Management's Discussion and Analysis

Overview of SSA

Mission

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

The Social Security Programs

Few government agencies touch the lives of as many people as the Social Security Administration (SSA). More than 51 million Americans—one out of every six—receive monthly cash benefits from Social Security or Supplemental Security Income (SSI), the major programs that we administer. Through their payroll taxes, almost all workers are earning valuable Social Security coverage for themselves and their families. The following table provides the number of beneficiaries for the Social Security Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), SSI programs and the combined programs. Over the last 10 years, the number of OASI beneficiaries has grown by 6 percent, DI by 36 percent and SSI by 11 percent.

Number of Beneficiaries by Fiscal Year (In Millions)										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
OASI	37.2	37.5	37.6	37.8	37.9	38.0	38.7	38.9	39.2	39.4
DI	5.5	5.8	6.0	6.1	6.3	6.5	6.6	6.8	7.1	7.5
SSI/OASDI[1]	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5
SSI only	3.7	4.0	4.2	4.2	4.2	4.2	4.2	4.3	4.4	4.4

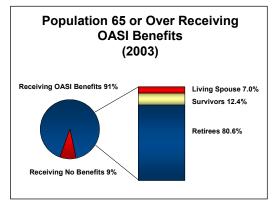1. Includes individuals receiving benefits from more than one program.

The Social Security programs 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.
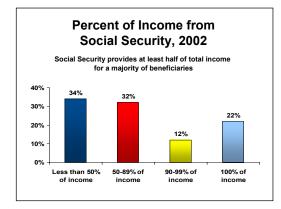
The monthly benefit amount to which an individual (or spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her lifetime. The maximum amount of earnings on which contributions were payable in 2002 was $84,900 and increased to $87,000 in 2003.

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

As shown in the chart to the right, 91 percent of people age 65 or over in calendar year 2003 were receiving benefits. The largest category of beneficiaries over age 65 is retired workers. About 98 percent of children under 18 and their mothers or fathers with children in their care under 16 can count on monthly cash benefits if a working parent dies.
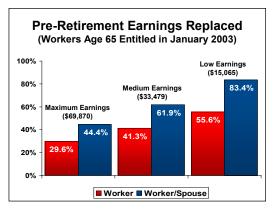
In 2002, Social Security benefits comprised 39 percent of the aggregate share of all income to the aged population 65 and over. Other sources of income include assets (14 percent), earnings (25 percent), and pensions (19 percent) both Government and private.

Population 65 or Over Receiving OASI Benefits (2003)

Receiving OASI Benefits 91%

Living Spouse 7.0%
Survivors 12.4%
Retirees 80.6%

Receiving No Benefits 9%

Percent of Income from Social Security, 2002

Social Security provides at least half of total income for a majority of beneficiaries

	Less than 50% of income	50-89% of income	90-99% of income	100% of income
	34%	32%	12%	22%

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

The level of preretirement (career-average) earnings replaced by Social Security benefits for a worker retiring at age 65 varies because the benefit formula is weighted in favor of workers with low levels of earnings. The chart on the right shows the replacement rate in 2003 for individuals and couples (i.e., worker with a spouse who is not insured) at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2002.
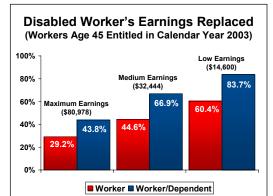
Pre-Retirement Earnings Replaced
(Workers Age 65 Entitled in January 2003)

	Maximum Earnings ($69,870)	Medium Earnings ($33,479)	Low Earnings ($15,065)
Worker	29.6%	41.3%	55.6%
Worker/Spouse	44.4%	61.9%	83.4%

DI Program: To qualify for DI benefits, an individual must meet a test of substantial recent covered work before becoming disabled. Disability benefits provide a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families. About 9 out of 10 persons age 21 through 64 who worked in covered employment in 2002 will receive benefits if they become disabled. Workers are considered disabled if they have a medically determinable physical or mental impairment that prevents them from engaging in substantial gainful activity. The disability must be expected to last for a continuous period of at least 12 months or to result in death.

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

The chart to the right shows the replacement rate in 2003 for disabled workers and their dependents at various earnings levels. These levels represent average earnings over the worker's career, wage-indexed to 2002.

