Management Activities

	FY 1993	FY 1994	FY 1995	FY 1996	FY1997
° Total debt outstanding end of FY (*in millions*)	$3,369.9	$4,154.0	$4,543.2	$4,973.8	$5,119.1
° % of outstanding debt:					
– Delinquent	9.6%	5.8%	5.8%	6.6%	14.5%
– Estimated to be uncollectible	28.6%	26.1%	26.3%	27.5%	28.0%
° New debt as a % of benefit outlays	0.6%	0.8%	0.7%	0.8%	0.8%
° % of debt collected	49.3%	39.1%	37.8%	35.6%	38.9%
° Cost to collect $1	$0.13	$0.13	$0.13	$0.12	$0.10
° % change in collections from prior FY	4.4%	(2.1%)	5.7%	3.1%	12.4%
° % change in delinquencies from prior FY	(3.7%)	(25.6%)	9.9%	24.5%	125.1%
° Debt clearance rate	35.1%	33.4%	32.1%	30.0%	36.1%
° Collections as % of clearances	83.4%	80.2%	79.2%	79.7%	69.2%
° Total writeoffs of debt (*in millions*)	$331.4	$400.6	$452.2	$450.8	$887.6*
° Average number of months to clear receivables:					
– OASI	13	8	11	11	12
– DI	32	28	27	26	29
– SSI	25	27	29	28	25

FY 1997 Quarterly Data (*In Millions*)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
° Total receivables	$4,836.6	$4,915.8	$5,016.7	$5,119.1
° Total collections	618.6	1,129.3	1,618.0	2,158.4
° Total writeoffs	128.0	258.5	386.7	887.6*
° Aging schedule of delinquent debt:				
— 180 days or less	$170.1	$348.5	$325.7	$337.3
— 181 to 365 days	83.2	132.7	166.8	178.9
— Longer than 365 days	142.8	181.9	200.8	228.3
— Total delinquent debt	$396.1	$663.1	$693.3	$744.5

Anti-Fraud Initiatives

SSA is committed to a policy of zero tolerance for fraud, waste and abuse. Section 206(g) of the Social Security Independence and Program Improvements Act, Public Law 103-296, requires SSA to report annually on the extent to which cases of entitlement to monthly OASI, DI and SSI benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

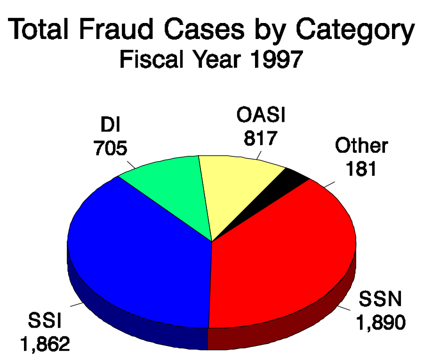
Entitlement Reviews

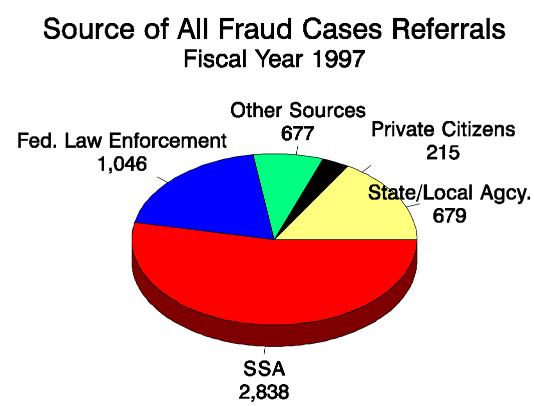
Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. Listed below are major entitlement reviews conducted by the Agency along with a page reference for further discussion of these reviews.

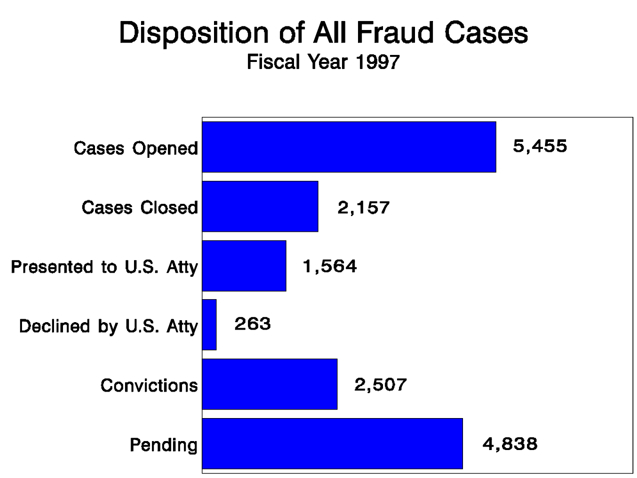
- OASI and SSI quality assurance reviews (pages 77 & 78)
- Disability quality reviews (page 74)
- SSI redeterminations (page 78)
- CDRs (pages 12, 21 & 77)

Anti-Fraud Activities

In FY 1997, as part of its fraud detection and prevention program for safeguarding the Agency's assets, SSA worked with our OIG, the U.S. Attorney and other State and local agencies on cases involving fraud and abuse. The charts below summarize OIG's involvement in fraud activities throughout the FY. Results of specific investigations are discussed on pages 132-150.







The integrity of SSA's records and payments is maintained through an overall security program which controls access to SSA data bases and refers suspected fraud and abuse cases to OIG for investigation and, if indicated, prosecution by the Department of Justice (DOJ). Protection of data from security violations continues to remain excellent with 99.9 percent of business transactions occurring without incident during FYs 1992 - 1997.

As a means to deterring, detecting and preventing fraud and abuse, SSA conducts ongoing reviews of programmatic processing actions taken by field office personnel. To provide greater flexibility and to increase productivity, SSA is revising its integrity review process by implementing the new Consolidated Integrity Review Process (CIRP) system. This new automated system will consolidate several existing review systems which will allow selection criteria to be easily modified to target emerging trends or select cases with more susceptibility of fraud and abuse. CIRP will be implemented in several phases. Release 1, implemented in December 1996 and Release 1.2, implemented in October 1997, incorporate data from query applications that provide personal information about SSA recipients. Release 2 will focus on Modernized Enumeration System and Modernized SSI Claims System data.

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. SSA processed approximately 5.3 million alerts generated by these activities, resulting in savings of over $2.2 billion in FY 1996.

In FY 1997, the General Accounting Office (GAO) testified to the House Committee on Ways and Means' Subcommittee on Oversight that it had designated the SSI program as high risk for fraud, waste and abuse. Page 22 discusses GAO's findings and steps SSA is taking to address these findings.

As referenced in GAO's Congressional testimony, SSA, in FY 1996, developed a comprehensive tactical plan to focus even more attention on combating fraud in all of the programs SSA administers. The updated FY 1997 version of the plan consists of 33 initiatives that will enable SSA to focus the necessary resources and provide the appropriate level of oversight in a consolidated effort to combat fraud.

The tactical plan addresses four areas of challenge: 1) Fraud prevention and detection; 2) referral and investigations; 3) enforcement; and 4) management information and control. Listed below are several highlights and initiatives underway to support the tactical plan.

- Increased residency verification in border offices through expansion to additional offices;
- Renewed emphasis on oversight through two-tiered personal identification numbers automated controls;
- Focused resources to investigate suspected fraud in both Federal and State public assistance programs through a multi-agency task force;
- Developed database to track money from cases referrred to DOJ through recovery of funds;
- Automated additional Social Security Number and Death Alert Controls;
- Established a control and tracking system for the receipt and processing of prisoner data; and
- Implemented enhanced computer matching and prisoner suspension process.

SSA established a National Anti-Fraud Committee (NAFC) to oversee the implementation of the tactical plan initiatives. The NAFC, comprised of many key members of the executive staff and the OIG, ensures that the efforts to combat fraud will be supported and implemented effectively.

The NAFC hosted the National Anti-Fraud Conference September 8-12, 1997, in Baltimore. The conference, attended by over 450 SSA personnel from throughout the country, was held to focus national attention on the issue of fraud and provide an open forum to discuss issues, concerns, responses, solutions and future directions toward combating fraud in SSA programs. SSA's commitment to having "zero tolerance for fraud" was reinforced.

Another cornerstone of SSA's zero tolerance for fraud approach are the Regional Anti-Fraud Committees (RAFC). These regional committees, comprised of SSA and OIG staff, have the primary duty to oversee local policies and strategies to effectively combat, detect, develop and investigate potential fraud involving SSA programs and employees. The RAFCs provide a unified focus to ensure timely, efficient, complete and effective criminal, civil and/or administrative actions are taken on all potential fraud cases.

SSA is using its authority to impose civil monetary penalties against persons or third parties who make false statements or representations in connection with benefit claims and against those who misuse certain symbols, words and emblems that are related to SSA. This authority targets cases which would not be prosecuted in the past due to the heavy workloads of the U.S. court system. In September 1997, SSA's first civil monetary penalty settlement was reached in the amount of $24,000. Of this, $2,000 was paid in FY 1997 and the balance will be offset from monthly benefit payments until fully collected.

Summary of User Fee Charges

User fee revenues of $156 and $151 million in FY 1996 and FY 1997, respectively, accounted for less than 1 percent of SSA's total annual revenue. Over 95 percent of user fee revenues are derived from agreements with 25 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. SSA charges a fee of $5 per payment for the cost of administering State supplemental SSI payments.

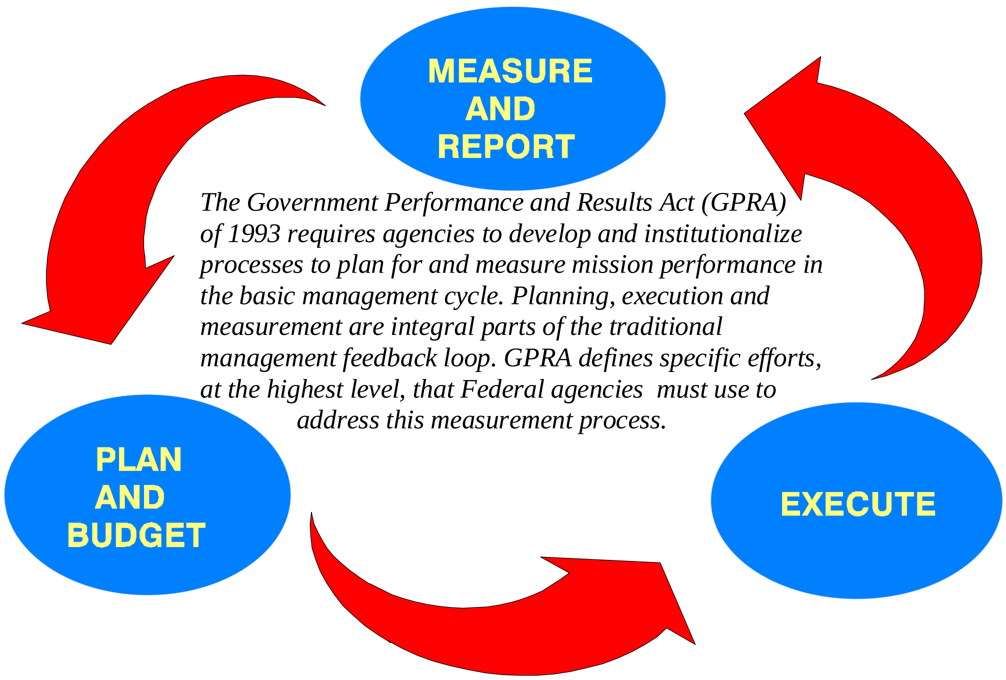
As required by law, fees charged for the Federal administration of these State supplemental payments will incrementally increase over the FY 1998 to FY 2002 period from $6.20 per payment in FY 1998 to $8.50 in FY 2002. Starting in FY 2003, the user fee will be adjusted based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States.

SSA's fee schedules for other reimbursable activity (e.g., earnings record requests from pension funds and individuals) have been preliminarily reviewed by an inter-component workgroup. Recommendations will be evaluated and implemented as appropriate.

Program and Financial Performance Measures

FY 1997 GPRA Annual Performance Reporting

Traditional Management Feedback Loop



SSA recently completed participation as a pilot agency under the provisions of GPRA that deal with performance measurement. Performance measures were prepared and submitted in the form of annual performance plans for FYs 1994, 1995 and 1996. These efforts helped us develop a set of transitional measures and associated goals for FY 1997, which are shown on pages 66 and 67. A few of these transitional measures have subsequently been removed from GPRA plans and are not reported in the table on the following pages. Related output measures for several priority workloads are also included. In response to the mandates of GPRA, SSA has been working to create a framework of PMs that better defines service from the perspective of our customers.

To this end, SSA's new Strategic Plan "Keeping the Promise" released in September 1997 will provide the basis for SSA's GPRA Annual Performance Plans beginning with FY 1998. The new strategic plan is the first that SSA has created as an independent Agency. In recognition of the additional responsibilities of leadership and service that this new position gives us, we have reframed our mission statement in this way: "to promote the economic security of the nation's people through compassionate and vigilant leadership in shaping and managing America's social security programs." To support this mission, the new plan establishes an improved set of five general goals that encompass all of our programs and addresses the competing needs of the wide variety of SSA stakeholders. The five strategic plan goals are:

- To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation;
- To deliver customer-responsive world-class service;
- To make SSA program management the best in business, with zero tolerance for fraud and abuse;
- To be an employer that values and invests in each employee; and
- To strengthen public understanding of the social security programs.

The plan reflects the perspectives of our employees and stakeholders and describes levels of performance that SSA will aim for in the coming years, as well as strategies and initiatives that we will use.

Progress in Meeting FY 1997 GPRA Goals

GOAL: Rebuild Confidence in Social Security	FY 1996 Actual	FY 1997 Actual	FY 1997 Goal	% of Goal Met
1. *Percent of public "very well informed" or fairly well informed" about Social Security*	59.0%	56.0%	59.0%	94.9%
2. *Number of PEBES issued upon request and automatically by SSA*	9,020,650	15,690,571	14,000,000	112.1%
3. *Percent of individuals issued SIPEBES as required by law*	100.0%	100.0%	100.0%	100.0%
GOAL: Provide World-Class Service				
Overall				
4. *Percent of public "satisfied" or "very satisfied" with courteousness of SSA staff:*				.
Visit courtesy	85.0%	84.0%	90.0%	93.3%
Telephone courtesy	85.0%	85.0%	90.0%	94.4%
5. *Percent of public rating SSA service as "very good"* **(1)**	46.0%	52.0%	46.0%	113.0%
Enumeration				
6. *Percent of original and replacement social security cards issued within 5 days of receiving all necessary documentation*	96.9%	98.2%	97.0%	101.2%
Earnings				
7. *Percent of earnings items posted correctly*	99.0%	99.0%	99.0%	100.0%
OASI/SSI Aged Claims				
8. *Percent of OASI claims processed by the time the first regular payment is due or within 15 days from effective filing date, if later*	84.3%	82.9%	83.0%	99.9%
DI/SSI Disability Claims				
9. *Percent of DI claims decided within 6 months after onset or within 60 days after effective filing date, whichever is later* **(2)**	57.5%	52.4%	40.0%	131.0%
10. *Percent of SSI disability claims decided within 60 days of filing* **(2)**	29.5%	25.0%	20.0%	125.0%
11. *Initial disability claims processed by DDSs*	2,360,034	2,187,263	2,009,000	108.9%
12. *Initial disability claims processing time (days)*	89	99	136	100.0%

(1) Current performance data represents the percent of public who rate SSA service as "very good". In FY 1998, SSA intends to measure the percent of public rating service as "excellent", consistent with the Agency goal to provide world-class service.
(2) Disability claims processing times are projected to increase temporarily while SSA completes the one-time welfare reform work. However, SSA is committed to significantly reducing processsing times by FY 2000.

Progress in Meeting FY 1997 GPRA Goals, Cont'd

GOAL: Provide World-Class Service (Cont'd)	FY 1996 Actual	FY 1997 Actual	FY 1997 Goal	% of Goal Met
13. *Initial disability claims pending as of 9/30*	510,454	399,392	741,000	100.0%
14 *Number of hearings decisions made and notices sent within 120 days of filing for a hearing* **(3)**	10.1%	10.0%	13.0%	76.9%
15. *Number of hearings processed by OHA*	580,832	574,795	605,000	95.0%
16 *Hearings processing times (days)* **(4)**	392	397	360	90.7%
17. *Number of hearings pending in OHA as of 9/30*	510,895	483,712	455,000	94.1%
Postentitlement				
18. *Number of periodic CDRs processed*	498,445 **(5)**	690,478 **(5)**	603,000	114.5%
Face-to-Face Service				
19. *Percent of public with an appointment waiting 10 minutes or less*	84.8%	84.9%	85.0%	99.9%
20. *Percent of public without an appointment waiting 30 minutes or less*	70.0%	72.7%	70.0%	103.9%
800 Number Telephone Service				
21. *Percent of callers who reach 800 Number within five minutes of their first attempt*	83.0%	96.2%	95.0%	101.3%
22. *Percent of calls handled accurately*				
Payment accuracy **(6)**	94.8%	95.3%	94.0%	101.4%
Service accuracy **(6)**	81.8%	86.5%	80.0%	108.1%
Mail				
23. *Percent of public who are "satisfied" or "very satisfied" with the clarity of SSA mail*	78.0%	82.0%	78.0%	105.1%
GOAL: Create a Supportive Environment for SSA Employees				
24. *Percent of front-line employees with intelligent workstations, connected to a local area network*	27.4%	50.2%	48.0%	104.6%
25. *Percent of supervisory staff*	11.0%	9.0%	10.0%	100.0%

(3) Actual data are for September of each fiscal year.
(4) Represents average processing time for September of the fiscal year.
(5) In addition, SSA processed 19,239 additional medical reviews related to work issues in FY 1996 and 20,224 in FY 1997.
(6) For six month period ending March 1996 and 1997, respectively.

This section discusses how effectively and efficiently SSA performs its day-to-day business processes and service delivery functions. Included are performance measures to assess the effectiveness in achieving intended results relating to service delivery goals and objectives outlined in the Agency's Strategic Plan published in FY 1991 and workload and unit cost data to measure the efficiency of operations. NA indicates that actual data are unavailable for that particular fiscal period. When current dollars are presented to restate prior period costs at the 1996 cost levels, the conversion from "actual dollars" to current dollars is calculated based on the change in the cost of an average SSA workyear. The "deflator" factors used to adjust prior period costs are 1.004113 for 1996, 1.075216 for 1995, 1.128997 for 1994 and 1.200057 for 1993.

Enumeration Process

Service Delivery

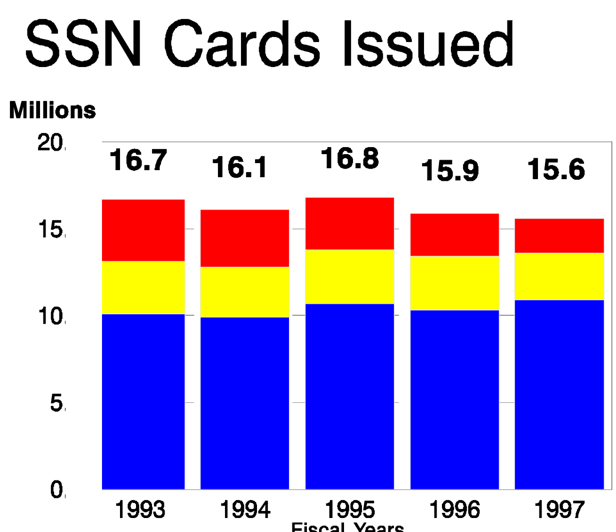
Social Security numbers (SSN) allow SSA to maintain the public's lifetime earnings records, which in turn, determine OASDI eligibility and benefit amounts. As such, they must be maintained and safeguarded. SSNs are crucial to the accuracy and protection of these earnings records. The issuance of new and replacement numbers must be prompt and efficient. Overall, SSA's percentage of applicants notified of their SSNs within the timeframes outlined in the service delivery objectives is high and rapidly approaching SSA's goal of 100 percent. Requests for SSNs are processed timely, without sacrificing the integrity of the numbers issued.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° % of applicants that can be notified orally of their SSN within 24 hours of completing an application	NA	86.6%	91.2%	92.2%	94.4%
° % of SSN cards issued within 5 days of completing an application	NA	94.6%	97.0%	96.9%	98.2%
° Average processing time (days)	1.1	1.0	0.6	0.6	0.4
° % of SSNs issued accurately *	99.7%	99.9%	99.8%	99.6%	NA

***** Represents performance for the period July to June, i.e., for 7/90-6/91 (FY 91) and 7/91-6/92 (FY 92)and 7/92-6/93 (FY 93). FY 94, FY 95 and FY 96 represents performance for January to December 1994, 1995 and 1996, respectively.

Operational Efficiency

SSA has issued approximately 390 million SSNs since the program began in 1936. Resources required by SSA for the enumeration function were substantially impacted by IRS' initiative to strengthen Federal income tax enforcement. Workloads increased when parents contacted SSA to obtain SSNs for their children to support deductions on Federal income tax returns filed in January 1987 (5 years or older), January 1989 (2 years or older) and January 1992 (1 year or older). To soften the resource impact of the IRS initiative, SSA implemented a process in 1988 to automatically enumerate children at birth. SSA's planned system improvements in integrated telecommunications linkages, including those with States and the Immigration and Naturalization Service, coupled with online searching of master files will permit an SSN to be assigned immediately and improve future efficiency.



	1993	1994	1995	1996	1997
Other New	3.6	3.3	3.0	2.5	2.0
New at Birth	3.0	2.9	3.1	3.1	2.7
Replacement	10.1	9.9	10.7	10.3	10.9

		FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
°	Workyears	2,487	2,534	2,560	2,577	2,811
°	Production Per Workyear	6,703	6,370	6,575	6,187	5,539
°	Unit Costs (Current Dollars)	$11.30	$11.68	$11.53	$12.56	$13.58

Earnings Process

Service Delivery

Each year approximately 2 to 3 percent of wage items received cannot be posted to an individual's earnings record because the reported names and SSNs do not match to our master file of SSNs. Initially, SSA posts these unmatched items to its Earnings Suspense File (ESF) and then through various automated and human intervention techniques, and contacts with employees and employers, attempts to find a match to our SSN master file. These routines typically correct and post between 40 to 50 percent of the incorrectly reported items. Many of the items remaining on the ESF after these automated and manual purification processes are those which were reported with no SSN and/or no name or those with an SSN that was never issued.

It is important to note that the ESF is but one tool SSA uses to assist individuals in documenting their earnings record when earnings appear to be missing. SSA does not require an ESF record to post missing earnings to an individual's record. Other evidence or confirmation techniques often are used.

		FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
°	% of reported earnings posted accurately to individuals' earnings record	98.9%	98.8%	98.7%	99.0%	99.0%
°	% of AWRs posted within:					
	— 6 mos. following close of tax year	83.0%	62.1%	83.9%	86.2%	86.7% *
	— 9 mos. following close of tax year	97.6%	97.4%	97.4%	97.3%	97.6% *
°	Number of months to post 98.5 percent of AWRs for tax year	9.6	10.5	10.1	10.3	10.0 *
°	% of self-employment income posted within					
	— 9 mos. following close of tax year	83.5%	83.2%	84.9%	61.4%	81.5% *
	— 12 mos. following close of tax year	99.6%	99.5%	98.1%	99.7%	NA

*Estimates

Operational Efficiency

SSA's efficiency in maintaining the public's lifetime earnings records has increased steadily over the past 4 years. Over this time, the unit cost to process earnings items has decreased by over 33 percent. This trend is expected to continue as more employers report wage information electronically as opposed to paper reporting.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° Earnings Processed	222,028,566	221,949,522	235,314,733	239,958,058	249,123,545
— Workyears	1,375	1,556	1,595	1,540	1,303
— Production Per Workyear	161,475	142,641	147,515	155,842	191,210
— Unit Costs (Current Dollars)	$0.51	$0.57	$0.53	$0.45	$0.38

Claims Process

Service Delivery

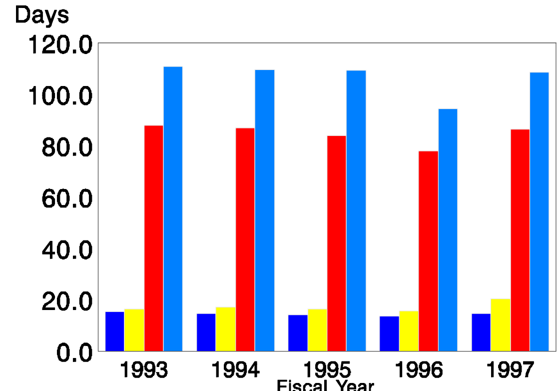
The "Initial Payment Accuracy Rate" is the measure of accuracy of the first payment made to newly awarded OASI and SSI claimants. It is calculated by dividing the amount of payments made correctly by the total amount that should have been paid. In FY 1996, most OASI errors were attributable to earnings records, benefit rate computations, date of birth, application-related issues and relationship/dependency issues. In SSI, the majority of the error dollars in awards involved the top three error categories; i.e., unearned income, earned income and other living arrangements.

° Initial payment accuracy rate:	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— OASI	90.8%	95.2%	94.7%	93.7%	NA
— SSI	94.0%	93.7%	93.7%	93.4%	NA

The Index of Dollar Accuracy is based on a statistically reliable sample of the workloads reviewed. It measures the dollar accuracy of adjudicative decisions over the retrospective, current and prospective lifetime of the payment. For OASI, the Index of Dollar Accuracy rate represents total dollars paid divided by dollars that should have been paid over the life cycle of the award. For SSI, it expresses the relationship of field office processed initial claims and redeterminations dollars paid to dollars that should have been paid over the expected life of the award or redetermination. The lifetime of the SSI award continues until termination or redetermination. The percent of lifetime dollars paid correctly for OASI initial awards has remained consistently high for the past several years. The SSI index of dollar rate has remained relatively stable, i.e., the changes in accuracy from one year to the next are not statistically significant.

° % of lifetime dollars from a claims award or redetermination that is paid correctly:	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— OASI	99.8%	99.8%	99.8%	99.7%	NA
— SSI	96.2%	95.9%	94.8%	93.2%	NA
— — Awards	95.3%	95.3%	94.6%	93.4%	NA
— — Redeterminations	96.8%	96.2%	95.0%	93.1%	NA

Initial Claims Processing Times



	1993	1994	1995	1996	1997
OASI	15.3	14.7	14.0	13.5	14.5
SSI Aged	16.4	17.0	16.4	15.5	20.3
DI	87.9	86.9	83.8	77.9	86.3
SSI Blind/Disabled	110.8	109.6	109.2	94.4	108.4

Providing "World Class Service" to our customers is one of the Agency's top priorities. Ensuring their claims for benefits are processed as accurately and efficiently as possible is a major factor in providing this level of service. Over the last few years, the processing times for OASI claims had shown steady, consistent, improvement. Average processing time for initial OASI claims improved from 14.7 days in FY 1994 to 14.0 days in FY 1995 and to 13.5 days in FY 1996. However, FY 1997's processing time increased to 14.5 days. This slight increase reflects the impact of the Welfare Reform work on SSA's field offices, and is not expected to be a continuing trend.

