

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
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.

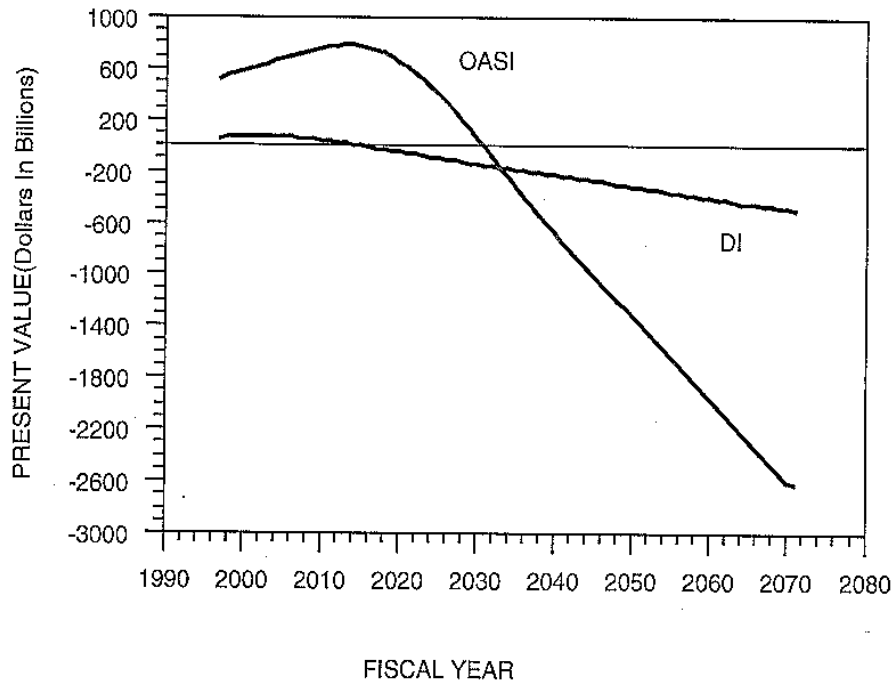
The assumed ultimate total fertility rate of 1.9 children per woman is attained in 2021, after a gradual decrease from the estimated 1996 level of 2.0 children per woman. The age-sex-adjusted death rate is assumed to decrease gradually during the entire projection period, with a reduction of 35 percent 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

◦ % 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%).

◦ Ratio of administrative outlays to benefit outlays	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
	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	
<i>Beginning of FY</i>	2
<i>New</i>	0
<i>Cleared</i>	<u>(1)</u>
<i>End of FY</i>	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.

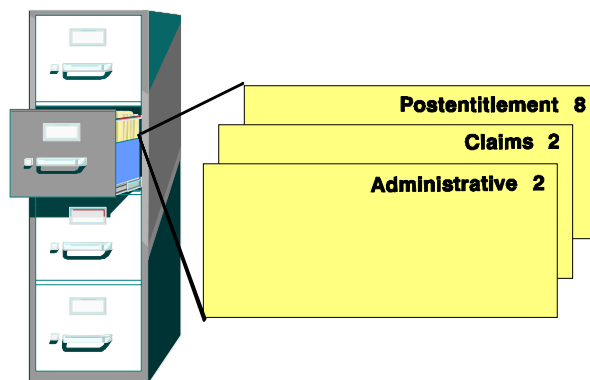
	# of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	# of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
<i>Beginning of FY</i>	3	\$378,252	16	\$437,703,334
<i>New Audits During FY</i>	11	\$7,587,511	3	\$54,100,000
<i>Implemented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

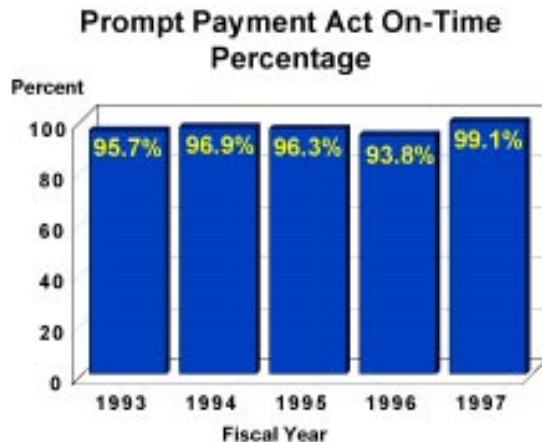
SSA continues to introduce modern technology and business practices to enhance its payment delivery. During FY 1997, SSA continued to expand and enhance payments made through SSA's automated accounts payable system. Specifically, SSA's automated accounts payable system includes the capability to monitor 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 (<i>in millions</i>)	\$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 (<i>in millions</i>)	\$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	<u>142.8</u>	<u>181.9</u>	<u>200.8</u>	<u>228.3</u>
— 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

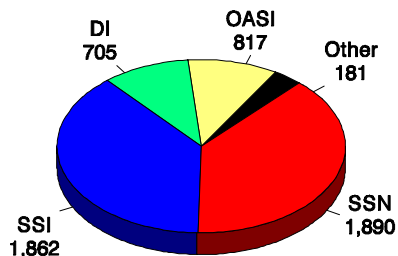
Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. 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)

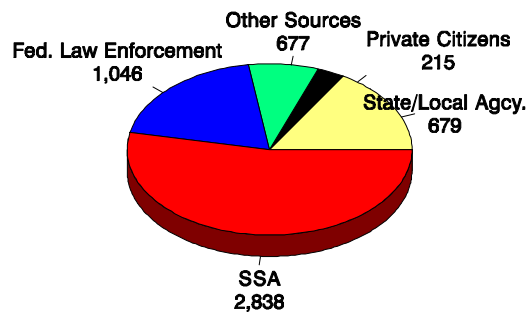
Anti-Fraud Activities

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.

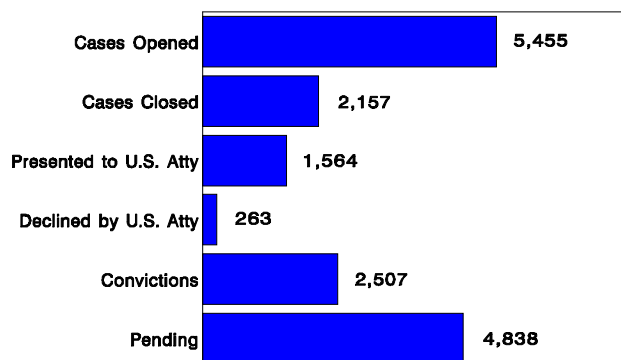
Total Fraud Cases by Category
Fiscal Year 1997



Source of All Fraud Cases Referrals
Fiscal Year 1997



Disposition of All Fraud Cases
Fiscal Year 1997



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 referred 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.