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

Disabled Worker's Earnings Replaced
(Workers Age 45 Entitled in Calendar Year 2003)

Maximum Earnings ($80,978): Worker 29.2%, Worker/Dependent 43.8%
Medium Earnings ($32,444): Worker 44.6%, Worker/Dependent 66.9%
Low Earnings ($14,600): Worker 60.4%, Worker/Dependent 83.7%

■ Worker ■ Worker/Dependent

Medium Earnings Replaced Historical Perspective						
	1953	1963	1973	1983	1993	2003
Disabled Worker[1]	NA	33.2%	40.9%	43.1%	43.2%	44.6%
Retired Worker	26.4%	27.1%	37.1%	46.4%	42.8%	41.3%

1. Based on 45-year old disabled worker. Data not available for disability benefit payments for 1953 as program began in 1957.
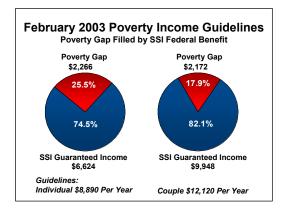
SSI Program: SSI is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources. SSI payments and related administrative expenses are financed from general tax revenues, not the Social Security trust funds. Qualified recipients receive monthly cash payments from SSA sufficient to raise their income to the level guaranteed by the Federal SSI program. Children, as well as adults, can receive payments because of disability or blindness.

The definitions of disability for adults used in the SSI program, as well as continuing disability review procedures, are the same as those used in the DI program. There is a separate definition of disability for children seeking SSI benefits. There are general provisions to encourage working and special incentives to those beneficiaries who have disabilities or are blind. The Federal benefit rate and eligibility requirements are uniform nationwide. However, those with other income receive less since benefits may be reduced by the income they receive from other sources.
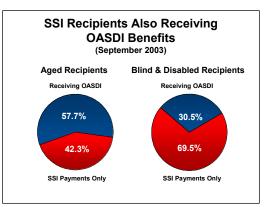
As shown in the chart to the right, SSI recipients with no other income receive the full SSI Federal benefit which is 74.5 percent of the poverty level for an individual and 82.1 percent for a couple.

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

February 2003 Poverty Income Guidelines
Poverty Gap Filled by SSI Federal Benefit

Poverty Gap $2,266 — 25.5%
SSI Guaranteed Income $6,624 — 74.5%
Guidelines: Individual $8,890 Per Year

Poverty Gap $2,172 — 17.9%
SSI Guaranteed Income $9,948 — 82.1%
Couple $12,120 Per Year

In September 2003, 35.4 percent of all SSI recipients also received Social Security benefits. Most did not have any other income. For 4.1 percent of the recipients, earnings were a source of additional income.
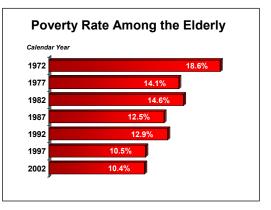
OASDI beneficiaries may qualify for SSI benefits if they meet SSI income and resource eligibility requirements. Although 35.4 percent of all SSI recipients receive OASDI benefits, SSI aged recipients are more likely (57.7 percent) to be receiving Social Security benefits than SSI blind and disabled recipients (30.5 percent).

SSI Recipients Also Receiving OASDI Benefits
(September 2003)

Aged Recipients	Blind & Disabled Recipients
Receiving OASDI	Receiving OASDI
57.7%	30.5%
42.3%	69.5%
SSI Payments Only	SSI Payments Only

How SSA Benefits the Public

Social Security is widely considered the nation's most successful domestic federal program. By design, it is a universal program that provides a basic level of protection to all covered workers based on their past earnings. SSI provides a backstop to Social Security by guaranteeing a minimum level of income to needy elderly persons and persons with disabilities, including children.

It is clear that Social Security and SSI have had a significant role in the improved economic well being of the nation. Poverty among the elderly has been reduced by 44 percent over the past 30 years, decreasing from 18.6 percent in 1972 to 10.4 percent in 2002. In 1936, when Social Security numbers were first assigned to workers, most of the nation's elderly were living in poverty. Today, monthly benefits are an important part of the quality of life of elderly Americans and millions more who are protected in case of death or disability.

Poverty Rate Among the Elderly

Calendar Year

Year	Rate
1972	18.6%
1977	14.1%
1982	14.6%
1987	12.5%
1992	12.9%
1997	10.5%
2002	10.4%

The portion of the population that is insured for Social Security benefits has grown steadily over the years. The percentage of people aged 20 and over who are fully insured increased from 77 percent in 1970 to 88 percent in 2003. Although men are more likely than women to be insured, the gender gap is shrinking. The proportion of men who are insured has remained essentially stable, with 92 percent fully insured. By contrast, the proportion of women who are fully insured has increased from 63 percent in 1970 to 82 percent today.

Rates of poverty and program coverage are important outcome measures that provide an indication of how Social Security and SSI are improving the lives of the American people. These and other outcome indicators of SSA's performance are discussed in more detail under Outcome Indicators in the Performance Section of this report. But the agency's programs are far from the only factors that affect the economic status of the aged and survivor populations and persons with disabilities. Personal choices, savings, private and other public sector coverages, social institutions, and the state of the economy also play important roles. Moreover, most of the important features of SSA's programs are established by law and cannot be altered by our agency. Thus, SSA can not establish numerical goals for such outcome measures as levels of income or rates of poverty.