SSI Aged claims processing times increased in FY 1997 compared to FY 1996 (20.3 days and 15.5 days, respectively). Welfare reform legislative changes in the policies affecting non-citizens have caused these processing times to increase for the first time since FY 1994.

Also, the effects of Welfare Reform Legislation (the focus on processing childhood disability redeterminations) were evident in both disability initial claims processing times during FY 1997. Additionally, the processing of drug addict and alcholic (DA&A) cases had a significant impact on the Disability Determination Services (DDS) and to some extent on the field offices during the first half of FY 1997. These cases were labor-intensive and required special handling (e.g., hearings) in the DDSs. The resulting disability backlogs helped cause increased overall processing times, even before the impact of Welfare Reform began to be felt. DI processing times increased from 77.9 days in FY 1996 to 86.3 days in FY 1997. SSI blind/disabled processing time increased from 94.4 days in FY 1996 to 108.4 days in FY 1997. Prior to FY 1997, there had been steady improvement in both disability claims processing times for each year since FY 1993.

One of the major components of customer satisfaction is timeliness of benefits paid. The long range objective for meeting each of the service delivery objectives is 100 percent. The data below clearly points out that we have not yet met our objectives. Given competing workload demands, primarily related to the Welfare Reform and continuing disability review work, FY 1997 has proven to be a year of decline in many of SSA's performances, after two or more years of improvement. As we complete the Welfare Reform work, we expect these measures to improve in FY 1998.

	FY 1993	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**
° % of OASI applications completed before the first regular payment is due or within 15 days from the effective date of filing, if later	79.5%	81.1%	83.0%	84.3%	82.9%
° % of initial SSI Aged claims either paid or denied within 14 days of the filing date	62.6%	63.2%	65.4%	66.4%	59.5%
° % of continuing monthly payments made on the scheduled delivery date:					
OASDI	99.9%	99.9%	99.9%	99.9%	99.9%
SSI	99.9%	99.9%	99.9%	99.9%	99.9%

Operational Efficiency

	FY 1993	FY 1994	FY 1995	FY 1996	FY1997
° Workload Receipts					
— OASI	3,272,878	3,183,573	3,140,331	3,044,834	3,112,022
— DI	1,867,954	1,858,231	1,783,757	1,670,897	1,529,513
— SSI Aged	230,970	204,424	181,629	165,169	128,492
— SSI Blind/Disabled	2,037,061	2,037,639	1,918,162	1,757,791	1,496,408
— Total	7,408,863	7,283,867	7,023,879	6,638,691	6,266,435
— Year-to-Year Change	+4.5%	-1.7%	-3.6%	-5.5%	-5.6%
° Workload Processed					
— OASI	3,300,932	3,205,793	3,162,881	3,058,745	3,129,238
— DI	1,875,315	1,888,807	1,881,802	1,711,281	1,662,353
— SSI Aged	230,367	204,402	181,329	161,649	125,680
— SSI Blind/Disabled	2,055,175	2,052,347	2,016,790	1,759,870	1,498,520
— Total	7,461,789	7,351,349	7,242,802	6,691,545	6,415,791
— Year-to-Year Change	+6.3%	-1.5%	-1.5%	-7.6%	-4.1%
° End-of-Year Pendings					
— OASI	58,696	64,060	57,751	59,410	56,844
— DI	335,611	334,166	269,938	260,769	167,081
— SSI Aged	4,058	3,613	3,471	6,349	8,138
— SSI Blind/Disabled	493,523	475,765	377,965	372,022	367,625
— Total	891,888	877,604	709,125	698,550	599,688
° End-of-Year Pendings as a % of Current Year's Dispositions					
— OASI	1.8%	2.0%	1.8%	1.9%	1.8%
— DI	17.9%	17.7%	14.3%	15.2%	10.1%
— SSI Aged	1.8%	1.8%	1.9%	3.9%	6.5%
— SSI Disabled	24.0%	23.2%	18.7%	21.1%	24.5%
° Workyears	23,362	23,338	20,717	19,436	19,560
° Production Per Workyear	319	315	350	344	328
° Unit Cost (Current Dollars)					
— OASI	$216.42	$217.39	$202.52	$197.57	$201.22
— DI	569.12	570.98	529.00	538.51	544.24
— SSI Aged	199.96	269.05	249.61	268.92	311.05
— SSI Disabled	497.26	485.24	452.10	456.99	518.97
— Overall Average	381.90	384.45	358.02	354.71	366.47

Disability Determination Services (DDS)

Service Delivery

The decisional accuracy of disability claims reflects the percentage of accurate determinations issued by the State DDSs. The decisional accuracy of disability determinations for DI and SSI initial claims has remained relatively constant for the last 5 years, despite increased workloads. Decisions to allow disability continue to be more accurate than denials.

° % of accurate disability determinations by State agencies (DI and SSI combined):	**FY 1993**	**FY 1994**	**FY 1995**	**FY 1996**	**FY1997**
— Overall Decisional Average	96.8%	96.8%	96.6%	96.9%	96.5%
— Allowances	97.9%	97.7%	97.9%	98.0%	97.7%
— Denials	95.9%	96.3%	95.9%	96.4%	95.9%

The following tables illustrate the DDS performance accuracy for disability determinations. Performance accuracy rates reflect the estimated percentages of initial disability determinations and reconsideration disability determinations that do not have to be returned to the DDS for development of additional documentation or correction of the disability determination. Accuracy of initial disability determinations have remained relatively constant over the last 5 years.

° Performance accuracy initial disability determinations:	**FY 1993**	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**
— Overall Average	94.2%	94.4%	94.2%	94.5%	94.0%
— Allowances	95.9%	95.8%	96.0%	96.5%	95.9%
— Denials	93.0%	93.7%	93.4%	93.6%	93.1%
° Performance accuracy reconsideration disability determinations:					
— Overall Average	93.6%	92.7%	91.7%	92.7%	92.3%
— Allowances	96.0%	95.8%	96.2%	95.6%	94.0%
— Denials	93.2%	92.3%	91.0%	92.3%	92.0%

The following table reflects net accuracy of initial disability determinations. Net accuracy is the percentage of correct DDS disability determinations. The net accuracy rate is based on the net error rate (defined as the number of corrected deficient cases with changed disability decisions plus the number of deficient cases that are not corrected within 90 days from the end of the period covered by the report) divided by the number of cases reviewed. "Net accuracy of initial disability determinations" differs from the "percent of accurate disability determinations by State agencies" in that the latter measure is not adjusted to include the results of the cases that are returned to the DDSs for correction of the decision or for development of additional documentation. Net accuracy of initial disability determinations has remained fairly stable over the past 4 years.

° Net Accuracy of Initial Disability Determinations	**FY 1993**	**FY 1994**	**FY 1995**	**FY 1996**	**FY1997**
— Overall Average	96.6%	96.8%	96.6%	96.7%	NA
— Allowances	97.9%	97.6%	97.8%	97.9%	NA
— Denials	95.9%	96.4%	96.1%	96.1%	NA

SSA is mandated by statue to review 50 percent of the favorable disability determinations made by State DDSs. These reviews of initial and reconsideration allowances are conducted prior to effectuation of the DDS determination. We also perform reeffectuation reviews of DDS determinations of continuing eligibility. Cases selected for review are profiled so that the cases with a greater likelihood of an incorrect decision to allow or continue benefits receive greater review.

° Pre and Reeffectuation Review	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— % of accurate decisions to allow or continue benefits by State DDSs	97.6%	97.4%	98.0%	97.6%	96.4%
— Number of cases reviewed	281,040	270,363	271,363	238,752	248,880
— Number of cases returned to DDS due to error or inadequate documentation	6,734	6,991	5,498	5,658	8,965

SSA also performs quality assurance reviews to measure the level of decisional accuracy for the State DDSs against standards mandated by regulations. These reviews are conducted prior to effectuation of the DDS determinations and cover initial claims, reconsiderations and determinations of continuing eligibility. The chart below shows that the State DDSs have consistently made the correct decision to allow benefits.

° Quality Assurance Review	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— % of accurate decisions to allow or continue benefits by State DDSs	96.6%	96.0%	96.0%	96.2%	95.8%
— Number of cases reviewed	25,572	26,957	26,536	27,150	42,402
— Number of cases returned to DDS due to error or inadequate documentation	863	1,079	1,078	1,030	1,801

Operational Efficiency

The volume of initial claims remains a challenge for SSA as this business process consumes approximately over 38 percent of the administrative budget (see page 56). The DDSs received nearly 400,000 fewer initial disability cases in FY 1997. Thus over 84 percent of all initial disability case workloads available to be processed in FY 1997 were completed. SSA has begun to implement its plan to reengineer the disability process to further improve efficiency and effectiveness. The table below displays workload trend data for State DDSs.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° Workload Receipts					
— Initial Disability Cases	2,564,163	2,609,498	2,488,878	2,439,658	2,076,201
— Total Cases	3,469,345	3,611,377	3,647,337	3,714,060	3,805,920
° Workload Processed					
— Initial Disability Cases	2,585,835	2,615,809	2,611,622	2,360,034	2,187,263
— Total Cases	3,476,665	3,607,482	3,786,535	3,601,856	3,804,111
° End-of-Year Pendings					
— Initial Disability Cases	555,478	549,167	430,805	510,454	399,392
— Total Cases	717,420	721,307	590,045	702,316	703,696
° Production Per Workyear	261	272	281	278	269

Due Process Operations

Service Delivery

The following measure focuses on the reconsiderations of initial claims (which constitute the majority of all reconsideration actions). The full scope of the Agency's continued efforts to redesign the disability process encompass this objective. Accurate and more efficient processing of initial claims should result in a decrease in the number of initial claims reversed as a result of a reconsideration.

However, should a reconsideration be filed, it is expected that the beneficiary receive a prompt reply. The Agency's percentage of reconsiderations processed within 60 days after filing has fluctuated over the last four years. The decrease in the percentage of timely processed reconsiderations for FY 1997 is consistent with the overall decline in the Agency's performance for processing initial claims timely and may be attributed to the focus on the Welfare Reform and CDR workloads.

	FY 1993	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**
° % of requests for reconsideration of denied disability claims completed within 60 days of filing	NA	57.4%	53.8%	57.9%	53.2%

The September average hearings processing time in FY 1997 was 397 days, a 1 percent increase over September FY 1996. The FY 1997 goal was to obtain an average hearings processing time of 360 days. Processing time for September was higher than projected because of two unanticipated circumstances. A higher than usual proportion of Medicare case clearances in September (with an average processing time of 506 days for these cases), and a significant number of SSI Childhood disability case clearances on cases that aged several months during FY 1997 pending implementaiton of legislative changes. Average processing time for all other dispositions issued in September was 360 days. Continuation of Short-Term Disability initiatives, the national roll-out of the Adjudication Officer (AO) program, and implementation of Process Unification will have a favorable impact for FY 1998 processing times.

The AO program was created to facilitate the appeals process and be the primary focus for all pre-hearing activities when a request for an ALJ hearing is filed. The AO will work to narrow the issues for appeal, obtain new evidence and further develop the record. The AO has the authority to issue fully favorable decisions if warranted by the evidence. This would lead to more timely decisions resulting in reduced processing times.

The remanding of selected cases to the DDSs and requiring DDS medical consultant review when new medical evidence is presented at OHA is one of several initiatives under Process Unification which will result in decisions made earlier in the appeals process therefore reducing processing time.

OHA is also expected to receive and dispose of approximately 52,000 cases tied to the new Welfare Reform Legislation during FY 1998. These cases are given priority and are expected to be disposed of within four to six months from time of receipt. So as to not disadvantage other claimants who have cases pending with OHA, additional Administrative Law Judges and staff have been hired, and eight temporary hearing offices are being opened to process the workload.

	FY 1993	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**
° Hearings processing time (days)(*)	263	337	357	392	397

(*) Represents average processing time for September of the fiscal year.

In FY 1997, the processing time for the appeals workload increased dramatically to an average of 340 days. The average processing time was 64 days higher than in FY 1996. Receipts continued at a record pace throughout the year. The Appeals Council implemented streamlining procedures on an ongoing basis and adjusted branch jurisdictional assignments to balance receipts. In addition, the analysts who had served on the STDP the prior year returned to regular duties. These initiatives increased productivity and correspondingly, slowed the rate that the pendings grew during the second half of the year. However, these actions were not enough to counterbalance increased receipts and a greater percentage of aged cases within the total pendings. As a result, the processing time increased.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° Appeals processing time (days)	150	126	149	276	340

This is the fourth year that the percentage of Appeals Council reviews that have decisions made and notices sent within 90 days after filing the appeal was tracked. At the beginning of the year, 3.5 percent of reviews were processed within 90 days. However, because of record receipts, both the overall pending and the number of aged cases increased. The Council implemented numerous initiatives to streamline case processing. As the result of such actions, productivity kept pace with receipts during the second half of the year but the effort was not enough to reduce the pending level. Because the number of pending aged cases increased throughout the year, the number of reviews processed within 90 days decreased.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° % of reviews with decisions made and notices sent within 90 days after filing	NA	40.4%	24.5%	3.5%	1.0%

Operational Efficiency

In FY 1997, OHA disposed of 574,795 cases including 4,000 fully favorable decisions issued by Adjudication Officers (AO). With receipts of 547,612, OHA ended the fiscal year with a pending hearings workload of 483,702, a reduction of over 27,000 cases during FY 1997, marking the second straight year that dispositions have outpaced receipts. Since the end of FY 1995, the hearings pending workload has been reduced by 64,000 cases, from 547,690 to 483,712. Of the current 483,712 pending cases, approximately 7,000 are pending in AO sites.

Hearings and appeals workload receipts decreased by 7.6 percent in FY 1996, reversing a 4-year trend. SSA processed 10.3 percent more hearings in FY 1996 by investing more workyears, and as a result of the significant increase in new hearings and appeals, a record high of pending appeals backlog cases, an increase of over 100 percent, existed at the close of FY 1996. End of year pendings remain unacceptably high and continue to require SSA's close attention.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° Workload Receipts					
— Hearings	509,443	539,871	588,596	544,036	547,612
— Appeals	80,304	83,843	84,472	111,776	128,970
° Workload Processed					
— Reconsiderations	1,182,623	1,152,322	1,176,754	1,065,348	1,052,732
— Hearings	374,308	417,333	526,743	580,832	574,795
— Appeals	84,914	82,308	66,129	69,377	104,876
° End-of-Year Pendings					
— Hearings	357,564	480,102	547,690	510,895	483,712
— Appeals	25,558	27,093	45,063	93,511	117,605

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° End-of-year Pendings as % of Current Year's Dispositions					
— Hearings	95.5%	115.0%	104.0%	88.0%	84.2%
— Appeals	30.1%	32.9%	68.1%	134.8%	112.1%
° Workyears (total)	9,927	10,500	11,739	12,375	12,773
° Production per Workyear (total)	165	157	151	139	136
° Unit Costs (Current Dollars)					
— Reconsiderations	$304.86	$325.27	$331.11	$342.72	$367.72
— Hearings	1,319.03	1,268.67	1,202.31	1,203.11	1,242.03
— Appeals	643.03	605.70	665.84	581.40	437.67
— Overall Average	606.58	630.07	651.48	695.08	711.46

Postentitlement Process

Service Delivery

From time to time, SSA conducts reviews of disability beneficiaries to determine their continuing eligibility for benefits. In addition to these periodic CDRs, for FY 1996 through FY 1998 the Social Security Independence and Program Improvements Act of 1994 requires that SSA annually process a minimum of 100,000 or more SSI CDRs with CDRs on one-third of SSI children at age 18. As a result of the new legislation, we were required to notify all DA&As of the new requirements and to process their appeals of this notification.

° CDR performance accuracy	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— Overall Average	96.9%	96.2%	95.6%	95.9%	94.7%
— Continuances	97.1%	96.7%	96.1%	96.2%	95.1%
— Cessations	96.5%	94.1%	94.1%	94.7%	94.0%

The measure of the dollar accuracy of the monthly OASI payments made in a year is referred to as the "dollar accuracy of payment outlays." The accuracy rate is obtained by comparing the total amount of error in the monthly payments (both excess payment and insufficient payment) to the total payments for the year measured. The accuracy in OASI benefit payments has remained at a consistently high level over the past four years.

° % of benefit payment outlays paid during a FY that is free of error OASI Dollar Accuracy	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— Excess Payments	99.9%	99.9%	99.9%	99.8%	NA
— Underpayments	99.9%	99.9%	99.9%	99.8%	NA

The dollar accuracy rate of continuing SSI payments is based on a statistically reliable sample of workloads reviewed. It is the percent of all SSI benefit payment outlays paid during the fiscal year that is free of error. The rate represents the percent of dollars issued free from overpayment, ineligibility or underpayment. The table on the following page shows that dollar accuracy in the SSI program has remained relatively stable over the past 4 years.

°	% of benefit payment outlays paid during a FY that is free of error	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
	SSI Dollar Accuracy					
	— Excess Payments	96.0%	95.7%	95.7%	94.5%	NA
	— Underpayments	98.7%	98.7%	98.6%	98.8%	NA

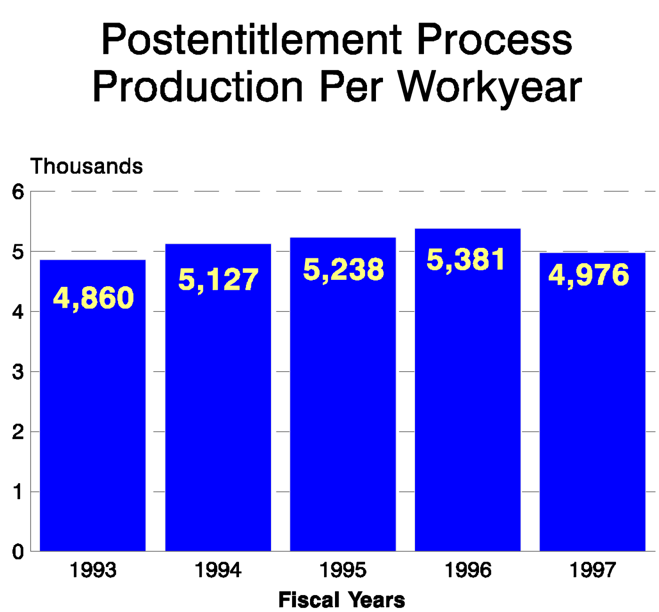
SSA has now initiated a new review of OASI postentitlement (PE) actions to determine the accuracy of reported events that affect payment and eligibility. This new measure is being developed incrementally. The results of the sample review of each principal PE workload affecting payment are analyzed and reported on separately. The SSI PE review system was implemented in FY 1995. As the results are evaluated, the precise method of reporting the accuracy of SSI PE events will be determined. In the ongoing system, additional PE reviews will be tested as needed.

Operational Efficiency

SSA's efficiency in maintaining the rolls for an increasing beneficiary population has remained fairly consistent over the past 5 years. Over this time, DI and SSI workloads have increased by 29 percent and 26 percent, respectively. Recent legislation is generating a significant additional workload in this area. P.L. 104-121 prohibited DI and SSI benefits for individuals whose drug addiction and/or alcoholism contributed materially to their disability. During FY 1997, over 175,000 disability determinations were conducted on former beneficiaries removed from the rolls due to this legislation.

SSA regularly reviews SSI cases to ensure that non-disability factors of eligibility continue to be met and that payments are correct. SSA has annually conducted over 1.5 million of these redetermination reviews for the past 5 years.

°	Workloads Processed	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
	— OASI	60,293,811	61,183,205	62,792,654	64,324,391	65,677,579
	— DI	10,107,280	10,741,681	11,348,819	12,353,466	13,095,777
	— SSI	17,524,040	18,101,383	21,408,956	22,590,307	22,175,293
	— Total	87,925,131	90,026,269	95,550,429	99,268,164	100,948,649
°	Workyears	18,093	17,560	18,240	18,449	20,289
°	Redeterminations Conducted	2,222,526	1,900,147	1,597,453	1,762,967	1,772,818



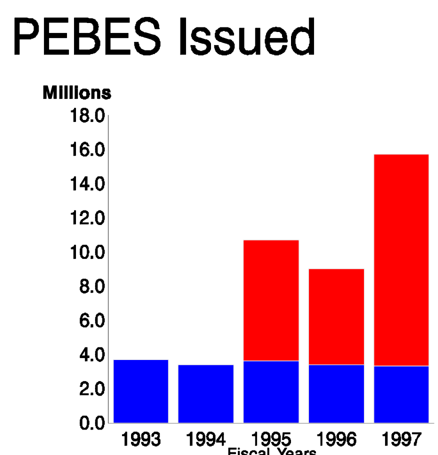
° Unit Costs (Current Dollars)	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— OASI	$10.18	$9.39	$9.03	$8.85	$9.09
— DI	24.00	24.29	25.62	27.48	31.67
— SSI	29.02	28.55	27.67	29.03	34.69
— Overall Average					
– Per Work Unit	15.53	15.02	15.18	15.76	17.64
– Per Beneficiary	28.44	27.88	29.35	31.08	35.23

Informing the Public

Service Delivery

Informing the public about Social Security programs, and educating them about the value and operation of these programs, is a basic Agency responsibility. The public needs an accurate understanding of the basic principles of the social insurance programs, of the value of these programs to themselves and society as a whole, and an appreciation of the role Social Security programs play in the nation's income security system.

SSA publishes pamphlets, newsletters, booklets and other informational materials about its programs, policies and procedures so that the public can be fully informed about its Social Security programs. SSA also produces informational materials in audio, video and computer media. SSA publishes about 50 consumer pamphlets, booklets and fact sheets to inform the public about Social Security programs and policies. SSA also produces about 20 administrative publications, many of which are included as stuffers with notices sent to Social Security beneficiaries. Annually, SSA produces more than 95 million of these 70 or so publications.



	1993	1994	1995	1996	1997
SSA-Initiated PEBES			7.1	5.6	12.4
Requested PEBES	3.7	3.4	3.6	3.4	3.3

Operational Efficiency

Recent legislation requires SSA to annually issue "SSA-initiated" Personal Earnings and Benefit Estimate Statements (SIPEBES) to all eligible individuals who attain age 60 during FYs 1996 through 1999 and to eligible individuals age 25 or over beginning in 2000. The SIPEBES are issued for SSA by a contractor. As earnings corrections and other workloads are generated from the annual SIPEBES issuance, the earnings process will demand a greater portion of SSA's resources. However, this increased resource demand should be tempered somewhat by further productivity improvements that will be realized from systems enhancements currently being implemented.

° Earnings Statements	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
— Total Number Issued	3,774,864	3,452,323	10,773,169	9,047,589	15,702,739
— Workyears	217	234	235	251	357
— Unit Costs (Current Dollars) *	$3.88	$4.58	$1.54	$1.96	$1.69

* SSA began issuing SIPEBES in FY 1995, those costs are reflected in the FY 1995-1997 unit costs.

Face-to-Face Service

Service Delivery

One aspect of providing "World-Class Service" is providing prompt, courteous service. An important indicator of prompt service is the length of time visitors spend in field offices waiting for service. The information below indicates SSA has consistently reduced its national field office waiting times (wait time to first contact) in each FY from 93-97. In the segment of "visitors with appointments", all areas showed improvement, except one. In FY 1997, there was a slight decrease in the percentage of claimants seen within 15 minutes. In the category of "visitors without appointments", there has been some fluctuation in the percent seen within 30 minutes, but there has been steady improvement in the objective to increase the percent of visitors seen within 60 minutes.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° National field office waiting times					
Wait time to first contact *(in minutes)*	13.6	13.3	12.7	12.5	11.4
° Visitors with appointments					
Average wait time *(in minutes)*	6.7	6.9	6.8	5.8	5.6
% seen within 10 minutes	NA	83.1%	83.8%	84.8%	84.9%
% seen within 15 minutes	88.9%	88.0%	88.6%	91.6%	90.3%
° Visitors without appointments					
Average wait time *(in minutes)*	29.1	27.5	25.2	25.4	23.9
% seen within 30 minutes	70.0%	69.8%	72.7%	70.0%	72.7%
% seen within 60 minutes	88.2%	88.1%	90.3%	91.0%	91.6%

Results of the "Thirteenth Annual Social Security Customer Satisfaction Survey" show customers continue to give high ratings to the service provided by SSA staff. The great majority of respondents were also satisfied with the office location and hours of business. Office waiting time, waiting area comfort and the amount of privacy afforded in the office all received much lower ratings than other aspects of field office service, but were not significantly different from the previous year's findings. The table below displays level of satisfaction with various aspects of field office service rated in the survey and compares FY 1997 and FY 1996 results.

Satisfaction with Aspects of Field Office Service

ASPECT OF SERVICE	FY 1996 SATISFACTION RATING	FY 1997 SATISFACTION RATING
Office Location	87%	86%
Office Hours	88%	89%
Office Privacy	69%	73%
Waiting Time	71%	70%
Waiting Area Comfort	73%	73%
Staff Helpfulness	84%	83%
Staff Courtesy	85%	84%
Staff Knowledge	83%	83%
Clarity of Information	80%	82%

800 Number Telephone Service

Service Delivery

In addition to providing personal face-to-face service, SSA offers a single nationwide toll-free number (1-800-SSA-1213) weekdays from 7 a.m. to 7 p.m. in each time zone. Service is available for the hearing-impaired community during the same hours using a telecommunication device for the deaf. Automated services are also available at all times including after normal business hours, on weekends and holidays. Using the automated services, callers can request applications for Social Security numbers, Personal Earnings and Benefit Estimate Statements, verification of monthly benefit amounts and recorded information on local field offices and Medicare carriers and intermediaries.

A measure of the effectiveness of the 800 number, called the access rate, measures the percent of individual callers who successfully reach the 800 number. For example, the 5 minute access rate in FY 1997 was 96.2 percent, meaning that 96 of every 100 callers who tried to reach the 800 number in FY 1997 were able to get through within 5 minutes of their initial call.

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
° % of individuals who successfully access the National 800 number within 5 minutes of their initial call	88.4% *	82.2%	73.5%	83.0%	96.2%

**Excludes the month of January 1993 for which data are not available.*

SSA conducts an ongoing service evaluation of the national 800 number service. The payment accuracy rate represents the percentage of all calls free of teleservice failures which have a reasonable potential to improperly affect payment of or eligibility to benefits. There are two measures of payment accuracy: (1) payment accuracy based on the universe of all calls, and (2) payment accuracy based on those calls with the potential to affect payment of or eligibility to benefits. The service accuracy rate represents the percentage of calls free of major teleservice failures in service delivery. Although service errors can cause inconvenience to the public or additional SSA workloads, they do not affect payment of or eligibility to benefits. The accuracy rates are derived by service evaluation of calls handled by full-time teleservice representatives and SPIKE employees (individuals in Program Service Centers who answer 800 number calls during high volume periods). Payment accuracy remains generally about the same. Service accuracy for both teleservice representatives and SPIKE employees has recently shown significant improvement.

° Portion of National 800 number calls handled accurately	For 6 Months Ending				
	3/95	9/95	3/96	9/96	3/97
— % of responses leading to correct payments (payment accuracy - all calls)	96.6%	97.0%	96.5%	96.9%	97.1%
— % of responses leading to correct payments (payment accuracy- payment affecting calls)	93.9%	94.5%	93.9%	94.8%	95.3%
— % of responses preventing inconvenience to the public (service accuracy)	82.6%	81.4%	79.7%	81.8%	86.5%

Ninety-eight percent of callers to SSA's 800 number rated the SSA teleservice center staff as courteous or very courteous. Around 90 percent of callers continue to be highly satisfied with the service provided by the 800 number.

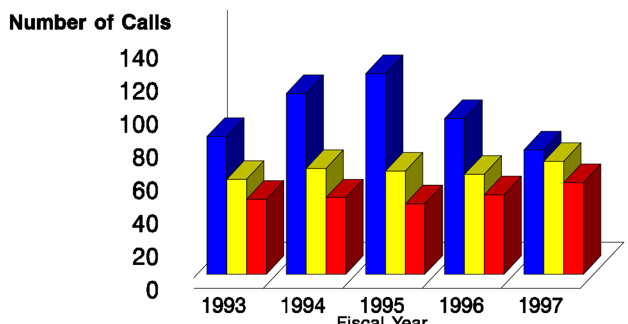
	FY 1994	FY 1995	FY 1996	FY 1997
° Staff Courtesy*	99%	97%	97%	98%
° Service Satisfaction*	94%	90%	91%	89%

* Based on Survey results for the months of February.

Operational Efficiency

Calls placed in the chart below represent the actual number of calls placed to the 800 number including busy signals. Calls received consists of all callers that get through and either conduct business or hang up while on hold. Calls served represent all callers that conduct business with SSA. In FYs 1992-1995, SSA was unable to accommodate the volume of calls placed to the 800 number. However, an increase in staff dedicated to this workload has enabled SSA to provide better service to our customers who choose to conduct business via the 800 number. In FY 1995, only 35 percent of calls placed to the 800 number were actually served. SSA showed marked improvement by serving 51 and 73 percent of all calls placed in FY 1996 and FY 1997, respectively.

SSA's 800 Number Workloads



	1993	1994	1995	1996	1997
Calls Placed	83.5	109.3	121.4	94.2	75.3
Calls Received	57.4	64.0	62.3	60.6	68.4
Calls Served	45.5	46.4	42.8	48.0	55.5

Mail

The public can initiate requests for all information and services by writing to SSA. Though members of the public do not often make their first contact with SSA through the mail, SSA's need to make contact on a large scale means that SSA frequently interacts with customers by mail. General program information is mailed to requesters and notices are sent to explain eligibility and payment decisions and to inform clients of their rights and responsibilities. Overall, 82 percent of respondents to SSA's Customer Satisfaction Survey were satisfied with the clarity of written material they received from SSA, a statistically significant improvement over last year's finding of 78 percent. This same level of satisfaction and a corresponding improvement over last year's rating applied specifically to notice clarity as well. These improvements reflect SSA's many continuing efforts to enhance the clarity of written information provided to the public.

	FY 1993	FY 1994	FY 1995	FY 1996	FY1997
° % of public who were "satisfied" or "very satisfied" with the clarity of information mailed to them by SSA	65%*	70%*	73%*	78%*	82%

***** For FYs 1993-1996, customers were asked whether the information mailed to them by SSA was "easy" or "very easy" to understand.

Office of the Inspector General

A Message from the Inspector General

I am pleased to transmit the opinion on the Social Security Administration's (SSA) Financial Statements for Fiscal Year (FY) 1997 and the Inspector General's Report to the Congress for FY 1997. Under the authority provided by the Government Management Reform Act, SSA is consolidating and streamlining its financial management reporting. As last year, in a cooperative effort with the Agency, we are including these reports as part of SSA's annual Accountability Report. We have expanded the scope of our Semiannual Report to the Congress to include an overview of the entire fiscal year of the Office of the Inspector General's (OIG) efforts in addressing financial and programmatic issues and preventing and detecting fraud, waste, and abuse. The information contained in this report satisfies the semiannual reporting requirements set forth in the Inspector General Act of 1978, as amended.

During the past year, SSA and OIG have continued to solidify a relationship built upon mutual trust, respect, and recognition of the interrelated nature of our roles. We are pleased to note that, as result of OIG reports, SSA's Actuary recently estimated that SSA will save about $3.4 billion over 7 years, of which an estimated $480 million will be realized in Calender Year 1997. These savings are due to SSA's implementation of initiatives resulting from OIG's reports concerning the identification and processing of information regarding prisoners who are receiving benefits. In FY 1997, the Office of Audit issued 54 reports with recommendations that nearly $700 million could be put to better use. Our criminal investigators, with the participation of SSA employees and other law enforcement agencies, conducted investigative activities that resulted in 2,507 criminal convictions, of which 1,469 were deportations related to Social Security Number fraud, and reported more than $64 million in fines, judgments, and restitutions. SSA took 828 disciplinary and adverse actions against employees, some of which resulted from OIG investigations and referrals. It is significant to note that our financial achievements well surpassed our total budget authority of $37,354,000 for FY 1997. OIG employees are also working jointly with SSA staff in a variety of study groups and task forces to ensure that our Agency sets a high standard for Government excellence.

The OIG has the authority to implement SSA's civil monetary penalty authorities for misuse of SSA's symbols and emblems, and for making false statements and representations of material facts to obtain SSA benefits and payments. In September 1997, the first civil monetary penalty settlement was negotiated for $24,000. The Fraud Hotline, which opened in November 1996, has received a tremendous number of calls, letters, and facsimiles alleging potential fraud against SSA programs. By September 30, 1997, the Hotline had received over 75,000 calls, making it one of the largest Hotlines in the Federal Government. In addition to the calls, the Hotline received on average 3,000 written allegations per month. The Hotline referred to the Agency 18 percent of the allegations for disposition. As a result, SSA was able to recoup approximately $55,900. To accommodate the overwhelming response to the Hotline, SSA has doubled the resources devoted to the Hotline and my office is evaluating the current operation to make improvements to better serve SSA employees and the public.

I want to thank the Commissioner of Social Security, the SSA senior management team, and Members of Congress and their staffs for their support. In addition, I want to commend the fine work performed by the OIG staff and SSA employees in their efforts to combat fraud, waste, and abuse during this fiscal year. I look forward to continuing our work together to achieve the highest level of integrity and accountability for SSA's programs and operations.

David C. Williams

David C. Williams
Inspector General

Audit of the Social Security Administration’s Fiscal Year 1997 Financial Statements

To Kenneth S. Apfel
Commissioner of Social Security

This letter transmits the Price Waterhouse LLP report on its audit of the Fiscal Year (FY) 1997 financial statements of the Social Security Administration (SSA) and the results of the Office of the Inspector General's (OIG) review thereon. Price Waterhouse's report contains its opinion on SSA's FY 1997 financial statements, its opinion on management's assertions regarding its internal control structure, its report on compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), and its report on SSA's compliance with laws and regulations.

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by OIG, Price Waterhouse, an independent certified public accounting firm, performed the audit of SSA's FY 1997 financial statements. The FY 1996 financial statements, contained in SSA's *Accountability Report for Fiscal Year 1997* for comparative purposes, were audited by the OIG.

Price Waterhouse issued an unqualified opinion on SSA's FY 1997 financial statements and an unqualified opinion on SSA's assertions relating to the effectiveness of its internal control structure. However, the audit identified five reportable conditions in SSA's internal controls. The control weaknesses identified are:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures;
4. SSA needs to improve controls over insufficient separation of duties; and
5. SSA's quality control activities need improvement.

Price Waterhouse recommended SSA report the first four matters as material internal control weaknesses in its Federal Managers' Financial Integrity Act of 1982 (FMFIA) report.

Price Waterhouse reported that except for the effects of the reportable conditions listed above, SSA was in compliance with FFMIA.

Price Waterhouse also reported instances of noncompliance with 1) Section 221(I) of the Social Security Act, which requires periodic continuing disability reviews for title II beneficiaries, and 2) FFMIA for the first four weaknesses listed above.

OIG Evaluation of Price Waterhouse's Audit Performance

To fulfill our responsibilities under the CFO Act for ensuring the quality of the audit work performed, we monitored Price Waterhouse's audit of SSA's FY 1997 financial statements by:

- reviewing Price Waterhouse'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 controls;
- reviewing Price Waterhouse's audit report to ensure compliance with *Government Auditing Standards* and *OMB Bulletin No. 93-06*;
- coordinating the issuance of the audit report; and
- performing other procedures that we deemed necessary.

Based on the results of our review, we determined that Price Waterhouse planned, executed and reported the results of the planning, internal control and substantive testing phases of its audit of SSA's FY 1997 financial statements in accordance with applicable standards. Therefore, it is our opinion that Price Waterhouse's work provides a reliable basis on which to render an opinion on SSA's FY 1997 financial statements and SSA management's assertion on the effectiveness of its internal controls and substantial compliance with FFMIA and laws and regulations. Based on our review of Price Waterhouse's work, we concur with the findings and Price Waterhouse's recommendation that four of the weaknesses be reported as material in the annual FMFIA report. We also concur as to their reporting of noncompliances with Section 221(I) of the Social Security Act and FFMIA.

David C. Williams

David C. Williams
Inspector General

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Price Waterhouse LLP

REPORT OF INDEPENDENT ACCOUNTANTS

To Kenneth S. Apfel
Commissioner of Social Security

In our audit of the Social Security Administration (SSA) for fiscal year 1997, we found that:

- The principal financial statements were fairly stated in all material respects;
- Management fairly stated that SSA's systems of accounting and internal controls in place on September 30, 1997, are in compliance with the internal control objectives in Office of Management and Budget (OMB) Bulletin No. 93-06;
- Except for the effect of four instances of noncompliance with OMB Circulars, management fairly stated that SSA's financial management systems are in substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- We found two reportable instances of noncompliance with the laws and regulations we tested.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of SSA as of September 30, 1997, and the related consolidated statements of operations and changes in net position and of cash flows for the fiscal year 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 audit. The consolidated financial statements of SSA for the year ended September 30, 1996, were audited by the Inspector General of SSA whose report dated November 22, 1996, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06, *Audits of Federal Financial Statements*. 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 audit provides a reasonable basis for our opinion.

These financial statements were prepared on the basis of accounting described in Note 1, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the consolidated financial statements appearing on pages 26 through 36 of this report present fairly, in all material respects, the financial position of SSA at September 30, 1997, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

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

We have examined management's assertion that SSA's systems of accounting and internal controls are in compliance with the internal control objectives in OMB Bulletin No. 93-06. This requires management to establish internal accounting and administrative controls to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with: (a) laws and regulations that could have a direct and material effect on the financial statements, and (b) any other laws and regulations that OMB, SSA management or the Inspector General of SSA have identified as being significant for which compliance can be objectively measured and evaluated.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06 and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control structure in place as of September 30, 1997.

Because of inherent limitations in any internal control structure, errors or irregularities, noncompliance, or misstatements may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure 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 controls are in compliance with the internal control objectives in OMB Bulletin No. 93-06 is fairly stated, in all material respects.

However, we noted certain matters involving internal controls and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA) and by OMB Bulletin No. 93-06. Reportable conditions involve matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls, which could adversely affect the entity's ability to meet the internal control objectives described above.

The reportable conditions we noted were:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures;
4. SSA needs to improve controls over insufficient separation of duties; and
5. SSA's quality control activities need improvement.

A material weakness as defined by the AICPA and OMB Bulletin No. 93-06 is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the principal financial statements being audited or to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. We believe that none of the reportable conditions listed above is a material weakness as defined by the AICPA and OMB Bulletin No. 93-06. However, we believe the first four reportable conditions listed above should be reported as material weaknesses under the Federal Managers' Financial Integrity Act of 1982 (the Integrity Act or FMFIA).

Under OMB's guidelines for FMFIA reporting, SSA reports any deficiency that the Commissioner determines to be significant enough to be reported outside the agency in its annual Integrity Act report as a material weakness. This designation requires a judgment by SSA management as to the relative risk and significance of deficiencies. In identifying and assessing the relative importance of deficiencies, SSA management pays particular attention to the views of SSA's Inspector General and external auditors. In guidance to its contractors performing FMFIA reviews, SSA has defined the types of internal control weaknesses that it would consider as material weaknesses those that:

- Significantly impair SSA's fulfillment of its mission;
- Deprive the public of needed services;
- Violate statutory or regulatory requirements;
- Significantly weaken or provide insufficient safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Result in a conflict of interest;
- Merit the attention of SSA's senior management, the Executive Office of the President or the relevant Congressional oversight committee; or
- Are of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency.

Management has not reported the above weaknesses in its most recent FMFIA report, because they do not believe that these conditions have resulted or could result in significant monetary losses to SSA or its beneficiaries.

Overview of Internal Control Findings

In performing our tests of internal controls as part of our fiscal year 1997 financial statement audit, we identified weaknesses in SSA's internal control structure over several areas including: information protection; continuity planning; software application development and change control policies and procedures; separation of duties; and quality control activities. In our view, these weaknesses demonstrate the need for SSA to do more to assure that adequate controls are provided for information collected, processed, transmitted, stored, or disseminated in general support systems and major applications, as required by OMB Circular A-130, Appendix III. Additionally, we found that SSA's overall management controls structure relies to a large extent on detective controls as opposed to preventive controls, and on the premise that fraud, waste and abuse could not currently be material to the Trust Funds without being detected.

SSA states its accomplishments in delivering program services throughout the year in its Accountability Report. This includes making over $350 billion in payments to approximately 50 million beneficiaries through its programs, and processing approximately 225 million wage and tax statements (W-2 forms) annually for approximately 138 million workers. We acknowledge that processing this amount of information is a formidable task and is core to SSA's mission. In managing such large business processes, SSA also bears a responsibility to do so in a manner which provides reasonable, but not absolute, safeguards against fraud, waste and abuse.

In 1996, SSA developed a tactical plan to focus attention on combating fraud in SSA's programs, and two fraud conferences have been held to increase employee awareness and detective capabilities. This heightened awareness, supported by management, is the kind of program that is needed in the other areas of control risk at SSA, which include preventive controls such as data protection and adequate separation of duties, as well as increased emphasis on the existing quality control processes.

In our visits to field offices and program service centers, SSA staff told us that efforts to apply controls have been limited due to a lack of resources. Staff also indicated that they believed issues would not be pursued unless they were of a potentially high dollar amount. We acknowledge that with 1,300 field offices, 8 processing centers, 10 regional centers and several other central office sites, and with over 65,000 employees, consistently applying certain types of preventive management controls imposes strain on the resources at hand. However, we believe that adding preventive, quality assurance and management controls could contribute substantially to SSA's goals to serve all its constituents and increase public confidence in SSA just as much as current initiatives to increase the speed and efficiency of services to the public.

1. SSA Needs Improved Controls to Protect Its Information

For a large computerized organization like SSA, achieving an adequate level of information protection is highly dependent upon maintaining consistently effective access controls and system software controls. Access controls should limit and monitor access to computer resources (i.e., data files, application programs, and computer-related facilities and equipment) to the extent necessary to provide reasonable assurance that these resources are protected against waste, loss, unauthorized modification, disclosure, or misappropriation. Such controls include logical/technical controls, for example, security software programs designed to prevent or detect unauthorized access to sensitive data. Similarly, system software controls should limit and monitor access to powerful programs and sensitive files that (1) control computer processing and (2) secure the applications and data supported by the system.

Our internal controls testing identified information protection-related weaknesses throughout SSA's information systems environment. Impacted areas included SSA's distributed computer systems as well as its mainframe computers. These vulnerabilities expose SSA and its computer systems to external and internal intrusion, subject sensitive SSA information related to social security numbers, earnings, disabilities and benefits to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste and abuse.

Although SSA has an entity-wide security program in place, it does not sufficiently address the non-mainframe components of its computing environment. The program does not include a comprehensive set of policies and procedures surrounding each of the components in SSA's distributed computing environment. While policies and procedures are currently under development, the lack of emphasis in certain segments of this area has contributed to several exposures to risk in the distributed environment, including access vulnerabilities both of a general nature and those associated with specific SSA business processes. Due to the sensitive nature of these issues, we have reported our concerns in a separate, limited-distribution management letter.

SSA also needs to strengthen controls over specific aspects of its computer environment. We found weaknesses related to the following components of SSA's information protection controls, but since disclosure of our findings might further compromise controls, our specific examples are discussed in our separate, limited-distribution management letter. The components where weaknesses were noted are:

- SSA's mainframe computer access;
- Central access control software;
- Configuration of the mainframe operating system;
- Access request process;
- Audit trail facilities;
- Password controls;
- Certifying and accrediting certain general support and major application systems; and
- Security awareness and training campaign.

In summary, the weaknesses in information protection referred to above increase the risks of unauthorized access to, and modification or disclosure of, sensitive SSA information. Additionally, unauthorized access to sensitive data can result in the loss of data, loss of Trust Fund resources, and compromised privacy of information associated with SSA's enumeration, earnings, retirement, and disability processes and programs.

Recommendations

We recommend that SSA enhance information protection by strengthening its entity-wide security program as it relates to implementation of technical computer security mechanisms and controls throughout the organization.

Specific areas to be addressed are reported in a separate, limited-distribution management letter. Recommended corrective actions include:

- Modifying the current policy and procedural framework to expand the information protection program to cover each component in SSA's distributed computing environment.

- Strengthening controls over access to (a) protect all mainframe-based resources; (b) eliminate vulnerabilities in the mainframe operating system configuration; (c) address inadequacies and inconsistencies in the mainframe access request process; (d) require periodic review of user privileges to ensure that capabilities are in line with job responsibilities; and (e) enhance audit trail facility utilization and review.

- Enhancing SSA's overall computer security effectiveness by (a) improving and standardizing password security practices for all processing environments; (b) better enforcing sound password change practices and syntax standards through reconfiguration of security software; (c) involving users/owners of systems in the risk management process to certify and accredit their systems; and (d) continuing to improve upon general computer security awareness and training campaigns.

- Implementing, as a quality control function, continual compliance and enforcement reviews of security policies and procedures to improve the overall security environment.

2. SSA Needs to Improve and Fully Test Its Plan for Maintaining Continuity of Operations

Controls to ensure continuity of computer processing operations when unexpected events occur are crucial to SSA, given the impact and scope of its mission to serve the American public. Losing the capability to process, retrieve, and/or restore the beneficiary and payment information it maintains electronically would obviously impair SSA's ability to provide that service (and thus, to accomplish its mission). The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed, and critical and sensitive data can be restored if necessary. These controls can be grouped in two categories: (1) procedures to protect information resources and minimize the risk of unplanned interruptions, and (2) a contingency plan, covering both data center activities and activities performed by users of specific applications, to recover critical operations should interruptions occur. Contingency plans should be tested periodically in disaster simulation exercises to ensure that recovery plans will work as intended.

Our review of service continuity controls confirmed that SSA has many components of a contingency plan in place, including a designated "hot site" (a facility that already has computer equipment and space in place to provide processing capability on short notice). However, we identified deficiencies in SSA's ability to respond to a disruption in business operations as a result of a disaster or other long-term emergency. The following deficiencies were noted:

- The existing SSA contingency plan does not address the worst case scenario in which SSA operations could be disrupted for an extended period of time. As written in the plan dated August 30, 1997, "in a national disaster, it would be likely that outside monitoring authorities and other Federal agencies that interact with SSA will join with the Agency team to address the problem." In our view, SSA's plan to address the problem of an extended business disruption after the fact represents a high risk to SSA's ability to provide continual service to the public and is not a best in business approach. An appropriate strategy needs to be developed to address this scenario, including processing alternatives to the "hot site".

- Critical workloads and processing priorities have been identified in the current SSA plan; however, the specific applications that support the critical workloads and their priority for recovery have not been documented. We did not find evidence that SSA had conducted a formal business impact analysis for both manual and computer operations, which is necessary to be able to adequately identify critical business processes and their recovery priority. Based on this lack of detail, we were unable to determine whether the processing capacity available at the recovery facility would meet SSA's needs under various emergency scenarios. This analysis needs to be documented to ensure recovery of all mission critical systems following an extended disaster.

- Only 6 of the 13 critical workloads identified in the plan have been tested. Furthermore, no combination of multiple critical workloads has been tested simultaneously. All 13 critical workloads should be tested to assure success of recovery in a disaster scenario.

- Other emergency scenarios, such as hardware, software and telecommunications failures distinct from a complete disaster scenario, and appropriate response procedures have not been documented. SSA has prepared a draft document outlining emergency response procedures, but the document is not complete and needs to be finalized.

Recommendations

We recommend that SSA:

- Conduct a business impact analysis and use the results to enhance SSA's disaster recovery strategy and confirm the specific critical workloads identified in the contingency plan.

- Expand the current contingency plan to address (a) longer term outages (i.e., the worst case scenario); (b) identification of the specific applications and related resources supporting each critical workload and their relative priority for recovery; (c) technical capacity requirements for the recovery facility; and (d) additional emergency scenarios.

- Periodically conduct a comprehensive test of all components of the contingency plan, including testing scenarios in which various workload combinations are processed simultaneously.

- Finalize its draft Emergency Response Procedures document.

3. SSA Needs to Improve Its Software Application Development and Change Control Policies and Procedures

SSA modifies production software for a wide range of programs on a continuous basis to meet new legislative requirements. For this reason, SSA has established a defined methodology to handle major system development changes. During this software maintenance process, strict administrative and organizational controls must be employed to ensure that modifications are properly requested, approved, coded, tested, documented, and authorized for production. These controls also help to prevent unauthorized changes.

The controls and security measures surrounding the application maintenance process established at SSA do not adequately protect the integrity of application systems. These weaknesses create risks of errors or irregularities that could be introduced into the production processing environment.

Weaknesses we observed are:

- SSA's Software Engineering Technology (SET) methodology is not well suited to all program change activities. This methodology, which embodies the processes by which systems and software are developed and maintained, has been generally applied only to major development efforts, but not to smaller scale initiatives which constitute a large part of the systems programming workload. We found a wide variance in compliance with the SET methodology.

- Application programmers are empowered with retrieving programs, migrating code between various operating regions, and making changes to production programs. This overlap of responsibilities increases the risk of unauthorized production programs being inserted into the operational environment, since those responsible for making program modifications are not prohibited from initiating and introducing those program modifications into production.

- The process established to implement changes into the production environment is not well controlled. A programmer-issued electronic message to computer operators is sufficient to prompt the migration of changes into production. Furthermore, our review of system changes produced insufficient evidence of resource owners authorizing, approving, accepting or testing changes prior to the programmers moving code into production. Also, we found a lack of documentation reflecting user initiation of changes to production programs.

- SET does not adequately address emergency changes. The current process does not require emergency changes to be formally initiated under special controlled emergency procedures during which all actions are logged, reported and reviewed for accuracy and integrity subsequent to implementation.

- The “validation” region, assumed by the Office of Systems Requirements - Data Validation to be a duplicate of production, is a section of the computer systems test environment used by SSA for testing the Benefit Rate Increase (BRI) and Year 2000 updates. However, we noted differences between the programs maintained in the test and the live processing environments that could potentially invalidate test scenarios and results.

As a result of these weaknesses, the risk is increased that unauthorized or untested changes to application systems could be introduced into the production environment to affect live processing and reduce the reliability of information processed.

Recommendations

We recommend that SSA modify the existing SET guideline to cover a wider range of program changes and incorporate strict audit controls throughout the process. The following duties must be more clearly defined and better segregated: (a) initiating program changes; (b) making and documenting program changes; (c) authorizing changed software before it is placed in production; and (d) migrating code. In addition, SSA should require all emergency changes to be formally initiated under special controlled emergency procedures during which all actions are logged, reported, reviewed and approved subsequent to implementation. Finally, we recommend that SSA investigate the impact of the validation region being different from production.

4. SSA Needs to Improve Controls Over Insufficient Separation of Duties

Many system modernization efforts have resulted in SSA processing select transactions without the traditional multiple levels of review. In essence, this reengineering or streamlining of business processes has empowered SSA workers with increased processing capabilities in order to meet SSA’s goal of providing world-class service. An inherent risk associated with moving to an environment where employees have more on-line access and processing capability is that they will perform incompatible functions, therefore limiting SSA’s ability to prevent errors, fraud, waste, and/or abuse in a timely manner. In such cases, central access control software and application security mechanisms often are not configured to enforce the provisions in OMB Circular A-130, Appendix III concerning separation of duties and “least privilege”. Separation of duties and least privilege concepts should be applied to prohibit one individual from controlling all aspects within a process and bypassing critical controls such as authorization, supervisory review, and editing of transactions.

The issue of inadequate separation of duties was raised by the OIG in its report on SSA’s fiscal year 1996 financial statements. Management’s response identified several mitigating controls implemented to reduce the risk with this weakness. However, the results of this year’s audit, which focused on nine applications (involving Title II, Title XVI, financial accounting, earnings record maintenance, and enumeration), indicated that certain of these controls were minimally effective in identifying potential problems. Collectively, the results of our testing indicate the continued insufficient separation of duties or compensating controls to reduce, to an acceptable level, the risk of undetected errors and/or irregularities. Specifically, certain end users and technical support personnel have been empowered with functional responsibility for incompatible tasks.

We found various areas where inadequate separation of duties exist, including:

- Field offices - certain individuals have the responsibility and access capability required to perform the following functions which combined constitute a separation of duties issue: initiate and adjudicate claims, enumerate SSNs, post earnings, process death records, and perform many other transactions;

- Central office - certain individuals in the Office of Systems (including systems requirements personnel and programmers) were listed as resource owners for production applications and data; and

- Security administrators - certain of these individuals have other operational responsibilities (e.g., database administration, programming, updating standing data, and/or performing production transactions).

Certain of the mitigating controls identified by SSA management to compensate for risk associated with inadequate separation of duties could not consistently be relied upon to compensate for the excessive access provided to personnel in the field offices. These mitigating controls include (1) an automated capture/review of actions on the Audit Trail System; (2) claims integrity reviews; and (3) security and integrity reviews. When we tested each of the specified mitigating controls, which are primarily detective, to assess their effectiveness, we found that the SSA planned level of execution was not met and therefore determined that they could not be consistently relied upon, as described below:

- SSA has developed the Audit Trail System (ATS) to enable supervisors to review sensitive or potentially fraudulent system activity. Key ATS transactions or combinations of transactions are not being reviewed and followed-up on a consistent and timely basis and certain audit trail features have not been activated. Additionally, ATS does not log transactions for all systems.

- Inadequate claims integrity reviews and the security and integrity reviews due to a sample selection process that unduly limits or filters out the population of cases looked at, inconsistent reviews (i.e., case files do not contain sufficient documentation in many instances), and lack of timeliness of the reviews.

In addition to the field personnel, various programmers, security administrators and support personnel in the central office and processing centers have incompatible responsibilities, including access to the following:

- The production facility at SSA that contains sensitive files for financial accounting, enumeration, Title II, Title XVI, and earnings;

- The critical payment system production database, allowing programmers to delete records causing problems associated with processing the database records and generating the payment files; and

- Update access to transactions for systems they support.

Recommendations

Key duties and responsibilities in authorizing, processing, recording, and reviewing official SSA transactions should be separated among individuals. SSA managers should exercise appropriate oversight to ensure individuals do not exceed or abuse assigned authorities.

We recognize that SSA is currently working on plans for a Comprehensive Integrity Review Process (CIRP), which we believe will help to enhance the effectiveness of the integrity review process. In addition, we recommend that SSA:

- Implement preventive controls for high fraud risk transactions (such as death processing and earnings reinstatements) and sensitive transactions (such as performing functions relating to an employee's own records, or those of relatives, or of other employees).

- Strengthen both the claims integrity and the security and integrity review processes. First, the criteria for selecting case files for review must be enhanced to increase the number of files reviewed and ensure the quality of the review performed. Second, appropriate staffing must be assigned to ensure the timeliness of the reviews. And finally, new guidelines must be developed to require field office personnel to maintain appropriate documentation in the files for review purposes.

- Develop appropriate procedures regarding the review of the data maintained in the Audit Trail System to include on-going periodic reviews of transactions or combinations of transactions which may involve fraudulent activity.

- Develop guidelines that address end user "ownership" and responsibilities in the live processing environment.

- Develop and implement a standardized profile structure for assigning and administering access capabilities to personnel throughout the organization. This structure is critical for ensuring efficiency in administration and maintenance of the overall security program, and warrants SSA conducting a comprehensive requirements analysis for all individuals.

5. SSA's Quality Control Activities Need Improvement

SSA's mission emphasizes service delivery and empowerment of line employees. In light of this, quality control activities become critical to SSA's overall internal controls. During our audit, we noted weaknesses in those very quality control activities that have been identified by management in the past as key mitigating controls for several of the other findings discussed above. The previous discussion on separation of duties weaknesses includes several pertinent examples. Other specific examples include:

- To aid in preventing fraud, waste and abuse in the Supplemental Security Income (SSI or Title XVI) program and the disability insurance program under Title II, SSA is mandated to perform reviews for continued eligibility for program benefits. The acknowledged delays and backlog in performing Title XVI redeterminations and Title II continuing disability reviews undermines the effectiveness of this control.

- To ensure proper emphasis on controls and to deter employee fraud in field operations, SSA has developed the Onsite Security Control and Audit Review (OSCAR) program. We found that these standard security and integrity review processes are not being executed completely, consistently, or in some instances timely.

- In order to ensure data integrity over the reported wages for the U.S. workforce, SSA has in place several system controls to check for validity of earnings reported and accumulated. These controls include a suspense file for capturing earnings transactions which initially cannot be posted to workers' accounts. However, a significant amount of the earnings recorded in the suspense file are not resolved on a timely basis. The size of this file has increased significantly every year since it was established. Responsibility for follow-up and resolution of the suspense file is unclear.

- Supervisory review of decisions made by employees regarding critical eligibility factors (age, relationship and citizenship) is now precluded because documents that provide such evidence are no longer required to be maintained in claims files. This also precludes subsequent periodic reassessment to detect fraud, waste and abuse.

- SSA employees have considerable institutional knowledge that is critical to the day-to-day operations of the agency. SSA must ensure this knowledge and information is "put to paper" and passed on to new employees. Certain key SSA work processes such as revenue estimation and certification are not clearly documented. Accordingly, SSA must rely almost totally on specific employees who possess the critical institutional

  knowledge in these areas. This exposes SSA to the risk of not being able to continue to operate effectively in the absence of these individuals.

Recommendations

We recommend that SSA:

- Task SSA's Executive Internal Control Council with reassessing the overall balance between internal controls and service delivery using a top-down accountability framework to help management achieve its goal of zero tolerance for fraud and abuse. The Executive Internal Control Council should be empowered to guide, monitor, report and reward good management controls and to monitor audit follow-up and resolution.

- Summarize current control and quality assurance processes under one controls plan in order to address the overall adequacy of the control environment. This plan should be risk-based in such a manner that all key processing and operational risks are addressed from a control and quality assurance perspective. The controls plan should address key SSA business processes one by one, identifying control techniques and their scope. The controls plan should be a key input to the Executive Internal Control Council.

- Increase internal audit and FMFIA review emphasis in programmatic and other technical systems areas. To provide meaningful audit coverage of SSA's large and pervasive systems applications, ensure that the Office of Inspector General, in accordance with the Inspector General Act, has complete access to any application at any time, to avoid delays in reviewing systems and to provide complete independence in determining the scope of each review.

- Determine the adequate level and scope of applying existing quality control activities, in light of the fact that these are key mitigating controls for other control weaknesses caused by resource shortages, empowerment mechanisms and other business needs. In cases such as integrity reviews, apply statistical sampling methods to obtain meaningful levels of reportable results.

- Set goals to obtain coverage as planned and measure the quality control activities performed.

- Establish appropriate reward mechanisms for good performance in quality control activities.

- Assign a single workgroup within the Office of Central Records Operations with primary responsibility for earnings suspense file resolution.

- Maintain key documents in claims files or imaged files to enable effective review and supervision.

- Document the processes used in revenue estimation and certification so that these may be performed in the absence of key employees.

REPORT ON MANAGEMENT'S ASSERTION REGARDING SUBSTANTIAL COMPLIANCE WITH FFMIA

We have examined management's assertion that SSA's Program Benefits, Financial Accounting and Debt Management Systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level as required by the Federal Financial Management Improvement Act of 1996. This assertion is included in the Message from the Commissioner in SSA's Accountability Report for fiscal year 1997. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in our Report on Management's Assertion About the Effectiveness of Internal Controls, we noted certain matters that we consider to be reportable conditions under standards established by the AICPA and by OMB Bulletin No. 93-06. We believe the four reportable conditions listed below are also significant departures from certain of the requirements of OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures; and
4. SSA needs to improve controls over insufficient separation of duties.

In our opinion, except for the effect of these four instances of noncompliance, the assertion included in the Message from the Commissioner referred to above presents fairly that SSA's Program Benefits, Financial Accounting and Debt Management Systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

REPORT ON 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 SSA's compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We identified the following reportable instances of noncompliance:

- SSA is not in full compliance with Section 221(i) of the Social Security Act which requires periodic Continuing Disability Reviews (CDRs) for Title II beneficiaries;

- As reported above in our report on management's assertion regarding substantial compliance with FFMIA, we noted four instances of noncompliance with FFMIA.

Continuing Disability Reviews

With respect to the CDRs, Section 221(i)(1) of the Social Security Act requires SSA, in conjunction with the state Disability Determination Services (DDS), to review "any case where an individual is or has been determined to be under a disability" for determination of continued eligibility for Title II disability benefits. The Section further requires that these reviews be performed at least once every three years for beneficiaries determined by SSA and the DDS to have impermanent disabilities. The law authorizes the Commissioner of Social Security to determine how often permanent disability cases should be reviewed. SSA has established seven years as a guideline for reviews of permanent disability cases for continuing eligibility.

SSA's lack of compliance with this section of the Social Security Act has been reported by the Inspector General in previous years, and SSA management acknowledges the significant backlog in reviewing disability cases in a timely manner. In 1996, Congress enacted the Contract with America Advancement Act. Section 103 of this act addressed Title II CDRs, and provided SSA with additional funding for fiscal years 1996 through 2002, in order to increase efforts to reduce the backlog.

During the fiscal year 1997 audit, we found that SSA was still not in compliance with Section 221(i) of the Social Security Act. At September 30, 1997, SSA management estimated the total backlog of Title II cases yet to be

reviewed for continuing eligibility at 2.4 million cases. If CDRs are not performed timely, beneficiaries who are no longer eligible for disability may inappropriately continue to receive benefits, including Medicare benefits.

SSA management attributed the backlog of CDRs to be performed to an increased number of initial disability claims filed and the significant cost to complete CDRs. In addition, SSA stated that resources are still not adequate to complete both the initial claims case load and CDRs, within the required time frames. SSA has formulated a plan to eliminate the backlog by 2002.

Except as noted in the preceding paragraphs, the results of our tests disclosed no other instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 93-06.

CONSISTENCY OF OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of SSA taken as a whole. SSA's Accountability Report includes an Overview of SSA and Supplemental Financial and Management Information containing a wide range of data, most of which are not directly related to the consolidated financial statements. We assessed whether this information, and the manner of its presentation, is materially inconsistent with the information, and the manner of its presentation, appearing in the consolidated financial statements. The information presented in the Overview of SSA and the Supplemental Financial and Management Information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements of SSA, and, accordingly, we express no opinion on it.

OBJECTIVES, SCOPE AND METHODOLOGY

SSA management is responsible for:

- Preparing the annual financial statements in conformity with the basis of accounting described in Note 1;
- Establishing, maintaining, and assessing an internal control structure that provides reasonable, but not absolute, assurance that the broad control objectives of FMFIA are met; and
- Complying with applicable laws and regulations.

Our responsibilities are to:

- Express an opinion on SSA's principal financial statements;
- Obtain reasonable assurance about whether management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon the internal control objectives in OMB Bulletin No. 93-06;
- Obtain reasonable assurance about management's assertion regarding substantial compliance of SSA's financial management systems with the requirements of FFMIA;
- Test SSA's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements; and
- Perform limited procedures with respect to certain other information appearing in this Accountability Report.

In order to fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of the internal controls related to safeguarding assets, compliance with laws and regulations including execution of transactions in accordance with budget authority, financial reporting, and performance measures reported in the overview of SSA;

- Tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls;

- Tested for substantial compliance with FFMIA;

- Tested compliance with selected provisions of the following laws and regulations:
  - Social Security Act, as amended
  - Social Security Independence and Improvement Act of 1994
  - Personal Responsibility and Work Opportunity Reconciliation Act of 1996
  - Cash Management Improvement Act of 1990
  - Debt Collection Improvement Act of 1996
  - Anti-Deficiency Act
  - Chief Financial Officers Act of 1990
  - Federal Managers' Financial Integrity Act of 1982
  - Government Management Reform Act of 1994
  - Federal Financial Management Improvement Act of 1996
  - The Omnibus Budget and Reconciliation Act of 1989, as amended in 1990
  - OMB Bulletin No. 94-01, Form and Content of Agency Financial Statements; and

- Considered compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal controls testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls.

SSA'S COMMENTS ON REPORT OF INDEPENDENT ACCOUNTANTS

SSA's comments on this audit report are included in the following Appendix. We have discussed these responses with SSA management and incorporated certain of their comments herein. We believe that SSA's discussion focuses on certain elements of its control processes without addressing the overall reportable conditions that we noted. In many cases we tested the control processes discussed in management's response, and we found weaknesses as stated in this report. We will continue to work with management in addressing these issues.

* * * * *

We noted other matters involving internal controls and their operation that we will communicate in a separate letter.

This report is intended for the information of the management and the Inspector General of SSA. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse LLP

Arlington, Virginia
November 21, 1997

Appendix

SOCIAL SECURITY

Office of the Commissioner

November 19, 1997

Price Waterhouse LLP
1616 N. Fort Myer Drive
Arlington, Virginia 22209

Ladies and Gentlemen:

Enclosed are our comments on the Price Waterhouse draft report on the audit of the Social Security Administration's fiscal year 1997 financial statements. If we can be of further assistance, please contact Steven L. Schaefer at (410) 965-3927.

Sincerely,

John R. Dyer

John R. Dyer
Acting Principal Deputy Commissioner
of Social Security

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION ON THE CONTRACTOR PREPARED REPORT ON THE SOCIAL SECURITY ADMINISTRATION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

General Comments

Thank you for the opportunity to comment on your confidential draft report on the audit of the Social Security Administration's (SSA) fiscal year 1997 financial statements. We were pleased to note that in your opinion SSA's principal financial statements were fairly stated in all material respects and that management fairly stated that SSA's systems of accounting and internal controls complied with the internal control objectives in Office of Management and Budget (OMB) Bulletin 93-06.

However, we disagree with the auditors' finding regarding noncompliance with OMB Circulars in four areas in the design or operation of internal controls. We believe that we are in full compliance with all relevant OMB Circulars and in full compliance with the Federal Financial Management Improvement Act (FFMIA). We reaffirmed our understanding with the OMB officials responsible for developing the guidance contained in these Circulars. These officials advised SSA staff and staff from the Office of the Inspector General (OIG) that SSA's interpretation of OMB Circulars A-123 and A-127 and OMB Bulletin 93-06 was correct. The auditors, consistent with OMB guidelines, did not report any non-compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). By being in compliance with OMB Circulars A-123 and A-127 for FMFIA reporting purposes the Agency is also in compliance with those same Circulars for FFMIA reporting.

We have a comprehensive FMFIA program which is explained on page 57 of the Agency's Accountability Report as well as elsewhere in our comments on this draft report. We believe that the controls we have in place to address security, which are a subset of the management controls required under OMB Circular A-123, are more than adequate to provide reasonable assurance of the Agency's compliance. The auditors have not provided any evidence that SSA does not have a well-documented process in place to conduct the reviews required under the OMB circulars, that the process was not followed, or that a decision regarding reasonable determination was not based on the facts. The auditors have not provided any detailed information that any real assets have been corrupted or lost or that there was any real probability that such could occur other than in a theoretical context.

Our comments concerning the four instances of noncompliance identified in the report are provided below in the discussion of each individual finding.

Report on Management's Assertion About the Effectiveness of Internal Controls

We disagree that the following four conditions identified in the draft report should be reported as material weaknesses under the Federal Manager's Financial Integrity Act (FMFIA). We do not agree with the basic provisions of each finding and, therefore, would not consider them reportable outside the Agency.

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures; and,
4. SSA needs to improve controls over insufficient separation of duties.

We strongly believe that our adherence to Federal Accounting Standards Advisory Board and OMB policies and procedures, the innovative compensating controls we have implemented, along with our excellent record in the area of employee fraud, provides us reasonable assurance that we are in compliance with FMFIA. This belief is substantiated by statistics concerning employee fraud over the period 1991 through 1996. During that period there were a total of 254 cases of employee fraud valued at $790,089 compared to $1.9 trillion in title II and title XVI program dollars paid. That translates to an annual average of about 42 cases and an annual average value of $131,682 compared to about $330 billion in outlays.

Our comments concerning each of the above findings are provided below in the sections dealing with the findings and recommendations.

<u>SSA Recommendation</u>: Delete the sentence in this section (page 3) beginning "SSA has defined the types of internal control weaknesses that it would consider material as weaknesses that:" and all the following bullets.

<u>Reason</u>: The above sentence does not accurately describe SSA's procedures for determining a material weakness. Agency managers and staff analyze the deficiencies found through FMFIA reviews, GAO and OIG audits, or other studies, and using those reports and other information available to them as a result of normal operations determine whether the weaknesses should be classified as material as defined in OMB Circular A-123. This designation requires a judgement by Agency managers as to the relative risk and significance of the deficiencies. The matter is then referred to SSA's Executive Internal Control Council, whose membership includes the Principal Deputy Commissioner, the Inspector General and the Deputy Commissioners, for Agency-level approval. The Commissioner of Social Security then makes the final decision as to whether the weakness is significant enough to be reported outside the Agency (i.e., included in the annual Accountability Report to the President and the Congress).

<u>Overview of Internal Control Findings</u>

> <u>Auditor’s Note</u>
>
> Material was deleted from SSA’s comments relating to information in the draft report which was changed in the final report.

<u>Finding Number 1</u>: SSA Needs Improved Controls to Protect its Information

<u>Recommendations</u>

We recommend that SSA enhance information protection by strengthening its entity-wide security program as it relates to implementation of technical computer security mechanisms and controls throughout the organization. Specific areas to be addressed are in a separate, limited-distribution management letter. Recommended corrective actions include:

- **Modifying the current policy and procedural framework to expand the information protection program to cover each component in SSA's distributed computing environment.**

SSA Comment

We do not concur. Administrative components do not need the same level of protection as those components dealing with sensitive programmatic data. It would not be cost effective to protect all data at the same level.

As the report states, we are developing policies and procedures to strengthen the security of SSA's distributed computing environment. We are also developing security software, the Enterprise Security Interface (ESI), that will integrate security controls throughout the enterprise. This software is in the initial stages of implementation at selected sites, in support of the Reengineered Disability System (RDS) and the Customer Help and Information Program (CHIP) applications systems. We continually monitor the marketplace in search of commercial products that can eventually meet our security needs in the distributed computing environment.

We believe that the Financial Accounting System (FACTS) in particular is adequately protected by three separate levels of security: TOP SECRET, Integrated Database Management System/Relational (IDMS/R) and application security. TOP SECRET security is required for accessing both the FACTS Customer Information Control System (CICS) region and the Time Sharing Option (TSO). These are the only methods of accessing FACTS. If a user does not have access to either TSO or the proper CICS region, they cannot access FACTS. The TOP SECRET access to the CICS region, which is the method generally used for FACTS, is controlled by the SSA Office of Financial Policy and Operations (OFPO) component security officer. With few exceptions, only OFPO personnel have access to this region. While it is true that any user with TSO access (controlled by component security officers) can acquire the IDMS/R region, they cannot logon to IDMS/R without a proper personal identification number (PIN) and password. Furthermore, this assumes that the user (1) has access to system 56, (2) has prior knowledge of the existence of the FACTS IDMS/R and (3) is privy to the TSO command to access it. This is no different than a user who is aware of a specific CICS region name and attempts a logon. That person can access the PIN/password screen, but can not proceed without the proper security access. For FACTS, both IDMS/R security and application security would be required to proceed.

IDMS/R Release 12 is currently scheduled for implementation in January 1998. This release will provide a "handshake" to TOP SECRET, which will invoke all the rules relating to password changes, minimum length, suspensions, etc. In the interim, the SSA Office of Finance has issued additional security procedures to ensure that users change their passwords on a periodic basis. Effective immediately, access will be revoked for any FACTS user with an unchanged password. Once IDMS/R Release 12 is implemented, TOP SECRET security rules will be invoked (i.e., users will be required to change their passwords every 30 days, will be suspended if accessing IDMS/R after two failed attempts, etc.).

Recommendation

- **Strengthening controls over access to a) protect all mainframe-based resources, b) eliminate vulnerabilities in the mainframe operating system configuration, c) address inadequacies and inconsistencies in the mainframe access request process, d) require periodic review of user privileges to ensure that capabilities are in line with job responsibilities, and e) enhance audit trail facility utilization and review.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- **Enhancing SSA's overall computer security effectiveness by a) standardizing password security practices for all processing environments, b) better enforcing sound password change practices and syntax standards through reconfiguration of security software, c) involving users/owners of systems in the risk management process to certify and accredit their systems, and d) continuing to improve upon general computer security awareness and training campaigns.**

SSA Comment

As we continue to implement our Intelligent Workstations/Local Area Networks architecture, and as the ESI security software described above is deployed, the password rules and practices will be uniformly enforced in accordance with established Agency policy.

About standardizing password security practices, information provided by the auditors to date does not support this recommendation. We do not agree that standard password procedure is the best solution in all cases. The sensitivity of the information being protected should dictate the degree of password sophistication used. In any event, SSA cannot apply standard password security practices in commercial off-the-shelf (COTS) software, such as FACTS, without obtaining an exemption from OMB. The FACTS package selected by SSA is available on the General Services Administration (GSA) Financial Management Systems Software (FMSS) multiple award schedule. All products available on the FMSS schedule have been certified by GSA to be in compliance with federal financial systems requirements, promulgated by the Joint Financial Management Improvement Program. The Joint Systems Solution Team is presently drafting additional guidelines for the use of such software which encourages agencies to limit modifications to COTS packages.

The responsibility for automated systems is based on the functional organizational structure. Generally, the user community for programmatic systems is represented by the SSA Office of Systems Requirements which is responsible for obtaining the needs and requirements of all the users throughout SSA. In most cases, the users of financial/administrative systems are directly involved in the process.

We agree that our computer security training can always be improved and will continue to work to that end.

Recommendation

- **Implementing, as a quality assurance function, continual compliance and enforcement reviews of security policies and procedures to improve the overall security environment.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Finding Number 2: SSA Needs to Improve and Fully Test Its Plan for Maintaining Continuity of Operations

Recommendation

o **Conduct a business impact analysis and use the results to enhance SSA's disaster recovery strategy and confirm the specific critical workloads identified in the contingency plan.**

SSA Comment

We are continually working to improve our disaster recovery strategy. Our current strategy was developed as one of the alternative backup and recovery facilities resulting from the Martin-Marietta study of the Backup and Recovery Program at SSA. Under this alternative, during a period of disruption SSA would analyze the physical requirements for a return to the original National Computer Center (NCC) or a move to a permanent alternative facility.

We have a contract for a "hot site" to process the critical workloads for a period of 42 days after a disaster. In addition to this facility, the contract includes a "cold site" for SSA's use for 6 months. This "cold site" will include the equipment and software necessary to process SSA's critical workloads for this period. The equipment and software for the "cold site" can be leased through the contractor's leasing facility or leased/purchased through existing contracts for hardware and software already in existence. The delay in initiating processing in the "hot site" and "cold site" would be minimal.

Recommendation

o **Expand the current contingency plan to address (1) longer term outages (i.e., the worst case scenario); (2) identification of the specific applications and related resources supporting each critical workload and their relative priority for recovery; (3) technical capacity requirements for the recovery facility, and (4) additional emergency scenarios.**

SSA Comment

We conducted a study in 1993 to determine the specific applications that would impact the payment of benefits to SSA clients. We determined which workloads were critical to achieving this objective. These workloads are documented in our "NCC Backup and Recovery Plan" dated August 30, 1997.

The processing capacities and capabilities are reviewed annually to ensure that these critical workloads can be processed efficiently at the "hot site." In addition, there is a continual process of review by which additional critical workloads are added to the list.

Recommendation

- **Periodically conduct a comprehensive test of all components of the contingency plan, including testing scenarios in which various workload combinations are processed together.**

SSA Comment

We test our critical workloads annually, and are working toward a 3-year cycle to test all critical workloads. Currently, these workloads are tested by SSA staff during a 64-hour weekend test at the "hot site." The combination of workloads tested is based on the availability of the application, staff resources, and financial resources. We are planning to expand the test to 84 hours beginning in 1999, in order to deal with the more complicated environment in which we operate. We are also documenting the specific workloads, when they will be tested, and the results of the testing.

Recommendation

- **Finalize its draft Emergency Response Procedures document.**

SSA Comment

We have determined that the most severe disaster that would affect our operations would be the loss of the NCC. Based on this determination, the "NCC Backup Plan" was written and updated yearly to reflect the Agency's priority to process the critical workloads in an alternative location. In addition, all individual hardware and software areas have recovery plans to provide continuing support during less severe emergencies.

Our Emergency Response Procedures document contains the procedures for three major teams to analyze the extent of the disaster and proceed with an orderly response. This document has been in existence for over 5 years and is continually updated with information such as staff names, addresses, and telephone numbers.

Finding Number 3: SSA Needs to Improve its Software Application Development and Change Control Policies and Procedures

Recommendations

We recommend that SSA modify the existing Software Engineering Technology (SET) guideline to cover a wider range of program changes and incorporate strict audit controls throughout the process. The duties of a) initiating program changes; b) making and documenting program changes; c) approving changed software before it is placed in production; and d) migrating code must be more clearly defined and better segregated. In addition, SSA should require all emergency changes to be formally reported, reviewed and approved subsequent to implementation. Finally, we recommend that SSA investigate the impact of the validation region being different from production.

SSA Comment

We disagree, in part, with the cited control weaknesses surrounding the production software release process. For code releases that are not emergencies, SSA's automated processes employ release procedures which: 1) extract code from protected libraries on the Software Engineering Facility (SEF); 2) move copies of modules and program products through our Office of Telecommunications and Systems Operations (OTSO) testing components; and 3) release only these modules to production by authorized, non-programmer, personnel. Furthermore, modules introduced to production are logged by the release software, thereby supporting release auditing back to the TSO-userid of the programmer/release requestor.

Nonemergency releases are well-communicated using the Software Testing and Migration Release Schedule Summary (STAMRSS) for online releases and our weekly initiatives report for batch releases and the Change Management System. Release actions are correlated to these reports and the schedules reflected therein, thus providing an indication of expected module releases. The reports are developed from initial planning meetings that include staff from OTSO, our Office of Systems Design and Development (OSDD), and other of our systems components, and, in many cases, users of the applications being implemented.

We agree that a programmer-initiated e-mail message is a release triggering event that needs to be changed. The programmer knowledge of release timing, module naming, status of related releases and problem programs, etc., is key to successfully targeting the release. We will modify the release communications process to include concurrences from non-programmer sources. However, in non-emergency situations, the modules released to production originate from source libraries where modules have been validated or, in online regions, have been part of end-user training regions. The statement in the draft report (page 9) that "our review of system changes produced insufficient evidence of resource owners approving, accepting or testing changes..." should be further clarified. Also, the reference (page 9) to "user initiation of changes" is unclear when the extent of release communications delineated above is considered.

Although SET may not adequately address emergency situations, the operating process does include levels of pre-release documentation depending on the severity of the emergency and the type of code (online/batch) impacted. Emergency changes require a Problem Management record. In many cases, this already exists because the problem has been reported by OTSO. If a problem record does not exist, one must be created and the problem documented before the OTSO release utilities will accept the change request. This is the level of formal initiation in the current process.

Online systems changes require a change record which must be approved by OTSO management. OSDD managers are contacted by telephone for concurrence and, if time permits, changes are validated and integration tested prior to production release. Since many batch emergencies occur overnight, only the programmer and OTSO are involved in many of these change/release actions.

The automated release system employed for emergency changes is the same as that used for regular releases. Modules from secured ENDEVOR libraries on the SEF are the source of the new, changed modules. Module movements are audited to the TSO-userid requesting the release. Production modules cannot be created directly on the production computer systems. Data and reports are available from the release software which describe release actions.

We do not agree that the production release process is without user coordination, integrity controls, or release security. At a macro level, appropriate organizations are involved and concur with most release actions. The SSA-developed software systems which actually effect a production release maintain records which could be applied to review release actions. Programmers are specifically prohibited from directly changing production code without involving staff from OTSO. The current process has a level of separation-of-duties and audit capability previously considered adequate for the risk. We agree that the process should be tightened as indicated and can be done with additional pre-release concurrences and not major process or release system redesigns. We do not agree that, given the changes required to the existing process, these deficiencies should be considered material weaknesses reflective of an absence of a control structure.

About reporting, reviewing, and approving emergency program changes, we agree that the current SET methodology and process addresses making an emergency change to the application, but does not address subsequent quality control action to ensure that the change did, in fact, correct the problem while maintaining application integrity. We will update the SET to include subsequent quality control action.

Regarding investigation of the impact of the validation region being different from production, appropriate SSA systems staff discussed this issue when planning our Year 2000 tests, and determined that the risks involved in using the benefit rate increase version of the online software were so insignificant that they would not affect our test results.

As future major releases are set for validation, CICS validation regions will be adjusted. This will ensure that the Year 2000 CICS validation region will remain stable. When the future release becomes the production version, the Year 2000 CICS validation region will be modified to point to this software.

Finding Number 4: SSA Needs to Improve Controls Over Insufficient Separation of Duties

General Comment

As downsizing compels the Agency to combine functions once performed by different job positions, we evaluate the inherent risks brought on by this activity. As previously stated, we strongly believe that our adherence to Federal Accounting Standards Advisory Board and Office of Management and Budget policies and procedures, the innovative compensating controls we have implemented, along with our excellent record in the area of employee

fraud, provide us reasonable assurance that we are in compliance with FMFIA. We have implemented the following compensating controls in this area.

Access - For any employee to access SSA's programmatic systems three levels of security clearance are required. The first level of system security is through TOP SECRET which requires the SSA Systems Security Officer to issue an employee a PIN and password. In addition to having a valid PIN and password, the employee must currently be on duty with SSA. Access to an application and any action within that application must also be included in the employee's security profile. Security profiles are approved by SSA's Systems Security Officer.

Audit Trail System (ATS) - ATS provides an automated means of capturing and storing characteristics of vulnerable input transactions. It identifies: (1) the individual who input the data; (2) date and time of the occurrence; (3) the transaction; (4) the account upon which the transaction was applied; and (5) selected information about the transaction. Since this information is routinely available to security and management staff it acts as a strong deterrent to employee fraud.

OIG Hotline - OIG has established a special toll-free telephone number for employees to use in reporting suspected instances of fraud by both the public and other employees. In addition, OIG investigates reports from SSA's systems where multiple Social Security number (SSN) cards are mailed to the same address.

Publications and Employee Training - SSA employees are made aware of fraud through publications and training, such as:

- SSA's bimonthly news magazine, *OASIS*;
- SSA's headquarters newsletter, *Central Office Bulletin*;
- Informational literature on fraud policy, guidelines and issues;
- Regional security alert newsletters which advise field staff of known fraudulent documents and incidents and encourage staff to refer cases to the OIG;
- Special training conducted for targeted groups of individuals, such as entrance-on-duty trainees, administrative law judges, etc;
- Employees are required to complete a comprehensive, self-administered microcomputer security awareness program called "MicroSecure II";
- SSA managers are required to certify annually that they have communicated with each employee about SSA's systems security guidelines and penalties for abuse, and
- Screens for logging-on to SSA’s systems include a warning against unauthorized entry or use. Employees must complete their log on at the warning screen before proceeding.

Financial Management Systems Reviews - Since 1988, the Agency has had its financial management systems, including payment systems, reviewed by an independent contractor to ensure these systems comply with FMFIA, the Paperwork Reduction Act, the Computer Security Act and OMB Circulars A-123, A-127 and A-130. These evaluations determine whether the Agency complies with these standards.

Computer Matching - To detect potential fraud, SSA performs various computer matches of data from its records against other data bases, such as State death records.

Special Systems Queries by SSA'S Control and Audit Test Facility (CATF) - At the request of SSA Regional and Program Service Center Security staffs and OIG and SSA Systems Security Officers, CATF makes special selections from employee-generated transmission files and master data bases to study the data to detect or prove employee fraud.

Regional Security Audits and Reports - SSA Regional Security Officers and Integrity Branch Staffs conduct audits of special users of SSA data and conduct Onsite Security, Control, Audit and Reviews (OSCAR). Reports of these audit activities provide information on security violations and profile vulnerabilities which are reviewed by SSA Security staff.

Office of Program and Integrity Reviews (OPIR) Quality Reviews (QR) and Special Studies - OPIR conducts assessments of the accuracy of initial claims and ongoing payments in SSA programs. During QRs, if a reviewer identifies an instance of suspected employee fraud, the case is sent to the Regional Office of Program and Integrity Reviews for referral to the Regional Security Officers and to OIG.

Automated Systems Alerts - Systems outputs include alerts for peer review by a different Benefit Authorizer or by a Technical Advisor. For example, an alert is generated if a prior month accrual amount exceeds an established payment amount tolerance.

Personnel Policy - SSA's policy is for zero tolerance of employee fraud. Personnel guidelines have been reviewed and action is being taken to include fraudulent employee actions as being suitably addressed by termination of employment.

Integrity Reviews (IR) - To prevent and detect fraud, targeted samples of particularly vulnerable transactions are selected for review by Integrity Staffs and SSA managers. IRs provide a mechanism for either random review of completed transactions or selected review of transactions identified as vulnerable to fraud. This also acts as a strong deterrent to fraud.

In the future SSA will have the Comprehensive Integrity Review Program (CIRP) - CIRP is a major compensating control which coordinates and greatly improves the value of integrity reviews. CIRP provides for an SSA-wide integrity review control system to assure that reviews are completed timely. Most importantly, CIRP integrates all existing reviews and enables the use of selection criteria across programmatic systems, which greatly increases the likelihood of detecting inappropriate or fraudulent activity by employees.

Recommendation

- **Implement preventive controls for high fraud risk transactions (such as death processing and earnings reinstatements) and sensitive transactions (such as performing functions relating to an employee's own records, or those of relatives, or of other employees).**

SSA Comment

We have implemented the following controls.

- o In processing death records, an action to remove a death annotation (i.e., a death resurrection) requires two PINs under MSSICS. Death resurrections in title II systems must be processed in the program service center (PSC) and reviewed by the PSC Integrity Staff. In MCS, adjudication actions on records having a death annotation require a management override.

- o In Modernized Earnings System Item Correction, 2-PINs are required to post earnings if the name and SSN associated with the item to be corrected are changed.

- o We have controls in place in all major program systems which prevent employees from accessing their own records. In addition, all attempts by employees to access their own records are reported to both their Security Officer and Office Manager.

- o With regard to preventing employees from taking actions on relatives' accounts, we do not believe this would be feasible or desirable. First "relative" would have to be defined. Then all "relative's" SSNs would have to be recorded somewhere creating a system of records for which Privacy Act implications would have to be considered. In addition, this file would have to be updated whenever an employee's "relatives" changed. Such a process would be unworkable and would create serious public and labor relation problems. In lieu of preventive measures, SSA relies upon various integrity reviews where managers review transactions and queries that employees have taken or requested on relatives.

- o Management approval is required to process any action on the account of another SSA employee. In addition, office managers receive and review lists of transactions processed in their office on the accounts of SSA employees.

- o Effective with Modernized Enumeration System Release 3, which was implemented in August 1997, two PINs are required to enumerate U.S.-born individuals age 18 or older who are applying for an SSN for the first time.

Recommendation

- **Strengthen both the claims integrity and the security and integrity review processes. First, the criteria for selecting case files for review must be enhanced to increase the number of files reviewed and ensure the quality of the review performed. Secondly, appropriate staffing must be assigned to ensure the timeliness of the reviews. And finally, new guidelines must be developed to require field office personnel to maintain appropriate documentation in the files for review purposes.**

SSA Comment

We have determined that overall systems integrity and security are better served by directing our scarce resources to the development of CIRP rather than diverting these resources to enhancing the several current integrity reviews. SSA believes that its service to the public is enhanced by the redesign of its business processes and the improvement of its automated systems which enables us to rely less and less on hard copy documentation. Under the current funding environment, we have to continue to look for ways to decrease the cost of customer support. This report provides no evidence that it would be cost-beneficial to spend any more resources in this area.

Recommendation

- **Appropriate procedures regarding the review of the data maintained in the ATS must be developed to include on-going periodic reviews of transactions or combinations of transactions which may involve fraudulent activity.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- **Develop guidelines that address end user "ownership" and responsibilities in the production environment.**

SSA Comment

We have guidelines that address end user ownership and responsibilities in the production environment. Our functional organization structure best meets the needs of the Agency.

Recommendation

- **Develop and implement a standardized profile structure for assigning and administering access capabilities to personnel throughout the organization. This structure is critical for ensuring efficiency in administration and maintenance of the overall security program, and warrants SSA conducting a comprehensive requirements analysis for all individuals.**

SSA Comment

We have a standardized profile structure in place for SSA field activities and much of SSA central office, except for the Office of Systems. The Office of Systems has established a workgroup to develop a standardized profile structure.

Finding Number 5: SSA's Quality Assurance Activities Need Improvement

General Comment

OSCAR reviews are conducted in accordance with Section 2, FMFIA, to determine if management controls are implemented and effective, whereas security and integrity reviews are intended to review selected transactions to determine if they were processed properly.

In March 1997, SSA revised the minimum onsite review requirements to require that 10 percent of field offices be reviewed each fiscal year (rather than the 20 percent previously required). In fiscal year 1997, SSA conducted 1,499 OSCAR reviews of management control areas, or about 134 percent of those required under the new program. At the same time the Agency initiated a pilot program using automated data in two Regional Offices designed to compile and analyze field office workload data for the purpose of targeting offices for review. The targeting of offices to be reviewed based on workload data will promote a more efficient use of the OSCAR and integrate performance measures into the FMFIA program. Concerning the security and integrity reviews, SSA is giving priority to developing CIRP rather than using scare resources to improve the security and integrity process.

Recommendations

We recommend that SSA:

- **Consider establishing a National Controls Committee as a sister organization to the National Fraud Committee to reassess the overall balance between internal controls and service delivery using a top-down accountability framework to help management achieve its goal of zero tolerance for fraud and abuse. The National Controls Committee should be empowered to guide, monitor, report, and reward good management controls and to monitor audit follow-up and resolution.**

SSA Comment

We have established an Executive Internal Control Council and do not see any reason to expand its charter at this time.

Recommendation

- **Summarize current control and quality assurance processes under one controls plan in order to address the overall adequacy of the control environment. This plan should be risk-based in such a manner that all key processing and operational risks are addressed from a control and quality assurance perspective. The controls plan should address key SSA business processes one by one, identifying control techniques and their scope. The controls plan should be a key input to the National Controls Committee as described above.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

o **Increase internal audit and FMFIA review emphasis in programmatic and other technical systems areas. To provide meaningful audit coverage of SSA's large and pervasive systems applications, ensure that the Office of Inspector General, in accordance with the Inspector General Act, has complete access to any**

application at any time, to avoid delays in reviewing systems and to provide complete independence in determining the scope of each review.

SSA Comment

We believe that our current FMFIA review program provides the Agency reasonable assurance that its programs and systems are in compliance with FMFIA and other Federal requirements. Beginning in July 1998, SSA will implement a contractor-conducted review program that continues the current practice of conducting a detailed review, including transaction testing, of each SSA automated financial management system once every five years. SSA's systems managers will also conduct a limited review of each system during that 5-year period. Under the same new contract, SSA will for the first time require its contractor to review SSA's management control program at its central office, regional offices, processing centers and field offices. We estimate that the contractor will visit about 5 regional offices and conduct OSCAR reviews at about 40 to 60 field offices annually. These OSCAR reviews will be in addition to those conducted by regional offices. The new contract will also require that the management control reviews and financial management systems reviews be performed to Generally Accepted Government Auditing Standards.

We believe OIG has adequate access on the financial audit while in progress and through its overall involvement in the audit.

Recommendations

- **Determine the adequate level and scope of applying existing assurance activities, in light of the fact that these are key mitigating controls for other control weaknesses caused by resource shortages, empowerment mechanisms, and other business needs. In cases such as integrity reviews, apply statistical sampling methods to obtain meaningful levels of reportable results.**
- **Set goals to obtain coverage as planned and measure the quality assurance activities performed.**
- **Establish appropriate reward mechanisms for good performance in quality assurance activities.**
- **Maintain key documents in claims files or imaged files to enable effective review and supervision.**

SSA Comment

The information provided by the auditors is insufficient for SSA to make a determination to proceed. We do not see a basis for the auditor's recommendations based on the information provided by the auditors to date. We will work with the auditors to obtain additional information.

Recommendation

- **Establish one workgroup that has primary responsibility for earnings suspense file resolution.**

SSA Comment

We do not agree. The Office of Central Records Operations, under the direction of the Deputy Commissioner for Operations, has responsibility for follow-up and resolution of items in the Earnings Suspense File (ESF). We have established a tactical plan to reduce both accretions to the ESF and its overall size, and to improve employer accountability for earnings data submitted. SSA also has an intercomponent workgroup to implement the tactical plan initiatives.

Recommendation

o **Document the processes used in revenue estimation and certification so that these may be performed in the absence of key employees.**

SSA Comment

More extensive documentation of the revenue estimation process would be useful in explaining our methods, and therefore would have some value. However, by itself, such documentation would not enable untrained personnel to perform the estimation function. The computer programs are so large and complex that training by the existing staff is indispensable for anything beyond rote operation. We have hired a new staff member to provide for succession, and intend to add another person in the future.

Regarding the process for revenue certification, we believe that it is properly documented. Although it is true that the POMS documenting certification procedures have not been revised in recent years, written guidelines describing the procedures currently exist in the SSA Office of Program Accounting Operations, where employees are cross trained so that there is at least a primary and backup person for each function. These procedures are kept current as systems are modified. We plan to update the POMS by the end of this fiscal year.

Report on Management's Assertion Regarding Substantial Compliance with FFMIA

For the reasons shown in our general comments, we believe that it has satisfied the requirements of OMB Circulars A-127 and A-130, Appendix III for the following four conditions:

1. SSA needs improved controls to protect its information;
2. SSA needs to improve and fully test its plan for maintaining continuity of operations;
3. SSA needs to improve its software application development and change control policies and procedures; and,
4. SSA needs to improve controls over insufficient separation of duties.

Report on Compliance with Laws and Regulations - Continuing Disability Reviews

We recognize that there is an inventory of CDRs to be processed and have obtained additional funding to address this. As a result, the Agency continues to significantly increase the number of CDRs processed on a year-to-year basis.

Other Matters

Auditor's Note

Material was deleted from SSA's comments relating to information in the draft report which was changed in the final report.

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

INSPECTOR GENERAL'S REPORT TO THE CONGRESS

OCTOBER 1, 1996 - SEPTEMBER 30, 1997

Office of the Inspector General
Mission Statement

Mission

We improve the Social Security Administration's programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General (IG) Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the Inspector General with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Table of Contents

Overview of the Office of the Inspector General

Created in 1935, the Social Security Administration (SSA) has grown to be an indispensable part of the American way of life. SSA directly touches the lives of more people than any other public service agency in the United States. More than 50 million Americans depend on SSA's programs. Under the Social Security Act, as amended, SSA administers the Old-Age, Survivors and Disability Insurance (OASDI) Program, popularly called Social Security or title II, and the Supplemental Security Income (SSI) Program, a needs-based and means-tested assistance program, also known as title XVI. In FY 1997, SSA paid almost $385 billion in benefits to retirees; the needy, aged, blind and disabled persons; their spouses and dependent children; and certain surviving family members of deceased insured workers. It is vital that the public has confidence and trust in SSA and its programs.

SSA is vast in size, employing about 65,000 people in over 1,500 offices. In addition, the disability program depends on the support of the 15,000 State employees of the 54 Disability Determination Services (DDS) located in all 50 States, the District of Columbia, Guam and Puerto Rico. The DDS are State agencies that determine whether individuals are disabled.

Under the Social Security Independence and Program Improvements Act of 1994 (Public Law 103-296), SSA was provided with its own statutory Office of the Inspector General (OIG), effective March 31, 1995. OIG's mission is to improve the effectiveness and efficiency of SSA's operations and programs and to protect them against fraud, waste, and abuse.

Our Fiscal Year (FY) 1997 budget included an appropriation of $37,354,000 and the authority for 383 positions to support OIG operations. To effectively carry out and accomplish the OIG's mission and to support the Agency's goals, the office is organized into five components.

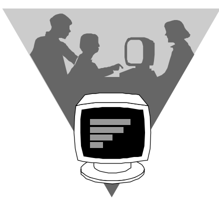
Office of Investigations

The Office of Investigations conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA's programs and operations. This investigative activity also includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. The Office of Investigations frequently conducts joint investigations with other Federal, State, and local law enforcement agencies. The Office of Investigations is organized into seven field divisions and the Enforcement Operations, Strategic Enforcement, and Special Inquiries Divisions, which are headquarters components. The Enforcement Operations Division oversees the day-to-day activities of the field divisions. The Strategic Enforcement Division, staffed with senior investigators, identifies and targets for investigation SSA programs and operations that are potentially vulnerable to widespread fraud and abuse. The Special Inquiries Division handles sensitive investigations into allegations of wrongdoing by senior SSA officials. In addition, the OIG's Office of Investigations and the Agency have established a unique partnership through the National and Regional Anti-Fraud Committees to jointly combine their efforts and forces in a seamless attack on fraud, waste, and abuse.

Office of Audit

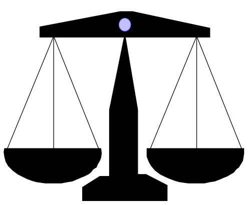
The Office of Audit conducts comprehensive financial and performance audits of SSA's programs and operations. In its reports, the Office of Audit makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the efficiency and effectiveness of SSA's programs. The Office of Audit also conducts short-term management and program evaluations focused on issues of concern to SSA, the Congress, and the general public.

The Office of Audit is organized into issue area teams that provide centers of expertise in each of SSA's program areas. We have issue area teams for Enumeration; Retirement and Survivors Insurance Program; Earnings; Supplemental Security Income/Old-Age, Survivors and Disability Insurance Programs; Field Office Operations; Office of Hearings and Appeals; State Disability Determination Services; Program Service Center/Teleservice Center Operations; Financial Management; Systems; General Management; Payment Accuracy; and Performance Monitoring. The Office of Audit has permanent sites in 10 cities across the Nation.



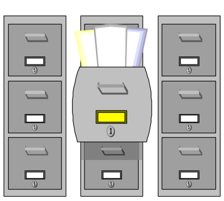
Office of Operations

The Office of Operations coordinates the OIG's strategic planning function, the development and implementation of performance measures required by the Government Performance and Results Act, public affairs, interagency activities, reporting requirements and publications, and responses to congressional inquiries.



Office of the Counsel to the Inspector General

The Office of the Counsel to the Inspector General provides legal advice and counsel to the Inspector General and senior staff on various matters, including: 1) statutes, regulations and legislative and policy directives governing the administration of the SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material. Section 4(a) of the Inspector General Act of 1978, as amended, requires the Inspector General to review existing and proposed legislation and regulations and make recommendations concerning the possible effects on the economy and efficiency of the administration of the Agency's programs. The Counsel's office is also responsible for the implementation of the Civil Monetary Penalty Program.



Office of Management Services

The Office of Management Services coordinates resource management needs for the OIG components by providing budgetary, administrative, facilities and equipment, human resources, and information resources management. The Office of Management Services also manages the Hotline, which receives allegations of fraud, waste, and abuse that could threaten the effectiveness and efficiency of SSA's programs and operations.

Office of the Inspector General
Summary Of Activities

This report chronicles the accomplishments of OIG for FY 1997. During this past year, SSA's Actuary estimated that SSA will save about $3.4 billion over 7 years, of which an estimated $480 million will be realized during Calender Year 1997. These savings are due to SSA's implementation of initiatives resulting from audit work regarding prisoners. Individuals who are incarcerated are not entitled to receive SSA benefits during their incarceration. OIG reported that not all prisoners in correctional facilities were being identified in a timely manner, or at all, by SSA. OIG had originally estimated that $48.8 million was made in overpayments. However, the Agency initiated aggressive efforts to establish more effective systems to ensure that SSA benefit recipients who become incarcerated do not continue to receive payments. The Federal Bureau of Prisons, all State prisons, and more than 3,500 local facilities agreed to report prisoner data timely to SSA.

During FY 1997, the Office of Audit issued 54 reports with recommendations that over $700 million could be put to better use. In addition, OIG's criminal investigators, with the participation of SSA employees and other law enforcement agencies, conducted investigative activities that resulted in 2,507 criminal convictions, of which 1,469 were deportations related to Social Security Number (SSN) fraud, and more than $64[1] million in fines, judgments, and restitutions. It is significant to note that our financial achievements well surpassed our total budget authority of $37,354,000 for FY 1997.

The integrity of SSA's trust funds relies on the trustworthiness and dedication of SSA's many employees. Unfortunately, a few corrupt employees can compromise the integrity of the Social Security system and undermine the public's confidence in the Agency's programs. Twenty-nine of the criminal convictions obtained during this period involved SSA employees. Employee fraud cases usually involve creating fictitious identities, fraudulently issuing and/or selling SSN cards, misappropriating refunds during the collection and deposit of overpayments, or abusing access to confidential information. In addition, SSA took 828 disciplinary and adverse actions against employees, some of which resulted from OIG investigations and referrals. These personnel actions included removals, reprimands, suspensions, and demotions.

Different investigations have found unscrupulous individuals defrauding SSA's programs through theft and forgery of benefit checks, using fraudulent medical records, feigning disabilities, filing false claims, making false statements, concealing the deaths of beneficiaries to continue to fraudulently receive their payments and/or concealing factors affecting initial or continuing entitlement to or eligibility for benefits. Information regarding some of our more significant investigations may be found beginning on page 132.

OIG PURSUES CIVIL REMEDIES

The Commissioner delegated to the Inspector General, under section 1140 of the Social Security Act, the authority to impose civil monetary penalties against entities that use SSA's program words, letters, symbols, or emblems in advertisements or certain other communications in a manner which conveys, or which reasonably could be interpreted or construed as conveying, the false impression that the advertisement or other communication was approved, authorized, or endorsed by SSA. Before imposing civil monetary penalties, cease and desist letters are issued advising entities of the violations and requesting voluntarily compliance with section 1140.

During this past fiscal year, the Office of the Counsel to the Inspector General reviewed 176 complaints involving 40 entities (including 25 new entities). Complaints against 28 of the entities were closed. Twenty-four were closed because there was no violation of section 1140; four were closed because the entities had agreed to comply with a cease and desist letter.

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1 Of which $21,450,322 is based on calculations of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds over a 5-year period.

On September 3, 1997, OIG agreed to settle a claim against an individual for false statements which he made to SSA in violation of section 1129 of the Social Security Act. It is a violation of section 1129 of the Act for any person to make a statement or representation of a material fact for use in determining any initial or continuing right to benefits under the Old-Age, Survivors and Disability Insurance Program, or payments under the Supplemental Security Income Program, which the person knows or should have known is false or misleading. A person who violates this statute is subject to a civil monetary penalty of up to $5,000 for each statement or representation and an assessment, in lieu of damages, of up to twice the amount of benefits or payments paid as a result of the statement(s) or representation(s). In this case, the individual made false statements to conceal the fact that his wife had died and that he had improperly received $15,844 of her retirement benefits. OIG reached a settlement of $24,000 on its claim. The individual paid $2,000 in a cashier's check at the execution of the settlement agreement and the remaining balance of $22,000 will be offset from his future retirement benefits.

OIG ISSUES REGULATORY COMMENTARIES

During this fiscal year, the Office of the Counsel to the Inspector General issued two regulatory commentaries. The first regulatory commentary, entitled "Agency's Removal of Signature Blocks from Thirteen Disability Interview Forms," reviewed the Agency's decision to remove signatures from 13 different disability forms. We believe that this could have a wide-ranging effect on SSA and OIG operations. More specifically, our review detailed how this policy could compromise the integrity of Agency disability decisions and hamper OIG efforts to bring criminal, civil, and civil monetary penalty cases to adjudication. The commentary recommended that SSA: 1) restore the signature certification and warning block to the 13 disability interview forms; and 2) change existing procedures which permit SSA employees to alter Agency forms after completion by a claimant. SSA plans to temporarily reinstate the signature block for reasons unrelated to the commentary. Meanwhile, the Agency will review its current signature policy in light of OIG's concern. The Agency agreed that the removal of the signature requirement on certain disability forms would make criminal or civil prosecution more difficult. Nonetheless, the Agency questioned whether this inability to prosecute presented a true fraud vulnerability.

The second regulatory commentary, "Computer Warning Banners," informed SSA of the need to create and implement computer warning banners on the Agency's Internet and Intelligent Work Station/Local Area Network (IWS/LAN) systems. Such banners help prevent and detect computer-generated fraud and abuse in an agency's programs and operations. We found that recent computer break-ins at other Federal agencies had generated a great deal of public concern about the security of Federal computer systems. Highly publicized break-ins at U.S. law enforcement, defense, and intelligence agencies within the last year had spurred a Governmentwide move to shore up computer security systems. We coordinated our efforts with the Department of Justice which, with the support of the Federal Bureau of Investigation, is encouraging all Federal agencies to implement computer warning banners on their systems. As part of our research, we polled other Federal agencies and determined that 10 agencies have either instituted or are in the process of instituting a computer warning banner.

We recommended that SSA implement computer warning banners that would deter and detect computer crimes and facilitate the search and seizure of evidence of computer crimes in the workplace. We indicated that computer warning banners would have to be carefully drafted to balance employee privacy concerns with the OIG's interest in investigating fraud perpetrated within the Agency. SSA agreed with our recommendations and, with the assistance of the OIG, drafted two computer warning banners, one for the Agency's Internet Webpage and one for the Agency's IWS/LAN workstations around the country. On September 17, 1997, SSA implemented the Internet computer warning banner. With respect to the IWS/LAN computer warning banner, SSA is in the process of ensuring compliance with internal guidelines prior to final installation.

OIG HOTLINE BECOMES ONE OF THE LARGEST IN GOVERNMENT

Our Fraud Hotline, which became operational in November 1996, received over 75,000 calls during FY 1997 from a variety of sources. Thirty-one percent of the allegations were received from private citizens; 29 percent from anonymous individuals; 18 percent from SSA field offices; 6 percent from State/local public agencies; 6 percent from law enforcement agencies; 4 percent from other sources; 3 percent from beneficiaries; and 3 percent from SSA employees.

Once allegations are processed they are referred to the appropriate OIG or SSA component and/or to an outside agency for further development. OIG's Hotline referred 29 percent of the allegations to OIG's Office of Investigations; 18 percent to SSA components; and 3 percent to outside agencies. Further action on 50 percent of the allegations was deferred due to lack of sufficient information to substantiate the violation, lack of investigative leads, or insufficient resources. As a result of Hotline referrals to the Agency, SSA was able to recoup approximately $55,900.

Most allegations received by the Hotline fall into one of four categories: SSN (i.e., obtaining an SSN based on false information, counterfeiting SSN cards, misusing SSNs to obtain benefits and services from Government programs, improperly issuing SSNs for illegal work activity by noncitizens, etc.); Program (i.e., concealment of work activity, false claims, forgery, deceased payees, marriage not reported, etc.); Employee (i.e., mismanagement, discrimination, sexual harassment, unauthorized activities, etc.); and Other (i.e., misuse of SSA's symbols, misuse of direct deposit, multiple benefits, excessive fee charges, diversion of funds, receiving benefits for children not in recipient's care, mail fraud, etc.).

OIG MOVES ON-LINE

During this fiscal year, OIG's information technology team experienced notable achievements. OIG purchased 126 computer workstations and printers to support all OIG personnel nationwide. The team completed network connections to all offices throughout the country including electronic mail, and now most offices have access to the SSA mainframes to perform queries. They also developed an OIG Webpage now on the Internet, transitioned from the Department of Health and Human Services' Automated Data Processing system to SSA's network, and trained the OIG employees to utilize the capabilities of the new technological environment.

Office of the Inspector General
Significant Investigative and Audit Activities

We have summarized both our audit and investigative activities under the following eight categories: Task Forces and Major Investigative Initiatives; Enumeration; Earnings; Initial Claims; Post-entitlement; Financial Management; General Management; and Representative Payee. Enumeration, Earnings, Initial Claims, and Post-entitlement are among the core business processes identified by SSA's General Business Plan for Fiscal Years 1997-2001. The Financial Management, General Management, and Representative Payee categories include cross-cutting issues that affect all of SSA's operations. The following section highlights the OIG's significant activities:

TASK FORCES AND MAJOR INVESTIGATIVE INITIATIVES

The OIG participates jointly with the Agency in a number of task forces, operations and study groups promoting economy and efficiency and deterring fraud, waste and abuse. Together we launched and/or continued the following initiatives:

OIG Leads Payment Accuracy Task Force

The Payment Accuracy Task Force is an SSA-wide initiative led by the OIG's Office of Audit. It was created to improve the accuracy of payments for SSA's Old-Age, Survivors and Disability Insurance and Supplemental Security Income Programs. This task force is guided by a high-level steering committee of Associate Commissioners from SSA's major components. Through an OIG/SSA cooperative effort, the steering committee has established multi-disciplinary issue teams to analyze the causes of payment errors and recommend corrective actions to SSA's Executive Staff. Despite SSA's efforts to improve its payment accuracy rates, error rates have remained constant over the years. Even small percentages of error represent large costs to the Agency, beneficiaries, and taxpayers. For example, a one-tenth of 1 percent error in the $385 billion benefits paid out by SSA in FY 1997 equals $385 million.

The Earnings Record payment error category was the first issue area to be addressed by the task force. It was selected because it consistently accounts for the largest amount of dollar errors. The team examined SSA's payment processes to identify the aspects of those processes that result in inaccurate payments and explored solutions for improving SSA's ability to issue accurate payments. In September 1997, the task force issued its first report on the Earnings Record payment error category that contained 18 recommendations to improve the accuracy of payments made to beneficiaries. The majority of recommendations require modifications to the Modernized Claims System and operating policies and procedures. Other recommendations address training, employee feedback, public information, and the impact of the recent automation of the field office earnings adjustment process. The next issue area is scheduled to be studied beginning in January 1998 and will focus on Supplemental Security Income Earned Income errors.

Inspector General Co-Chairs National Anti-Fraud Committee

In September 1997, the National Anti-Fraud Committee sponsored its second National Anti-Fraud Conference, "New Approaches in a New Environment." This committee, comprised of SSA Deputy Commissioners and co-chaired by SSA's Deputy Commissioner for Finance, Assessment and Management and Chief Financial Officer and the Inspector General, welcomed a week-long conference to present and discuss anti-fraud issues and SSA's recently initiated "Zero Tolerance for Fraud" campaign. The conference was attended by over 450 SSA and OIG employees from headquarters and field offices.

In addition, OIG Special Agents-in-Charge chair Regional Anti-Fraud Committees in their respective field division locations. These committees bring together OIG's investigative experience and SSA personnel's program and operational knowledge in a concerted effort to identify and prevent fraud in SSA programs. Committees focus on key issues such as the process for potential fraud referral and necessary training in detecting fraud and counterfeit documents. They also foster improved communications between SSA and OIG components and encourage suggestions to further the goals of the committees.

To support SSA's "Zero Tolerance for Fraud" initiative, the Office of Investigations' Strategic Enforcement Division formed task forces to identify areas that are potentially vulnerable to widespread fraud and abuse. These task forces are operating in joint efforts with the Agency as well as with other Federal, State, and local agencies to effectively respond to criminal activities that target the Social Security system and undermine the public's confidence in the Agency's programs.

Our Strategic Enforcement Division undertook seven major initiatives during FY 1997:

1. OPERATION BORDER VIGIL ADDRESSES RESIDENCY ISSUES

This effort was established to address residency issues as they pertain to entitlement to and/or eligibility for SSA benefits. Currently there are 369,629 individuals living in foreign countries who are receiving $1.9 billion in retirement, survivors and disability payments annually. Monthly benefit checks are disbursed to almost every country in the world. These individuals have every right to reside wherever they wish, but foreign residency makes it difficult for SSA to verify continued eligibility. SSA does not have a system in place to determine if all the individuals receiving payments are alive, and whether or not their children and/or spouses are still entitled to receive the payments.

Individuals who receive Supplemental Security Income payments, on the other hand, must reside in the United States to maintain their eligibility for benefits. There are 785,000 aliens and an unknown number of citizens receiving Supplemental Security Income checks every month who have birth ties to foreign countries. One concern with the Supplemental Security Income Program is that individuals enter the United States as resident aliens, refugees or even obtain citizenship to establish eligibility for and begin to receive benefits, then move back to their countries of origin. The pilot projects discussed below were used as a basis for establishing limited scope operations at selected foreign sites for suspicious Supplemental Security Income claims.

The Chula Vista residency fraud project was the first operation established to target individuals fraudulently receiving Supplemental Security Income while residing in Mexico. SSA's Chula Vista, California Field Office manager began this effort to address concerns about improper payments to recipients living in Mexico. With the assistance from the OIG and private investigators, the SSA field office identified 26 Supplemental Security Income applicants who had provided false residency information. In addition, Supplemental Security Income payments were stopped to 99 recipients who were not residing in the United States. Our investigative work has resulted in 17 indictments, 6 arrests, and 2 convictions for fraud. This effort also resulted in 18 arrests and 8 convictions of individuals committing SSN fraud.

The El Paso residency verification pilot was also initiated as a result of numerous complaints about residents of Mexico receiving Supplemental Security Income payments. This operation was designed to identify individuals receiving payments based on fraudulent statements regarding residency, or other eligibility factors such as citizenship, alien residency status, age, income, and resources. The operation focused on the total population of 2,107 Supplemental Security Income recipients with residence addresses in two El Paso, Texas zip code areas. The initial contact, requesting evidence of residency, was made through the mail. Approximately 1,150 interviews were conducted to resolve issues related primarily to residency. The operation thus far has stopped payments to 156 recipients who did not meet the required eligibility criteria and identified $1.6 million in fraudulent payments. The amount of payments avoided as a result of this effort is estimated at $3 million.

2. VALIDATION SURVEYS VERIFY ELIGIBILITY

The Office of Investigations participated in several international validation surveys to verify beneficiaries' existence, identity, and continuing eligibility. Those beneficiaries found to be no longer eligible for benefits or collecting benefits fraudulently are then removed from the rolls. In concert with SSA's Office of International Operations, we conducted surveys in Argentina, North Yemen, and Costa Rica. We also joined forces in conducting a series of surveys with the Department of Defense and the U.S. Secret Service under "Operation Mongoose," which utilized state-of-the-art computer technology data matching techniques to detect and deter fraud. These surveys took place in Korea, Japan, and the United Kingdom and resulted in the termination of payments to individuals no longer eligible to receive benefits. The results of these surveys are being used to evaluate the advisability and reality of creating a project that will effectively and efficiently identify and address program fraud conducted in foreign locations.

We also participated in a validation survey with SSA's Office of Program and Integrity Reviews. The survey's objective was to identify foreign-born Supplemental Security Income recipients not living in the United States and to terminate their benefits, if appropriate. The survey targeted 900 foreign-born recipients and has identified some individuals with the potential of having their benefits terminated.

3. OPERATION WATER WITCH TARGETS FUGITIVE BENEFIT SUSPENSIONS

SSA's ongoing efforts in prison matching identify beneficiaries who have been imprisoned as a result of felony convictions. SSA benefits are suspended if a recipient is incarcerated. In some instances, when prison officials are contacted to verify the incarceration, SSA is informed that the prisoner has escaped. Based on this experience, the Office of Investigations created an initiative to use the prison match to locate escapees and parole violators who are still receiving SSA benefit payments.

In the past, SSA considered recipients in flight to avoid confinement still under an order of confinement, and therefore payments were stopped. This act negated an opportunity for apprehending the criminals and possibly recovering the improper payments. In FY 1997, with the assistance of other law enforcement agencies, we were able to arrest five escaped felons and suspend benefit payments to an additional 18 escapees. These escapees had already received $333,000 in fraudulent payments. We estimated that these escaped felons would have received approximately $450,000 in additional payments.

4. OPERATION CONTENDER TARGETS DISABILITY FRAUD

Operation Contender is designed to investigate and prosecute service providers (lawyers, doctors, representative payees, and interpreters) who aid individuals in fraudulently obtaining eligibility for Disability Insurance Program benefits. In Washington State, a task force of SSA employees, and Federal and State investigators identified approximately 600 Cambodian Supplemental Security Income recipients in Pierce County who were suspected of fraudulently receiving benefits. Thus far, there have been 31 convictions, 60 cases accepted for prosecution, $1.8 million in restitution, $80,000 in forfeitures, and an estimated $1.7 million in future payments avoided. The Strategic Enforcement Division is looking at this model for potential application in other areas of the country where similar types of fraud may be occurring.

The Disability Determination Services (DDS) pilot project was initiated to develop a process for detecting and investigating fraud in the Disability Insurance Program at the application stage. Of particular interest are the third-party facilitators such as attorneys, doctors, and translators. The pilot consists of teams of two DDS quality assurance and/or integrity specialists, two State law enforcement officers, and one OIG special agent. The DDS employees will provide their institutional knowledge of abusive practices. We will also receive additional information from criminal and insurance fraud data bases. Local investigators will provide the resources necessary to identify widespread patterns of regional fraud. Since many disability programs are cooperative ventures with State governments, the inclusion of State investigators on the team is vital. These teams will review and investigate suspected fraud referrals from the DDS and the Office of Investigations. A number of DDS offices requested to be pilot sites. Five areas were selected for this project: Oakland, California; Chicago, Illinois; Atlanta, Georgia; Baton Rouge, Louisiana; and Brooklyn, New York.

5. OPERATION CLEAN SLATE IDENTIFIES EMPLOYEE SYSTEMS ABUSE

This operation is intended to identify and prosecute employees who fraudulently manipulate SSA electronic records systems to commit program fraud and other crimes. An example of this approach is a project nearing completion that involved a New York credit card investigation. This project identified several credit card conspiracies that resulted in the arrest of 17 SSA employees and 3 SSA contract guards. The estimated loss to financial institutions was $30 million.

As part of this operation, a committee comprised of security executives from major bank card and credit card companies was established to periodically advise the OIG on fraud trends within their industry. Manual comparison of SSA employee query information with stolen credit card reports has been successful in identifying employee collaboration.

6. OPERATION OCTOPUS IDENTIFIES FRAUDULENT USES OF SSNs

This operation has established several projects to identify and prosecute individuals fraudulently obtaining SSNs or using the SSNs of others for fraudulent purposes. One initiative focused on cases that identified a pattern of Eastern European illegal aliens using common identification documents to obtain SSN cards as a precursor to a host of fraudulent activity. Our efforts resulted in the arrest of 24 individuals for SSN fraud across 7 States. Other projects will be implemented to identify the fraudulent use of the SSN for various criminal activities. Another effort resulted in the identification of nine individuals who filed false income tax returns and student loan applications using fraudulently obtained SSNs. This fraud scheme resulted in a loss of at least $1 million to the Federal Government.

Many State Bureaus of Vital Statistics have reported the theft of a number of blank birth certificates. Using a birth certificate is the first step in establishing a false identity for criminal activities. The second step is to acquire an SSN. We have identified a State where we will match the place of birth in the SSA records with the respective Bureau of Vital Statistics records to identify individuals with SSNs who apparently used fictitious information for their applications. The goal of this project is to expose persons committing a variety of crimes.

7. OPERATION FAIR SHARE MERGES INTERAGENCY EFFORTS TO DETECT EMPLOYER FRAUD

This operation will be a coordinated effort with outside Government agencies to identify and address employers who are defrauding and abusing SSA programs. An initial project will isolate the misuse of the SSN as indicative of fraud involving illegal aliens or attempts to establish fraudulent financial accounts. Task force initiatives will focus on employers who violate Federal laws in their hiring practices or fail to pay Federal Insurance Contributions Act (FICA) taxes for their employees.

A recent law requires that SSA provide the Attorney General, in electronic format, information regarding the unauthorized employment of aliens. During FY 1996, SSA reported that over 1.3 million nonwork SSNs had earnings posted to their accounts. In addressing employer fraud, OIG hopes to make use of this type of information to identify employers who are routinely hiring large numbers of individuals who are not authorized for employment.

OIG Developing Computer Forensic Capability

We are implementing an initiative to ensure readiness to combat “electronic crimes.” Current investigations require a “computer forensic” capability to appropriately recognize and recover evidence in the electronic environment. The specific goals of this initiative are to identify and train special agents in each field division who will conduct “electronic crime” investigations and who will seize computers involved in investigations. With SSA’s decision to expand on-line applications for customers, OIG recognizes the need to increase resources devoted to identifying and addressing exploitation of SSA systems and services.

OIG Helping Census Bureau Develop Single Audit Clearinghouse

The Single Audit Act Amendments of 1996 established a Federal clearinghouse to receive copies of Single Audit reports covering Federal, State, and local Governments as well as nonprofit organizations. As part of this collaborative effort, the Office of Audit has been working with the Census Bureau’s Single Audit Clearinghouse Task Force to develop a Single Audit report data base, identify the data elements to be collected Governmentwide, and refine the machine-readable form used to input data.

Office of Audit Participates in SSA Task Forces

As a member of SSA’s Electronic Service Delivery Steering Team, the Office of Audit is involved in efforts to select, assess, and foster the innovative use of technology to improve service to the public, improve support for employees, and increase Agency efficiency. In addition, our role is to identify potential audit and investigative problems early in the process development stage and suggest preemptive remedies. The OIG also served on a work group responsible for establishing criteria to be used by SSA in determining the level of authentication necessary to appropriately secure private information about beneficiaries using a range of possible electronic services. We were concerned that the Electronic Service Delivery Steering Team still needed to establish a plan identifying current and future initiatives and a process for approving new proposals. The steering team initiated actions to develop a strategic plan and a formal work plan, and to establish procedures for adding and managing future projects.

The Office of Audit also participates on SSA's Customer Service Executive Team. The team is responsible for developing an ongoing process to review and update SSA's performance measures and customer service standards within the context of SSA's strategic planning process. Moreover, the team will make recommendations for any changes to the current performance measures and customer service standards based on input from customers and stakeholders.

OIG Active in President's Council on Integrity and Efficiency

The Inspector General serves as editor of the President's Council on Integrity and Efficiency's Journal of Public Inquiry, a semiannual publication. This journal focuses on issues and topics of interest to the Inspector General community.

ENUMERATION

Enumeration is the process by which SSA assigns original SSNs, issues replacement cards to individuals with existing SSNs, and verifies SSNs for employers and other Government agencies. SSA processed 16.3 million requests for new and replacement SSN cards in FY 1997. The expanded use of SSNs as identifiers has given rise to the practice of counterfeiting SSN cards, obtaining SSN cards based on false information, and misusing SSNs to obtain benefits and services from Government programs, credit card companies, retailers, and other businesses. Additional concerns relate to improperly issuing SSNs for illegal work activity by noncitizens, issuing multiple SSNs to individuals, and controls over third-party involvement (i.e., hospitals, relatives, and other Governmental agencies) in the enumeration process. During FY 1997, over 86 percent of our criminal convictions involved SSN fraud. Some of our significant work included:

Investigations:

Former SSA Employee Sold SSNs: A former SSA employee was sentenced to 15 months incarceration, to be followed by 3 years supervised probation, and was ordered to pay a $300 special assessment fee. The employee pled guilty on January 18, 1997, to conspiracy and bribery of a public official and sale of SSN cards. The employee admitted to processing approximately 37 false applications for SSN cards and selling newly issued SSNs to a co-conspirator. The co-conspirator, a tax preparer, used the newly issued SSNs to file false income tax returns.

Man Obtained Two SSNs to Hide Stock Income: A Massachusetts man was sentenced to 41 months in Federal prison, to be followed by 3 years supervised release, and was ordered to pay $418,541 in restitution, a $75,000 fine, and a $900 special assessment. He pled guilty to wire fraud, money laundering, misuse of SSNs, and false representations concerning SSNs. He devised and executed a scheme in which he presented false information on applications to SSA to obtain two SSNs so he could open securities trading accounts under a false identity.

Clergyman and SSA Employee Obtained Valid SSN Cards for Illegal Aliens: A long-time clergyman in Philadelphia's Korean community pled guilty to conspiring with an SSA supervisor to obtain valid SSN cards for over 600 illegal Korean aliens during the period of January 1992 through December 1994. The clergyman was sentenced to 30 months imprisonment, to be followed by 3 years supervised release, and was ordered to pay a fine of $60,000. The SSA employee was sentenced on April 16, 1997 to 10 months imprisonment, to be followed by 2 years supervised release, and was ordered to pay a $1,000 fine.

Man Obtained SSNs for Nonexistent Children to Obtain Fraudulent Benefits: Between 1993 and 1997, a California man applied for SSNs in the names of nonexistent children by utilizing counterfeit Arkansas birth certificates and counterfeit immunization records. The individual also used genuine California drivers' licenses, obtained through fraud, under several aliases to pose as the father of these fictitious children. The man submitted approximately 650 applications to SSA offices throughout California, resulting in the assignment of about 575 SSNs. On August 21, 1997, the man was arrested and charged with furnishing false information in connection with the establishment of SSNs. On September 5, 1997, he was indicted by a Federal Grand Jury and charged with conspiracy and knowingly submitting false information to obtain SSNs.

Individuals Misused SSNs in a Scheme to Defraud Insurance Companies: Since 1993, various individuals in the New York area were involved in a scheme that staged auto accidents and then subsequently filed false claims with 17 private insurance companies. The claims contained false, transposed and/or misused SSNs. Total fraud to date is in excess of $500,000. As of August 5, 1997, 77 SSNs had been misused. On August 14, 1997, 10 of the 13 individuals indicted were arrested.

Audit:

Canada's Experience in Charging a User Fee for Social Insurance Number Cards, A-06-97-62003, May 22, 1997

To assist SSA in responding to a congressional request to determine the feasibility of charging a user fee for replacement SSN cards, we reviewed the experiences of the Canadian Government, which charges for replacement Social Insurance Number cards. We found that the primary purpose of the user fee is to generate revenue to help recover the cost of producing replacement cards. Based on these findings, and on SSA's cost estimates for producing SSN cards, we recommended that SSA charge a fee of $13 to those individuals who need a replacement card. Relying on these estimates, we determined that SSA could increase its resources by approximately $142 million annually by charging a replacement fee. However, the costs of producing the SSN card may increase with the additional costs associated with collecting the user fee. In September 1997, SSA provided Congress with a proposal providing options for charging a user fee for a replacement card.

EARNINGS

Social Security benefits are based on an individual's earnings as reported to SSA. SSA establishes and maintains a record of an individual's earnings for use in determining an individual's entitlement to benefits and for calculating benefit payment amounts. In FY 1997, SSA processed more than 249 million earnings items. In 1989, the Omnibus Budget Reconciliation Act mandated that SSA issue Personal Earnings and Benefit Estimate Statements (PEBES) annually to individuals over age 60 during FYs 1996 through 1999, and to persons age 25 and over beginning in FY 2000. This will generate additional work for the Agency, mostly in the form of public inquiries and requests for earnings corrections. In FY 1997, SSA issued more than 15 million PEBES.

Reviews in this area have noted problems with unidentified earnings items, omitted earnings reports, duplicate posting of earnings, and poor controls over the earnings correction process. Fraud related to earnings usually involves deception, such as false identity cases where an individual uses another person's identity or SSN that distorts the true SSN holder's earnings records and income tax records. Some of our significant work in the earnings area included:

Investigations:

Disability Beneficiary Concealed Work as a Limousine Driver: A New York man was arrested after voluntarily surrendering for a false statement violation. He confessed to having received SSA disability benefits under one SSN and name while working as a limousine driver with another SSN and name. He had been receiving benefits since 1981 and had been overpaid $48,199.

Couple Charged with Grand Theft, Perjury, and Welfare Fraud: A California couple, with the wife acting as a representative payee, never declared owning property and a landscaping business for the past 10 years when applying for Supplemental Security Income and other welfare benefits. A 1997 review established that none of these earnings nor assets were declared on the Supplemental Security Income application. The couple has been sentenced to 5 years in a State prison (suspended), 5 years felony probation, and 1 year in the county jail (to be served). The couple was also ordered to pay restitution of $354,000, of which $48,634 were Supplemental Security Income payments.

Woman Concealed Employment while Receiving Disability Benefits: A California woman, while collecting disability benefits, applied for and received an SSN and a California driver's license under a fictitious name and then gained employment as a lab assistant. This was done to conceal employment so she could continue to receive disability benefits. SSA incurred a loss of $112,000.

Parking Lot Attendant Worked under Alias to Continue Receipt of Disability Benefits: A New York disability beneficiary was employed as a parking lot attendant under a fictitious name and SSN. She was employed for 12 years while on disability and received disability benefits of $92,989 to which she was not entitled. On February 28, 1997, she was sentenced to 4 years probation and 6 months home confinement. In addition, 5 percent of her annual gross income will be applied to the overpayments during her 4 years of probation.

SSA Disability Beneficiary Did Not Report Earnings: A Massachusetts man did not report wages to SSA while receiving disability insurance since 1990. He was sentenced to 5 months in a corrections house and 3 years of supervised release, of which the first 5 months is home detention, and was ordered to pay $92,238 in restitution.

Audits:

Internal Controls of the Earnings Modernization 2.8 Program, A-03-95-02608, March 31, 1997

The objective of our review was to evaluate the accuracy of the operative controls to detect and prevent fraudulent entry of earnings corrections. The Earnings Modernization (EM) 2.8 program is the computerized process for making earnings corrections for errors found by individuals on their Personal Earnings and Benefit Estimate Statements. Our review showed that controls over the earnings adjustment process at the Mid-Atlantic Program Service Center and the Office of Central Records Operations need to be improved to address the increased vulnerability to fraud with the expanded access to the Master Earnings File resulting from the EM 2.8 program.

We recommended that SSA: 1) implement an internal review system at the Mid-Atlantic Program Service Center; 2) introduce separation of duties procedures at the Mid-Atlantic Program Service Center and the Office of Central Records Operations for high-risk transactions; and 3) improve its automated security matrix to restrict the usage of EM 2.8. While addressed to the locations reviewed, these recommendations apply system-wide and should be implemented at all locations having access to the EM 2.8 program.

SSA agreed to correct the matrix problem, but because the Agency is concerned with the effect additional controls will have on productivity, it did not agree with some of our recommendations. The Agency stated that it has satisfactorily addressed the vulnerability of the earnings adjustment process by putting in place a comprehensive package of administrative and system-enforced security controls. The SSA plans to implement the new Comprehensive Integrity Review Process software, which will provide additional transaction targeting capabilities, as well as the flexibility to dynamically control transaction selections and profile criteria for integrity reviews.

OIG disagreed with SSA's position, stating that while there are a number of intricate and overlapping controls in place, they would not detect nor prevent fraudulent entry of earnings corrections because these controls do not compensate for the absence of separation of duties. Further, it was noted that the Comprehensive Integrity Review Process software, when fully implemented, may be an acceptable compensating control for the absence of separation of duties; however, implementation is 3 years away.

Activity Related to the Suspense File - Management Advisory Report, A-03-96-31001 and A-03-96-31002, September 15, 1997

Two OIG audits on the Suspense File, "Use of Internal Data to Post Wage Items from the Suspense File" (A-03-96-31001) and "Review of Computerized Methods for Identifying Postable Suspense Items" (A-03-96-31002), have been deferred. SSA's Suspense File is the alternate repository for annual and quarterly wage items which are processed through the earnings system but fail to match a name or SSN in SSA's records. As of February 1997, the Suspense File contained over 203 million wage items representing over $217 billion in covered wages. In July 1996, SSA informed OIG that pilot studies were being conducted in response to allegations made by the manager of the San Bernardino, California District Office concerning the methods used to reduce the Suspense File. Since these studies had similar objectives to our audits, we delayed our work and will review the results of SSA's pilot studies when they are complete.

While we did not complete our audits, we did observe staff at the San Bernardino District Office perform a review to reduce the Suspense File wage items of one employer. The procedures used included matching names and middle initials to data base files other than the Numident file. By using this system, 105 postings were matched, which reduced the Suspense File by $1.62 million. We tested the accuracy of the review and determined that the procedures used, while not the standard, are valid.

The San Bernardino District Office had also alleged that the matching procedures discriminate against women and minorities. While conducting our preliminary reviews, we found that the earnings system has special validation rules for both women and minorities and wage earners with compound surnames which increase the chances that their wages will be posted.

We recommended that SSA's pilot tests should experiment with using the matching procedures devised by the San Bernardino District Office, using information other than the Numident file to match wage items that are in the Suspense File.

INITIAL CLAIMS

Initial claims is the process by which SSA determines an individual’s eligibility for and entitlement to benefits. The process begins with an individual’s initial contact with the Agency and continues through payment effectuation or the administrative appeals process. The process for determining eligibility for benefits involves certain basic functions across each of the programs that the Agency administers: outreach and information, intake, evidence collection, determination of eligibility or entitlement, notification of award or denial, and initial payment.

In FY 1997, SSA processed over 3 million initial claims for Old-Age and Survivors Insurance, 1.6 million initial claims for Disability Insurance, and 1.6 million initial claims for Supplemental Security Income. These programs may be defrauded by persons who file false claims, make false statements, or conceal factors affecting initial or continuing entitlement. Our work also places emphasis on future opportunities to improve the timeliness and accuracy of SSA’s initial payments. The OIG’s major concerns in these areas are delays in processing disability claims, reliability of disability determinations, benefit payment error computations, and inadequate internal controls. Some of our significant work included:

Investigations:

Arson of a Health Care Clinic Revealed Employee Who Concealed Employment to Receive Disability Benefits: An Indiana man was involved in the arson of a health care clinic where he was employed. It was later discovered that he been employed while receiving disability benefits. As a result of this employment, the man received an overpayment of benefits of more than $90,000 to which he was not entitled.

Two Individuals Received Benefits Based on False Identities: Two North Carolina individuals were indicted for conspiring to defraud SSA by applying for benefits using false documents and switching identities to receive disability benefits. They also admitted filing false nonreceipt of payment claims to receive duplicate checks. The approximate loss to SSA was $80,000.

SSA Employee Completed Fraudulent Claims Forms and Received Half of the Check Amounts: An SSA Benefits Authorizer pled guilty to fraudulently filing, on nine separate occasions, forms for "Amount Due in the Case of a Deceased Beneficiary." This form is completed by the next of kin for benefits owed on the account of a deceased relative. After forging the name of family members and close friends as claimants, the Benefits Authorizer processed a "Determination of Resumption or Award," which initiated the issuance of a check from SSA to the relatives and friends to pay the full amount allegedly owed to the next of kin. Following receipt of the money, half of the proceeds were paid to the Benefits Authorizer. The employee agreed to make restitution in the amount of $14,923.

Doctors, Middlemen, and Recipients of Supplemental Security Income Obtain Fraudulent Benefits: In Washington State, OIG participated in a task force which identified doctors, middlemen, and recipients involved in obtaining fraudulent benefits. During the period from April 1, 1997 to September 30, 1997, the task force successfully obtained 11 voluntary terminations of fraudulent benefits valued at $449,138.

Three Sentenced for Fraudulent Billings to U.S. Government Agencies and Private Insurance Companies: Three defendants were part of a conspiracy to defraud various Government agencies and private insurance companies. They billed for payment for psychotherapy sessions, medical, nursing and transportation services provided to patients covered by the Government programs and private insurance carriers, when they knew that the patients had not received such treatments and services. One of the defendants was sentenced to 24 months in prison and 3 years supervised release, and was ordered to pay SSA $65,010. In addition to his role in the conspiracy, this defendant was also fraudulently collecting disability benefits. Another defendant was sentenced to 27 months in prison and 3 years supervised release, and was ordered to pay restitution to three private insurance companies. The third was sentenced to 87 months in prison and 3 years of supervised release, and was ordered to pay a special assessment fee of $1,400 and restitution to three Government agencies and three private insurance carriers. This defendant was also receiving survivors retirement benefits from SSA, which will be suspended during her incarceration.

Audits:

The Social Security Administration's Payment for Medical Evidence of Record Obtained by State Disability Determination Services, A-07-95-00833, March 26, 1997

The objective of our audit was to assess SSA's policy of reimbursing medical providers for the cost of providing medical evidence of record. To determine the medical condition of individuals applying for Disability Insurance and Supplemental Security Income payments and to ensure prompt receipt of medical evidence from treating sources, Congress authorized SSA to pay non-federal hospitals and health care providers directly for the medical evidence of record. The Congress believed that this practice would improve claims processing time and reduce the need for the Disability Determination Services to purchase additional consultative exams.

The major finding of our review was that claims processing time during the period from FY 1985 through FY 1994 increased substantially while consultative examination rates remained relatively constant. Additionally, we found that the State of Connecticut, which precluded reimbursement to both institutional and noninstitutional providers for medical evidence of record, has encountered no adverse effect on the disability determination process. Accordingly, we have concluded that reimbursing medical sources has had no discernible effect on improving the timeliness of medical evidence of record receipt or reducing consultative exam purchases.

We recommended that SSA reevaluate its policy for paying for medical evidence records. As part of this reevaluation, we suggested that SSA measure the time between the initial request for medical evidence of record and the receipt of the record. This data will furnish the information as to which providers are timely. We also recommended that SSA initiate a legislative proposal precluding payment to medical sources for medical records not received within 30 days from the date of the request, if this reevaluation discloses significant delays.

SSA deferred commenting on our recommendations, but agreed that payment should provide an incentive for timely and responsive submission of medical evidence. SSA, as part of its ongoing disability redesign process, plans to complete a reevaluation of the medical evidence collection process within 9 months from the date of its comments. If the reevaluation results show that statutory changes are needed, then SSA will propose the necessary legislation.

Payments to Surviving Spouses at Retirement Age, A-05-95-00016, March 28, 1997

We conducted this review to determine if surviving spouses were receiving the highest benefit at retirement age for which they were eligible and if SSA was effective in identifying and notifying affected individuals.

SSA procedures place the responsibility on surviving spouses to reapply for retirement benefits when their retirement benefits may become higher than their survivors benefits. We identified 7,694 surviving spouses who could potentially qualify for retirement benefits and who had attained age 65 in December 1992. A sample of cases (all were widows) disclosed that 16 percent were eligible for higher retirement benefits. Many of these widows did not apply for the retirement benefits and, therefore, were not receiving the highest benefits for which they were eligible. The widows were due increased monthly benefits with an average increase of 15.7 percent. The widows were unaware of the higher retirement benefits and, at their retirement age, SSA did not notify them. This problem could become worse as the number of widows entitled to retirement benefits grows due to the increase in women's participation in the work force.

We recommended that SSA improve its procedures to assist surviving spouses in receiving the highest benefits due to them. We expect that our recommendations will improve the accuracy of benefit payments to surviving spouses by $660,000.

SSA implemented our recommendations and earlier this year identified more than 200,000 surviving spouses who were eligible for higher retirement benefits. These individuals were notified by letter and requested to contact SSA. Most of the individuals notified have filed claims and are now receiving the higher benefits.

POST-ENTITLEMENT

Once individuals become eligible for benefits, any changes in circumstances (events that affect the amount or continuation of payments, change of address, etc.) must be reflected in SSA's records. The post-entitlement process encompasses actions that SSA takes after claims have been processed as initial awards. This process contributes to timely and correct payment of benefits. In FY 1997, SSA processed 65.6 million post-entitlement Old-Age and Survivors Insurance transactions; 13 million Disability Insurance transactions; and 22.1 million Supplemental Security Income transactions.

Post-entitlement fraud includes the concealment of changes material to the beneficiary's or recipient's entitlement to or eligibility for SSA benefits. This concealment sometimes involves representative payees who defraud SSA programs either by filing fraudulent applications for persons not in their care or custody or through misuse of the benefits received on behalf of another. Individuals may also conceal facts affecting the beneficiary's continuing eligibility or entitlement such as remarriage, incarceration, or death. Some of our significant work included:

Investigations:

Woman Concealed Death of Husband to Continue to Receive His Benefits: An Iowa woman pled guilty to concealing the 1986 death of her husband from SSA. The woman did not disclose the death to SSA, buried him in the back yard of their residence, and continued to receive his disability benefits totaling $106,318. After she admitted to the crime, the court sentenced the woman to 3 years supervised release and ordered her to pay full restitution.

Civil Action Filed against Man Who Cashed Deceased Brother's Retirement Checks for 31 Years: A Virginia man continued to cash his deceased brother's retirement checks from 1964 until October 1995, when the benefits were terminated. He had cashed $120,086 in benefits over a 31-year period. A civil action was filed against the man in the amount of $156,456 plus civil penalties in the amount of $1,000,000, for a total of $1,156,456.

Idaho Man, with the Help of His Mother, Allegedly Committed Murder to Receive Another Individual's Retirement Benefits: An Idaho man, with the help of his mother, allegedly murdered a 73-year-old man in 1986 and until 1997 collected $78,198 of the deceased man's retirement benefits. These individuals were arrested and are being held without bond.

Granddaughter Forged and Negotiated Her Deceased Grandmother's Retirement Checks for 22 Years: A Massachusetts woman died in 1974 and her granddaughter forged and negotiated her retirement checks until 1996. The total loss to SSA was $91,311. The granddaughter was sentenced to 2 years probation, of which the first 10 months are to be served in home confinement, ordered to pay full restitution of the amount, fined $5,000, ordered to pay for the cost of her supervision, and required to perform 100 hours of community service.

Wife Continued to Receive Deceased Husband's Retirement Benefits: The wife of a deceased beneficiary acknowledged that she used the proceeds of her husband's retirement benefits subsequent to his death. The investigation documented that the wife did not notify SSA of her husband's death, had not attained the mandatory age to quality for widow's benefits at the time of his death, and upon reaching age 60 had not filed an application with SSA for widow's benefits. The wife was subsequently charged with theft of Government property for continuing to receive via direct deposit her deceased husband's retirement benefits.

Son of a Deceased SSA Beneficiary Continued to Cash Father's Benefit Checks: A Connecticut man pled guilty on October 25, 1996, to one count of theft of Government property for cashing $99,846 in SSA benefit checks subsequent to the death of his father. On January 13, 1997, the man was sentenced to 5 years probation, ordered to perform 100 hours of community service, and ordered to make full restitution.

Audits:

Effectiveness of SSA's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments, A-01-96-61083, June 24, 1997

The objective of this review was to determine whether SSA had adequate procedures in place for matching Federal, State, county, and local prisoner data to SSA's records and suspending payments to identified prisoners. This review also assessed whether SSA was effective in collecting overpayments from prisoners.

Our review indicated that procedures for matching prisoner data to SSA's records do not provide reasonable assurance that alerts were received in field offices and program service centers and processed in a timely manner. In addition, SSA is not effective in collecting overpayments from prisoners.

We estimated that prison data processing delays resulted in SSA's continuing to pay $558,000 to 233 prisoners. Also, without controls over prisoner alerts, overpayments, estimated at $5.7 million in Social Security benefits and $3.8 million in Supplemental Security Income payments for the 6-month period ending December 1994, will continue. SSA has failed to collect $8.9 million in Social Security benefits and $11.5 million in Supplemental Security Income overpayments paid to prisoners.

By modifying the matching process and increasing electronic matches, the matching procedures for identifying prisoners receiving benefits would become more accurate. Establishing procedures to resolve old alerts and requiring program service center and field office managers to process alerts timely, with modifications built into the alerts accelerating their transmission, would the improve process. Finally, by establishing procedures for monitoring Supplemental Security Income overpayments and changing policy regarding collection efforts, the process for collecting overpayments from prisoners would be more effective. We also recommended that SSA intensify its collection activities for the $8.9 million in Social Security overpayments and $11.5 million in Supplemental Security Income overpayments that we identified. SSA's comments on this report expressed disappointment that we did not acknowledge or reflect the improvements in the prisoner suspension process which SSA has implemented even though it is limited in its authority to collect overpayments. As such, we also recommended that SSA pursue legislative change to allow more aggressive pursuit of the overpayments.

Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries, A-06-95-00076, July 29, 1997

Our objective was to evaluate SSA's policies and procedures for suspending and terminating benefits to Disability Insurance beneficiaries whom SSA cannot locate. We found that SSA's practice is to maintain the entitlement of unlocated beneficiaries by suspending, rather than terminating, benefits. This practice is inconsistent with section 223(f) of the Social Security Act and, in addition, overstates SSA's accrued benefit liability and program expense in the Agency's financial statements.

Our sample of unlocatable disabled beneficiaries whose benefits were suspended identified an estimated $80 million in unpaid benefits to an estimated 3,340 unlocatable beneficiaries as of September 30, 1995. Also, related individuals (i.e. spouses and children) continued to receive benefits after payments to disabled persons were suspended. We estimated that these payments totaled $1.4 million.

To resolve these problems, we recommended that SSA examine the entitlement status of all disability beneficiaries who are in suspended pay status because they cannot be located, and terminate benefits in cases where a reasonable time period lapses to locate the beneficiary and due process has been provided. SSA did not agree with our recommendations, citing legal opinions provided by the Agency's General Counsel which stated section 223(f) did not provide authority for terminating beneficiaries on the basis of returned mail.

The Adequacy of the Residency Verification Process for the Supplemental Security Income Program, A-06-96-62001, May 29, 1997

The objective of this review was to determine if the residency verification process is adequate to assess residency for individuals who receive Supplemental Security Income benefits living near the Mexico-United States border. More specifically, our objectives were to determine whether listings of addresses with multiple recipients are useful in identifying nonresident recipients, if home visits are effective for verifying residency for recipients, and if the Program Operations Manual System (POMS) contained adequate guidance to field offices for verifying that recipients are U.S. residents.

The results of a home residency verification study conducted by the Chula Vista Field Office proved the effectiveness of such visits. The field office determined that 63 recipients of its targeted population were overpaid $385,443 because SSA was unaware that they were not U.S. residents and, therefore, ineligible for Supplemental Security Income. We also found that the POMS is lax in its instructions. Current procedures allow SSA to make Supplemental Security Income payments to individuals based on testimonial information without obtaining documentary evidence supporting U.S. residency.

We recommended that SSA implement a process that field offices can use to search for addresses for its Supplemental Security Income recipient population, and SSA agreed. We also recommended that SSA increase resources for this activity by either hiring a contractor or making staff available. While SSA had concerns regarding this recommendation i.e., cost, the Agency agreed. In addition, we recommended that SSA revise POMS to provide for expanded residency development to verify questionable addresses of claimants and recipients (e.g., conducting home visits or researching third party information). SSA agreed with this recommendation as well, realizing that if the residency of recipients is not adequately developed, SSA risks making payments to ineligible nonresidents.

FINANCIAL MANAGEMENT

The Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, requires agencies to report annually to the Congress their financial status and any other information needed to fairly present the agencies' financial positions and results of operation. To meet these requirements, SSA prepares annual financial statements. The OIG audits and issues an opinion on the fair representation of these statements. Our audit activity included:

Inspector General's Report on SSA's Fiscal Year 1996 Financial Statements, A-13-96-51001, November 22, 1996

The objective of our audit was to express an opinion on the fair representation of SSA's FY 1996 principal financial statements taken as a whole, test the internal control structure, and assess SSA's compliance with applicable laws and regulations that could have a material effect on its annual financial statements.

We found that the combined financial statements present fairly, in all material respects, the financial position of SSA at September 30, 1996 and 1995, and the results of its operations, change in net position, and cash flows for FY 1996, in accordance with generally accepted accounting principles.

In performing our test of internal controls, we found that SSA's primary benefit payment systems, the Modernized Supplemental Security Income Claims System, the Modernized Claims System, and the Manual Adjustment Credit and Award Data Entry System, lack sufficient compensating controls to accommodate for the lack of separation of duties. The absence of separation of duties poses a significant risk that employees could implement fraudulent financial transactions and not be detected. In addition, the title XVI Overpayment System remains a material weakness under the Federal Managers' Financial Integrity Act because it cannot generate reliable accounts receivable data.

We also found in our review of SSA's compliance with laws and regulations that SSA had implemented a programmatic change to eliminate the practice of posting overpayments to beneficiary records and initiating collection without providing the beneficiary with the legally required notification. However, we found no indication that SSA has attempted to contact the recipients we previously reported as already affected by this practice. Also, despite an increase in the number of continuing disability reviews performed by SSA, a substantial backlog of approximately 1.8 million title II reviews remain.

GENERAL MANAGEMENT

General Management reviews encompass a wide range of SSA's administrative functions, extensive public information activities, data processing systems, data exchanges with other agencies, and research and policy making. Part of SSA's core business processes involves the dissemination of information about its programs. Significant OIG activities during this reporting period included:

Investigations:

SSA and Immigration and Naturalization Service Employees Processed Fraudulent Documents: An SSA employee was indicted on charges of conspiracy and accepting bribes. The SSA employee and an accomplice, who was an employee with the Immigration and Naturalization Service, are alleged to have accepted cash payments in return for issuing fraudulent immigration documents and fraudulent SSN cards. The indictment alleged that the two processed at least 30 such sets of documents, with the SSA employee allegedly receiving $100 for each fraudulent card. If convicted, the SSA employee faces a maximum punishment of 20 years imprisonment and/or a fine of $500,000.

Former Office of Hearings and Appeals Hearings Clerk Engaged in Bribery: A former hearings clerk in SSA's Office of Hearings and Appeals, along with her husband, were found guilty by a Federal jury and were charged with bribery and conspiracy. The former hearings clerk was sentenced to 46 months imprisonment and ordered to make restitution in the amount of $23,809. Her husband received a prison term of 30 months and also ordered to make restitution in the amount of $23,809. In connection with this case, a former Office of Hearings and Appeals employee and a SSA District Office employee, who entered guilty pleas to lesser charges and testified at the trial, were also sentenced. One of the former employees received a 6-month jail sentence and was ordered to make restitution in the amount of $7,709; the other individual was sentenced to 3 years probation and ordered to make restitution in the amount of $4,226.

Audits:

Audit of the Office of Program and Integrity Reviews' Special Studies, A-13-96-51142, February 19, 1997

The objectives of this review were to determine whether the Office of Program and Integrity Reviews' (OPIR) special studies were: 1) used by management to improve SSA programs; 2) cost-effective and efficient; and 3) performed in accordance with established standards.

We were not able to meet our intended objectives because OPIR had not implemented appropriate management controls for assuring accountability for its special studies. OPIR had not developed a system for tracking special studies and proposed recommendations, had not established standards for conducting its special studies, and had not established policies for ensuring the statistical validity of its studies. As a result, we were unable to ascertain the cost-effectiveness or efficiency of OPIR's special studies or their usefulness to Agency managers.

In general, we recommended that OPIR improve its management control program, establish special study standards, and implement statistical policies and procedures as published by the General Accounting Office. Most importantly, we recommended that SSA establish OPIR as a management control area under the Federal Managers' Financial Integrity Act program.

The Agency response to our recommendations, dated July 22, 1997, was favorable. SSA agreed with the four recommendations referring to management controls and statistical policies and procedures. However, SSA did not believe that OPIR should be declared a management control area under the Federal Managers' Financial Integrity Act program since the controls that were to be implemented would address the deficiencies.

The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public, A-13-96-52001, July 31, 1997

This review was undertaken to determine whether the SSA's program for monitoring the quality of telephone service provided to the public complies with Federal laws and regulations, and has adequate controls to ensure it is being used for its intended purpose. The review was prompted by congressional concerns about the effect of monitoring on privacy in the work place. Also, representatives from the American Federation of Government Employees requested that we conduct an audit in this area since they were concerned that SSA management was not adhering to established policies governing telephone monitoring practices.

We determined that SSA's telephone monitoring program may not comply with Federal laws and regulations and lacks internal controls sufficient to ensure that telephone monitoring is being used for its intended purpose. As a result, we provided SSA with a list of 19 specific recommendations regarding regulations, review, and prevention and deterrence. These recommendations included corrective actions to ensure that legal requirements are being met and the establishment of internal controls to ensure that telephone monitoring is being used for its intended purpose.

SSA disagreed with the major conclusions in the report, including the issue of noncompliance with Federal laws and regulations , but has begun drafting regulations to address telephone monitoring. SSA agreed to explore our recommendations regarding review and agreed with some of our recommendations on preventing and deterring improper telephone monitoring.

Review of Physical Security at the Social Security Administration's National Computer Center, A-13-96-11046, June 26, 1997

The objective of our review was to evaluate the physical security program in place at SSA's National Computer Center, one of the world's largest computer facilities. To achieve our objective, we reviewed pertinent guidelines and previous reviews issued by the Federal Government, and other written procedures and documents. We interviewed SSA and contract personnel responsible for physical security and made site inspections of the buildings and grounds. We performed tests of security devices and controls to evaluate their effectiveness.

We concluded that the security practices at the National Computer Center facility need to be strengthened. Our review identified 29 conditions needing improvement, ranging from faulty equipment to safety-related issues. SSA agreed with 27 of 29 of our recommendations. We have asked them to reconsider their position on the two remaining recommendations.

Due to security concerns, this report is designated restricted and confidential and distribution is limited to authorized officials.

Review of Internal Controls in the Social Security Administration's Modernized Claims System, A-04-95-06019, May 16, 1997;
Audit of Separation of Duties in the Social Security Administration's Modernized Supplemental Security Income Claims System, A-07-96-21065, August 29, 1997; and
Review of Internal Controls over MADCAP Transactions Processed through the MACADE System at the Mid-Atlantic Program Service Center, A-03-95-02609, September 8, 1997

The Office of Audit performed three reviews this fiscal year dealing with the effectiveness and implementation of SSA's internal controls over the nationwide Modernized Claims System, Modernized Supplemental Security Income Claims System (MSSICS) and Manual Adjustment, Credit and Award Data Entry (MACADE) System. Our studies showed that there are a lack of internal controls in the computer systems and a lack of separation of duties among data entry and systems staff, with a need to provide for compensating controls for the deficiency in the separation of duties. In the MSSICS review, we determined that the separation of duties does not meet the standards set forth by the Comptroller General. The other audits are restricted and confidential since they provide information on how to commit fraud within these computer systems.

We recommended that the Agency follow the General Accounting Office standards for separation of duties or compensate for this deficiency by increasing resources. SSA felt that in some cases separation of duties was not operationally feasible, but that the Comprehensive Integrity Review Process software, when implemented in the future, will provide the compensating controls OIG is recommending. OIG believes that SSA cannot wait to provide the needed compensating controls.

Access Controls for the Social Security Administration's Telephone Switch at the Western Program Service Center, A-09-96-91001, September 24, 1997

The objective of this review was to determine the adequacy of access controls in place at the Western Program Service Center (WNPSC) to ensure proper use of SSA's telephone switch (PBX). We met with WNPSC staff and made a physical inspection of the site. We also reviewed regulations in place and technical and PBX equipment publications related to telephone fraud.

Our review disclosed that controls are not adequate and leave the system vulnerable to fraud. First, telephone call detail reports had not been designated as a system of records. SSA questioned the need for and the cost-benefits related to establishing a formal system of records. Second, no staff is permanently assigned the responsibility of monitoring employee long-distance use. Without an accountable staff member, personnel will not be deterred from misusing the system. Also, password protection capabilities were not fully utilized. Last, we found that there is an absence of procedural guidance to ensure that PBX security capabilities are fully utilized.

We recommended that SSA establish telephone call detail reports as a system of records as required under the Privacy Act of 1974. Four of our recommendations consisted of improving procedural guidance including the use of call blocking, frequently changing PBX passwords, and assigning staff to monitor long distance calls. Last, we recommended that SSA assess the controls at other PBX locations and ensure that they are adequate.

The Agency agreed to our recommendations concerning improvements of procedures and implementing controls nationwide if necessary. However, SSA did not agree to establish a system of records for call detail reports. SSA felt that current controls, if fully implemented, would substantially reduce the incidence of telephone abuse. SSA felt that there was no evidence that implementing a system of records would be cost-effective. OIG believes that the deterrent measure alone would be of great benefit.

REPRESENTATIVE PAYEE

If an SSA beneficiary cannot manage his/her own finances, Congress has authorized the Agency to pay his/her benefits to another individual or organization, known as a representative payee. Approximately 6.6 million beneficiaries have payees. Payees may include, but are not limited to, parents, spouses, legal guardians, friends and institutions. A payee's responsibilities include frequently monitoring the beneficiary's current well-being, informing SSA of changes in the payee's own circumstances that would affect the payee's performance, reporting events to SSA that could affect the beneficiary's entitlement to or amount of benefits and submitting an annual accounting to SSA reporting how benefits were used or conserved.

The representative payee accounting process is expensive, labor intensive and produces limited results. The process rarely detects misuse of benefits or other problems and was estimated to cost SSA approximately $57 million in FY 1996. Significant activities during this reporting period included:

Investigations:

Stepfather Spent Disabled Stepson's Money: An Iowa stepfather, who acted as his disabled stepson's representative payee, requested $33,000 in retroactive Supplemental Security Income payments for his stepson. It was later found that the stepfather provided false information on the SSA payee accounting forms and that he did not spend any of the money on the stepson. It was disclosed that the stepfather spent the entire $33,000 in less than 4 months. The stepfather was sentenced to serve 21 months imprisonment "without possibility of parole" and was ordered to pay $12,000 in restitution.

Beneficiary's Brother Stole Five Retroactive Supplemental Security Income Checks: A Boston man was appointed by SSA to be the payee for his sister. He requested five retroactive payments totaling $27,085, then failed to convert the retroactive checks to the benefit of his sister. The brother was later convicted.

Representative Payee Received Payments for Incarcerated Beneficiary: A Boston man who was acting as a representative payee for his son never reported that his son was incarcerated and, thus, no longer entitled to Supplemental Security Income payments. The father completed the eligibility forms alleging that his son was renting a room in his house during the period the son was incarcerated. The father continued to receive checks that totaled $29,695. The father pled guilty and is scheduled for sentencing in December.

California Mother Received Payments for Son after His Incarceration: A California mother who served as her son's representative payee continued to collect his Supplemental Security Income payments after he was incarcerated. SSA suffered a loss of $60,000. She will be sentenced in late October 1997. In addition, the woman managed a boarding and care facility where she embezzled funds from the residents and defrauded SSA of an additional $6,963. She was convicted by the State for embezzlement.

Owner of Boarding Homes Defrauded Residents: The owner of several boarding homes in Philadelphia utilized threats and coercion to obtain power of attorney over the residents' withholdings and converted their assets to the owner's personal use. In addition, the owner illegally obtained the residents' Social Security checks, forged endorsements, and converted the funds to personal use. A civil judgment was issued in favor of the United States in the amount of $500,000, of which $350,000 is to be paid as restitution to the victims.

Audits:

SSA asked the OIG to conduct a series of studies that would review and recommend improvements to the representative payee process. The following roll-up report summarized what we found:

Monitoring Representative Payee Performance: Roll-Up Report, A-09-96-64201, March 28, 1997

This roll-up report provided comprehensive recommendations for increasing the efficiency and effectiveness of SSA's representative payee monitoring process. This report summarized the findings and recommendations of 16 audit and evaluation reports concerning representative payee issues. The reports, issued by the Department of Health and Human Services' OIG and SSA's OIG since the 1990s, provided findings and recommendations concerning: 1) SSA's accounting review process; 2) assessment of risk by various types and categories of representative payees; and 3) the demographics of representative payees and beneficiaries.

In summarizing the 16 reports, two general findings emerged: 1) the problems with representative payees are less extreme than anecdotal stories would suggest; and 2) the accounting review process and the accounting system need to be revised.

Some of our recommendations were specific to the accounting system and review process and the remaining took into consideration the representative payee. We believe that SSA could save $39.1 million annually by allowing certain categories of representative payees with custody (parents or relatives, and legal guardians) to submit the current annual accounting form every 3 years. Legislative amendment of the

Social Security Act requirements and relief from the court order in Jordan vs. Schweiker, No. Civ-79-994-W (W.D. Okla., March 17, 1983), concerning the requirement to obtain an annual accounting of benefits from all representative payees would be required to achieve these savings.

SSA is in general agreement with our recommendations. SSA expressed concerns with exempting some representative payees (e.g., legal guardians) from the annual accounting requirement, performing suitability checks for only the payees highest on the preference list, and revising accounting forms to ask specific questions about events that representative payees commonly fail to report.

Lists of Office of the Inspector General
Reports Issued October 1, 1996 to September 30, 1997

The Office of Audit conducts comprehensive audits and evaluations of SSA's programs and operations and makes recommendations to ensure that program objectives are achieved effectively and efficiently. The following charts provide listings of all reports issued from October 1, 1996 to September 30, 1997.

REPORTS ISSUED OCTOBER 1, 1996 TO MARCH 31, 1997

Reports with Non-Monetary Findings

Date Issued	Title	Report Number
October 23, 1996	Office of the Inspector General Evaluation Report: Test of Satisfaction Scales	A-02-96-02204
November 22, 1996	Inspector General's Report on SSA's Fiscal Year 1996 Financial Statements	A-13-96-51001
December 13, 1996	Social Security Coverage of State and Local Government Employees	A-04-95-06013
December 16, 1996	Monitoring Representative Payee Performance: Nonresponding Payees	A-09-96-64208
January 6, 1997	Monitoring Representative Payee Performance: The Accounting Form	A-09-96-64204
January 6, 1997	Monitoring Representative Payee Performance: The Accounting Review Process	A-09-96-64209
January 21, 1997	Unresolved Internal Revenue Service Alerts	A-13-97-61007
January 30, 1997	Reading Level for Spanish-Speaking Clients Receiving Social Security Administration Spanish Language Notices	A-06-96-62200
January 31, 1997	Review of Administratively Uncontrollable Overtime	A-13-97-92001
February 5, 1997	Missing Data Hinders Vocational Rehabilitation Referrals	A-13-97-21009
February 19, 1997	Audit of the Office of Program and Integrity Reviews' Special Studies	A-13-96-51142
February 28, 1997	Monitoring Representative Payee Performance: Management and Staff Survey	A-09-96-64212
March 18, 1997	Review of CA-Top Secret Access Control Software	A-13-95-00606

March 26, 1997	The Social Security Administration's Payment for Medical Evidence of Record Obtained by State Disability Determination Services	A-07-95-00833
March 26, 1997	Large Underpayments to Representative Payees	A-02-96-61201
March 28, 1997	Payments to Surviving Spouses at Retirement Age	A-05-95-00016
March 31, 1997	Internal Controls of the Earnings Modernization 2.8 Program	A-03-95-02608
March 31, 1997	Review of the Social Security Administration Procedures to Ensure State Compliance with Section 1616(e) of the Social Security Act	A-01-96-62001

Reports with Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
March 13, 1997	Procedures for Collecting Social Security Administration/Railroad Retirement Board Combined Benefit Payments Issued After Death	A-05-95-00017	$391,716
	Total Questioned Costs		$391,716

Reports with Funds Put to Better Use

Date Issued	Title	Report Number	Dollar Amount
March 28, 1997	Monitoring Representative Payee Performance: Roll-Up Report	A-09-96-64201	$39,100,000
	Total Funds Put to Better Use		$39,100,000

REPORTS ISSUED APRIL 1, 1997 TO SEPTEMBER 30, 1997

Reports with Non-Monetary Findings

Date Issued	Title	Report Number
April 29, 1997	The Social Security Administration's Use of Customer Comment Cards	A-02-96-02203
May 16, 1997	Review of Internal Controls in the Social Security Administration's Modernized Claims System	A-04-95-06019
May 20, 1997	Management Letter - Audit of the Social Security Administration's Fiscal Year 1996 Financial Statements	A-13-97-51011
May 29, 1997	The Adequacy of the Residency Verification Process for the Supplemental Security Income Program	A-06-96-62001
June 19, 1997	Review of the Back-Up and Recovery Procedures at the National Computer Center	A-13-96-11052
June 23, 1997	Study of the Social Security Administration's Operating Procedures Referencing Fraud	A-13-97-92002
June 26, 1997	Review of Physical Security at the Social Security Administration's National Computer Center	A-13-96-11046
July 9, 1997	Review of the County of Los Angeles' Performance as Representative Payee for Title II and Title XVI Children in Foster Care	A-09-96-62003
July 11, 1997	Review of Referral and Monitoring Agency Contracts for Drug Addicts and Alcoholics	A-04-95-06017
July 29, 1997	Review of the Effectiveness of the Social Security Administration's Low Birth Weight Baby Program	A-04-95-06015
July 31, 1997	The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public	A-13-96-52001
August 11, 1997	Audit of the County of Los Angeles' Review to Identify and Report to SSA Past Deficiencies for Title II and Title XVI Children in Foster Care	A-09-97-61002
August 29, 1997	Audit of Separation of Duties in the Social Security Administration's Modernized Supplemental Security Income Claims System	A-07-96-21065
August 29, 1997	Review of Child Adoption Practices under Title II of the Social Security Act	A-09-96-51001
September 8, 1997	Review of Internal Controls over MADCAP Transactions Processed through the MACADE System at the Mid-Atlantic Program Service Center	A-03-95-02609
September 15, 1997	Activity Related to the Suspense File	A-03-96-31001/31002
September 22, 1997	Payment Accuracy Task Force: Earnings Record Issue Team	A-13-97-52003
September 22, 1997	Benchmarking Private Sector Policies and Practices for Distributing Customer Notices	A-02-96-61000
September 24, 1997	Cataloging Social Security's Customer Service Monitoring	A-02-96-02202
September 24, 1997	Disability Applicants' Responses to Vocational Rehabilitation Issues: A Mail Survey	A-13-97-21008

September 24, 1997	Evaluation of the Social Security Administration's Back-up and Recovery Testing of its Automated Systems	A-13-97-12014
September 24, 1997	Access Controls for the Social Security Administration's Telephone Switch at the Western Program Service Center	A-09-96-91001
September 25, 1997	Review of Controls for Ensuring the Proper Use of the System Override of the Representative Payee's Social Security Number Action	A-13-96-41043

Reports with Questioned Dollars

Date Issued	Title	Report Number	Dollar Amount
May 7, 1997	The Social Security Administration's Monitoring of the Massachusetts Department of Social Services' Effectiveness as a Representative Payee	A-01-96-61071	$1,600,000
June 9, 1997	Audit of Administrative Costs Claimed by the Maryland State Department of Education for its Disability Determination Services	A-13-96-25000	$1,377,499
June 20, 1997	Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations	A-02-95-00002	$390,137
September 10, 1997	Consultative Examination Costs Claimed by Maine's Disability Determination Services	A-01-97-82005	$197,261
September 29, 1997	State of Arkansas' Disability Determination for the Social Security Administration	A-07-97-52005	$7,874
	Total Questioned Costs		$3,572,771

Reports with Funds Put to Better Use

Date Issued	Title	Report Number	Dollar Amount
May 14, 1997	Potential for Contracting with Medical Provider Networks to Purchase Consultative Examinations	A-07-95-00828	$11,300,000
May 22, 1997	Canada's Experience in Charging a User Fee for Social Insurance Number Cards	A-06-97-62003	$142,000,000
June 23, 1997	Overpayments Incurred by Representative Payees	A-02-96-61202	$3,800,000
June 24, 1997	Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments	A-01-96-61083	$20,400,000
July 29, 1997	Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries	A-06-95-00076	$1,400,000
September 30, 1997	Review of Intergovernmental Personnel Act Assignments of Senior Staff	A-13-96-02001	$1,500,000
	Total Funds Put to Better Use		$180,400,000

Resolving Office of the Inspector General Recommendations

The following chart summarizes SSA's responses to the OIG's recommendations for the recovery or redirection of questioned and unsupported costs. Questioned costs are those costs which are challenged because of a violation of law, regulation, etc. Unsupported costs are those costs questioned because they are not justified by adequate documentation. This information is provided in accordance with the Supplemental Appropriations and Rescissions Act of 1980 (Public Law 96-304) and the Inspector General Act of 1978, as amended.

TABLE I: REPORTS WITH QUESTIONED COSTS

For the Reporting Period October 1, 1996 to March 31, 1997

	Number	Dollar Value	
		Questioned	Unsupported
A. For which no management decision had been made by the commencement of the reporting period.	2[1]	$269,638	$0
B. Which were issued during the reporting period.	1[2]	$391,716	$0
Subtotals (A+B)	3	$661,354	$0
Less:			
C. For which a management decision was made during the reporting period:	3	$661,354	$0
(i) dollar value of disallowed costs.	3	$661,354	$0
(ii) dollar value of costs not disallowed.	0	$0	$0
D. For which no management decision had been made by the end of the reporting period.	0	$0	$0

1 These Single Audit Act reports were submitted to the Agency after the issuance of the OIG's Semiannual Report to the Congress for the period covering 4/1/96 to 9/30/96: Department of Administration, State of Maine - (A-01-96-40576 - 5/23/96); State of Maine, Department of Human Services, Bureau of Rehabilitation Disability Determination Services - (A-01-95-36087 - 6/22/95)

2 See list of Audit Reports Issued - Questioned Dollars - page 151

TABLE I: REPORTS WITH QUESTIONED COSTS

For the Reporting Period April 1, 1997 to September 30, 1997

		Number	Dollar Value	
			Questioned	Unsupported
A.	For which no management decision had been made by the commencement of the reporting period.	5[1]	$342,705	$0
B.	Which were issued during the reporting period.	6[2]	$3,640,275	$0
	Subtotals (A+B)	11	$3,982,980	$0
Less:				
C.	For which a management decision was made during the reporting period:	9	$3,584,969	$0
	(i) dollar value of disallowed costs.	9	$3,584,969	$0
	(ii) dollar value of costs not disallowed.	0	$0	$0
D.	For which no management decision had been made by the end of the reporting period.	2[3]	$398,011	$0

1 These Single Audit Act reports were submitted to the Agency after the issuance of OIG's Semiannual Report to the Congress for the period covering 10/1/96 - 3/31/97: Department of Economic Security, State of Arizona - (A-09-97-45281 - 3/6/97); Brandeis University - (A-01-97-44143 - 1/30/97); North Carolina Department of Human Resources - (A-04-97-44052 - 1/9/97); New Jersey Department of Labor - (A-02-96-39964 - 4/25/96); Kass Management Services, Inc. - (A-09-91-05300 - 4/2/91).

2 See list of reports issued - Questioned Dollars - page 153. In addition, $67,504 are Questioned Dollars from Single Act Audit entitled: Mississippi Department of Rehabilitation Services - (A-04-97-43949 - 4/10/97).

3 Audit of Administrative Costs Claimed by the New Jersey Department of Labor for its Division of Disability Determinations - (A-02-95-00002 - 6/20/97); State of Arkansas' Disability Determinations for the Social Security Administration - (A-07-97-52005 - 9/29/97).

TABLE II: REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

The following chart summarizes reports which include recommendations that funds be put to better use through cost avoidances, budget savings, etc.

For the Reporting Period October 1, 1996 to March 31, 1997

	Number	Dollar Value
A. For which no management decision had been made by the commencement of the reporting period.	0	$0
B. Which were issued during the reporting period.	1[1]	$39,100,000
Subtotals (A + B)	1	$39,100,000
C. For which a management decision was made during the reporting period:		
(i) dollar value of recommendations that were agreed to by management.	0	$0
(a) based on proposed management action.	0	$0
(b) based on proposed legislative action.	0	$0
Subtotals (a + b)	0	$0
(ii) dollar value of costs that were not agreed to by management.	0	$0
Subtotals (i + ii)	0	$0
D. For which no management decision had been made by the end of the reporting period.	1[2]	$39,100,000

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1 See list of reports issued - Funds Put to Better Use - page 151

2 SSA management had made decisions on the 14 reports listed in OIG's portion of SSA's FY 1996 Accountability Report.

TABLE II: REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

For the Reporting Period April 1, 1997 to September 30, 1997

		Number	Dollar Value
A.	For which no management decision had been made by the commencement of the reporting period.	1[1]	$39,100,000
B.	Which were issued during the reporting period.	6[2]	$660,400,000[3]
	Subtotals (A + B)	7	$699,500,000
C.	For which a management decision was made during the reporting period:		
	(i) dollar value of recommendations that were agreed to by management.	4	$535,700,000
	(a) based on proposed management action.	4	$535,700,000
	(b) based on proposed legislative action.	0	$0
	Subtotals (a + b)	4	$535,700,000
	(ii) dollar value of costs that were not agreed to by management.	2	$143,400,000
	Subtotals (i + ii)	6	$679,100,000
D.	For which no management decision had been made by the end of the reporting period.	1	$20,400,000

1 Monitoring Representative Payee Performance: Roll-up Report - (A-09-96-64201 - 3/28/97)

2 See list of reports issued - Funds Put to Better Use - page 153

3 This dollar amount has been modified due to developments that occurred after the issuance of OIG's reports entitled "Effectiveness in Obtaining Records to Identify Prisoners" - (A-01-94-02004 - 5/10/96) and "Effectiveness of the Social Security Administration's Procedures to Process Prisoner Information, Suspend Payments and Collect Overpayments" - (A-01-96-61083 - 6/24/97). SSA's Chief Actuary estimated a cost avoidance of about $3.4 billion over 7 years, with $480 million to be realized in Calender Year 1997.

Reporting Requirements Index

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed and indexed to their appropriate pages.

APPENDICES

APPENDIX A

This schedule represents monetary recommendations from prior Reports to the Congress for which corrective actions have not been completed.

Monitoring Representative Payee Performance: Roll-Up Report, A-09-96-64201, 3/28/97
SSA should develop a system to continuously educate payees concerning their responsibilities; conduct more thorough screening of potential representative payees; revise its "Preference Lists" for payees to place greater emphasis on custody arrangements; develop a comprehensive automated representative payee system; not require annual reports from all representative payees; tailor forms to address variations among payees and differences in relationships between payees and beneficiaries; conduct periodic reviews of selected payees; change the focus of the current process from accounting to monitoring and compliance; develop a payee coding scheme that reflects the Agency's need for administering the process; and review previous HHS/OIG and SSA/OIG recommendations related to representative payments to determine if additional benefit could be gained from these recommendations. We estimated that SSA could save $39.1 million in funds put to better use. SSA agreed to most of the recommendations, except for conducting suitability checks only for those payees intended for selection; exempting from annual accounting and periodically certifying alternative reporting for those payees who complete extensive reporting for an official or external organization; and capturing on the accounting form reporting events that would affect entitlement.

Follow-up on "Payments Under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income Benefits," A-01-95-02007, 7/24/96
SSA should institute a policy of paying only for services rendered and attempt to implement that policy at all Disability Determination Services units. Such a policy would allow for payment for review of medical records but not for broken medical appointments. This action would result in $541,000 in funds put to better use. In June 1996, SSA representatives conferred with representatives from States that no longer pay for broken medical appointments in order to develop a presentation which was given at the National Professional Relations Conference in August 1996. The presentation encouraged paying States to adopt a no-pay policy and also shared strategies employed by States that have already converted to a no-pay policy. Representatives will begin to contact the regions that have States which are paying for broken medical appointments to ascertain what progress they have made in converting to a non-pay status. The Office of Disability is working closely with States that have not adopted a policy of not paying for broken consultative examination appointments. The Office of Disability expects to complete its contacts and will monitor regions' progress quarterly, or as needed. There are also non-monetary recommendations noted in Appendix B.

Identification of Reported Name Changes That Affect Auxiliary Benefits under Title II of the Social Security Act, A-01-94-02001, 6/14/96
SSA should conduct a one-time match to identify name changes on the Numident record that have not been posted to the Master Beneficiary Record. Eligibility should be redetermined for those beneficiaries whose name changes are found to be caused by marriage or divorce, and recovery of overpayments in the amount of $4.2 million should be pursued. On September 19, 1997, SSA's Office of Systems Requirements provided the Office of Operations with a list of 100 accounts with 800 account numbers for each payment center containing discrepancies between the Numident and the Master Beneficiary Record names. The payment centers will conduct an analysis of the 800 account numbers to determine entitlement and whether any erroneous payments were made. After the study results are obtained, SSA will hold meetings, as necessary, in order to analyze the results. Analysis is anticipated to be completed by March 1998. Further milestones for completing this project cannot be provided at this time.

SSA Field Office Visitor Workload, OEI-05-92-00043, 8/22/95
SSA should eliminate the field office interview workload for noncitizens applying for an original SSN. The SSA is working with staff from the Department of State to transfer the enumeration of aliens to the Immigration and Naturalization Service (INS), effectively eliminating the workload from SSA field offices. Plans require a phased-in approach, beginning with a Memorandum of Understanding with the INS and Department of State. This action is still pending because of other INS priorities. In addition, a regulation change to waive mandatory in-person interviews for aliens age 18 or older who are applying for SSNs through the INS was initiated in December 1995 and was expected to be completed in September 1997.

Improvements are Needed to Prevent Underpayments for Social Security Beneficiaries with Earnings Posted after Entitlement, A-13-94-00509, 5/1/95
SSA should strengthen internal controls by improving sampling techniques to include random sampling and quality assurance procedures for the Automatic Earnings Reappraisal Operation in order to identify beneficiaries with post-entitlement earnings who received no benefit increases. Total underpayments are estimated between $159 million and $549 million. SSA should identify and correct underpayments to all current and noncurrent beneficiaries who were due benefit increases for post-entitlement earnings. The Office of Systems has processed payments for 90,000 accounts to date. The Office of Systems has identified an additional 340,000 beneficiaries who are potentially due benefit increases. Some of these cases are expected to be processed manually by the program service centers. The new ongoing post-entitlement earnings review for current beneficiaries is expected to be in place by July 1998.

APPENDIX B

This schedule represents non-monetary recommendations from prior Reports to the Congress for which corrective actions have not been completed.

Audit of the Office of Program and Integrity Reviews' Special Studies, A-13-96-51142, 2/19/97
We recommended that the Office of Program and Integrity Reviews (OPIR) improve its management control program and establish special study and statistical policies and procedures. Specifically, we recommended that OPIR: 1) develop and maintain a workload tracking system which includes monitoring prior and current assignments and resources expended;
2) develop and maintain a system for tracking the current status of OPIR recommendations incorporating any prior recommendations that have not been implemented; 3) establish OPIR as a management control area in SSA's Federal Managers' Financial Integrity Act Program; 4) develop and implement policies and procedures for conducting OPIR studies, including requirements for maintaining adequate study documentation for examination; and 5) implement statistical policies and procedures, such as those published by the General Accounting Office, and modify reporting formats to include detailed statistical information, such as response rates and confidence intervals, in all reports where statistical sampling is used.

Actions Needed to Strengthen Controls to Deter Fraudulent Transactions at Program Service Centers, A-02-95-00003, 9/23/96
We recommended that SSA put in place controls over all prior month accrual payments until the proposed long-term solution is implemented. We also recommended that SSA examine the feasibility of revising the Manual Adjustment, Credit and Award Process to automatically generate a confirmation notice to the beneficiary of significant changes to his/her account, such as a change from check payment to a direct bank deposit or vice versa. SSA agreed to put such a confirmation notice in practice in 1997.

Review of Asset Transfers for Supplemental Security Income Eligibility, A-09-95-01017, 9/13/96
SSA should develop a legislative proposal to address abuse when individuals transfer assets to become eligible for Supplemental Security Income benefits. SSA developed a proposal and successfully had it incorporated, as a substitute, in the House-passed welfare reform bill (H.R. 4). However, the provision was dropped during conference committee deliberations.

Follow-up Audit on "Payments Under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income Benefits," A-01-95-02007, 7/24/96
SSA should institute a policy of paying only for services rendered and attempt to implement that policy at all Disability Determination Services units. Such a policy would allow for payment for review of medical records, but not for broken medical appointments. In June 1996, SSA representatives conferred with representatives from States that no longer pay for broken medical appointments in order to develop a presentation which was given at the National Professional Relations Conference in August 1996. The presentation encouraged paying States to adopt a no-pay policy and also shared strategies employed by States that have already converted to a no-pay policy. The Office of Disability has concluded its survey of the 17 States which, as determined in a 1995 survey, continue to pay for broken consultative examination appointments. The survey revealed that four States have adopted a no-pay policy and two have made progress toward a no-pay policy by either changing the rate paid or the situation for which they pay. SSA cannot set a target date for implementing this recommendation because circumstances in each State vary. Achieving a no-pay policy will be realized at different times for those States that still pay for broken consultative examinations. SSA's Office of Disability will monitor the regions' progress on this issue. There are also monetary recommendations that are noted in Appendix A.

Follow-up Report on a Department of Health and Human Services, Office of Inspector General Audit Entitled, "Suspended Payments Need to be Resolved Timely," A-13-93-00421, 7/18/96
SSA should implement policy and procedural changes to ensure adequate control, follow-up, and timely resolution of current and future suspensions, and require SSA field office management to report on all suspense cases that cannot be resolved through the alert process. Also, SSA should implement corrective action to place those cases in a special benefit termination category; require SSA field office employees to search death records when there is either no death information contained in SSA records, beneficiaries cannot be located within 1 year of suspension, and/or employees have direct access to State records; and ensure that field office and program service center employees have adequate evidence that a beneficiary is alive before reinstating benefits.

Social Security Administration's Plan for Achieving Self-Support for Supplemental Security Income Recipients, A-13-93-00426, 1/25/96
SSA should require an independent vocational assessment as a prerequisite for approving a Plan for Achieving Self-Support (PASS); develop a standard PASS application to be used nationally; and expand the work credit for all aspects of PASS work performed by SSA field office employees. SSA should also develop a PASS data base to 1) maintain an electronic record of the PASS plan and all related activity to ensure that both historic and current PASS status is retained and available; 2) provide ongoing management information on the number of PASS plans nationwide, success and failure rate, cost of the program, and other analytical data; and 3) generate and control diary alerts to ensure compliance review alerts are timely.

APPENDIX C

This schedule represents significant management decisions with which the Inspector General is in disagreement.

The Social Security Administration's Program for Monitoring the Quality of Telephone Service Provided to the Public, A-13-96-52001, 7/31/97
SSA should take corrective actions to ensure it meets the legal requirements of 18 U.S.C. sections 2510, et seq., and applicable regulations and establish internal controls to ensure telephone monitoring is being used for its intended purpose. SSA disagreed with the OIG on the issue of noncompliance with Federal laws and regulations. SSA advised OIG that the major conclusions reached in the report are not valid. SSA did, however, acknowledge that OIG identified some areas where improvements are possible and agreed to pursue those improvements, and is preparing new regulations governing telephone monitoring.

Review of Entitlement Determination Procedures for Unlocated Title II Disability Beneficiaries, A-06-95-00076, 7/29/97
SSA should examine the entitlement status of all disability beneficiaries who are in suspended pay status because they cannot be located and terminate benefits in cases where a reasonable time period lapses (e.g., 90 days from the date of suspension) to locate the beneficiary; and due process has been provided (e.g., notification letter to last known address). SSA did not concur with the recommendations. However, SSA agreed to explore the possibility of initiating continuing disability reviews for unlocated disability beneficiaries whose benefits have been suspended for an extended period. The Office of Program and Integrity Reviews will conduct a brief study of unlocated disability beneficiary records.

APPENDIX D

Investigative Statistics

October 1, 1996 to March 31, 1997[1]			
Opened Investigations	**Closed Investigations**	**Criminal Convictions**	**Funds Reported[2]**
953	784	622[3]	$10,531,130[4]

April 1, 1997 to September 30, 1997			
Opened Investigations	**Closed Investigations**	**Criminal Convictions**	**Funds Reported[2]**
4,502	1,373	1,885[5]	$53,786,667[6]

1 Figures have been revised after the issuance of the OIG's Semiannual Report to the Congress for the period covering 10/1/96 - 3/31/97 as a result of a computer reporting error.

2 Reported through fines, judgments, and restitutions.

3 Of which 229 are deportations.

4 Of which $2,629,614 are calculations, over 5 years, of the avoidance of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds.

5 Of which 1,240 are deportations.

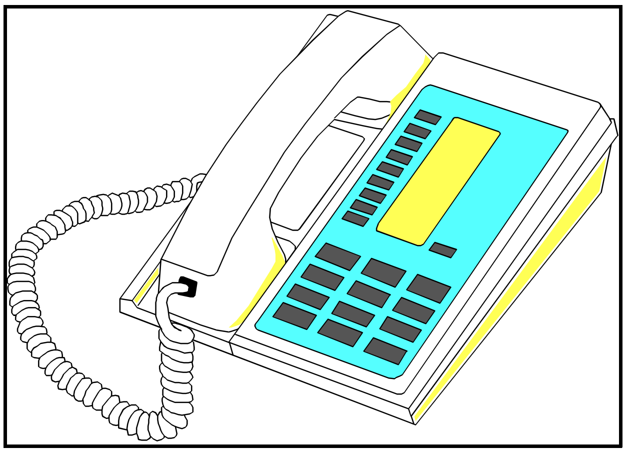
6 Of which $18,820,708 are calculations, over 5 years, of the avoidance of actual dollar loss by actions that resulted in the termination of improper payments or improper expenditures of program funds.

APPENDIX E

How to Report Wrongdoing

The OIG maintains a toll-free Hotline through which it receives allegations and complaints relative to SSA operations nationwide. The Hotline offers a convenient means for you to provide information on suspected fraud, waste, and abuse. If you know of current or potentially illegal or improper activities involving SSA programs or personnel, we encourage you to call our Hotline number at:

1-800-269-0271



or you may

send a fax to: **(410)-597-0118**

or

<u>Mail to</u>:
Office of the Inspector General
Attention: Hotline
P.O. Box 17768
Baltimore, Maryland 21235

Glossary of Acronyms

ACH	Automated Clearing House
ALJ	Administrative Law Judge
AO	Adjudication Officer
ACH	Automated Clearings House
AWR	Annual Wage Report
BL	Black Lung
CAS	Cost Analysis System
CDR	Continuing Disability Review
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CG	Comptroller General
CIRP	Comprehensive Integrity Review Program
CMP	Civil Monetary Penalty
CPA	Certified Public Accountant
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSIP	Computer Security and Integrity Project
CSRS	Civil Service Retirement System
DA&A	Drug Addiction and Alcoholism
DCM	Disability Claims Manager
DDS	Disability Determination Service
DI	Disability Insurance
DM	Debt Management
DMS	Debt Management System
DOJ	Department of Justice
DOL	Department of Labor
DPRT	Disability Process Redesign Team
DSU	Direct Service Unit
EFS	Earnings Suspense File
EFT	Electronic Funds Transfer
FASAB	Financial Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers Financial Integrity Act
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	General Accounting Office
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
HCFA	Health Care Financing Administration
HI/SMI	Health Insurance/Supplemental Medical Insurance

IDA	Index of Dollar Accuracy
IG	Inspector General
IRS	Internal Revenue Service
IWS/LAN	Intelligent Workstation/Local Area Network
LAE	Limitation on Administrative Expenses
MBR	Master Beneficiary Record
MCS	Modernized Claims Systems
MES	Modernized Enumeration System
MSSICS	Modernized Supplemental Security Income Claims System
NAFC	National Anti-Fraud Committee
NFC	National Fraud Committee
OASDI	Old-Age and Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OHA	Office of Hearings and Appeals
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PE	Postentitlement
PEBES	Personal Earnings and Benefits Estimate Statement
PIN	Personal Identification Number
P.L.	Public Law
PM	Performance Measures
PMA	Prior Month Accrual
POMS	Program Operating Manual Systems
PPA	Prompt Payment Act
RAFC	Regional Anti-Fraud Committee
RRB	Railroad Retirement Board
SECA	Self-Employment Contributions Act
SIPEBES	SSA Initiated Personal Earnings and Benefits Estimate Statement
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
SSR	Supplemental Security Record
STDP	Short Term Disability Project
TRO	Tax Refund Offset