SSA has developed a communications program to educate the public about financing challenges facing the Social Security programs. As debate continues on how best to strengthen Social Security for the future, SSA's goal is to ensure that the public has the information needed to understand the proposals related to reform and plan for their future. One such effort is the national Save For Your Future education campaign, presented by SSA and the American Savings Education Council (ASEC) which began in the spring of 2003. This campaign was designed to

educate and motivate Americans of all ages and backgrounds to take charge of their financial future. Developed in partnership by ASEC and its many coalition members-including SSA, Departments of Labor, Treasury, Health and Human Services and Defense, and State Farm-the annual Save For Your Future campaign included events and activities throughout the country devoted to educating and motivating Americans to take charge of the financial future.
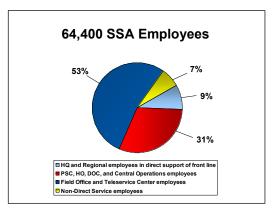
Agency Organization

As the Agency charged with managing and delivering all of these important programs, for over 60 years, SSA has ranked among the premier agencies in government service. In many communities across the country and to many people, SSA has been the primary face of the federal government, and Americans have generally viewed the Agency's performance and service favorably. The nation's citizens expect SSA's employees to be respectful, responsive and reliable.

SSA's organization is centrally managed with a decentralized nationwide network of over 1,500 Field Offices (FO), Regional Offices, Teleservice Centers (800-Number), Program Service Centers (PSC) and Hearings Offices (HO). SSA's organizational structure is designed to provide timely, accurate and responsive service to the American public. By integrating support services for all of its programs, SSA enhances efficiency, avoids duplication of effort and increases opportunities to provide one-stop service to the public.
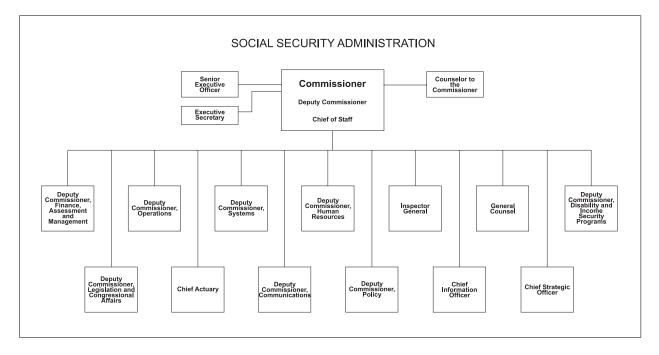
Field Offices are the primary points for face-to-face contact with the public. Teleservice Centers offer national toll-free telephone service (1-800-772-1213). The PSCs process a wide variety of workloads, as well as take 800-Number calls. The Office of Central Operations, which includes the Data Operations Center (DOC), processes a wide variety of workloads involving disability, international and earnings operations and also has an expanding role in taking 800-Number calls. The HOs and Appeals Council (AC) adjudicate appeals of SSA determinations in claims for benefits.

About 60,000 of Social Security's 64,400 employees deliver direct service to the public or directly support the services provided by our front-line workers. The public is most familiar with the 34,300 employees in SSA's 1,336 FOs and 36 Teleservice Centers. They are also served by 19,800 employees in the PSCs, HOs, AC and Office of Central Operations. Another 6,000 employees in headquarters and regional offices directly support the services delivered by SSA's front-line workers. These include the employees who build and maintain the expanding Internet services. Additionally, the disability programs depend on the work of about 15,000 employees in state Disability Determination Services (DDS).

64,400 SSA Employees

53% · 7% · 9% · 31%

☐ HQ and Regional employees in direct support of front line
☐ PSC, HO, DOC, and Central Operations employees
☐ Field Office and Teleservice Center employees
☐ Non-Direct Service employees

SSA's remaining employees perform equally important functions in developing other information technology and public information products, ensuring sound fiscal stewardship, developing and implementing uniform program policy and procedures, and supporting the workforce by providing, maintaining and safeguarding the work spaces. Whether in SSA or a DDS, each and every employee in front-line and staff positions plays an important role in the success of the nation's Social Security programs

SSA's organizational structure as shown below is designed to provide responsive, swift and high-quality service to the public. By integrating services for all programs it administers, SSA is able to enhance efficiency, avoid duplication of effort and increase opportunities to provide one-stop service.

SOCIAL SECURITY ADMINISTRATION

Senior Executive Officer	**Commissioner**	Counselor to the Commissioner
Executive Secretary	Deputy Commissioner	
	Chief of Staff	

- Deputy Commissioner, Finance, Assessment and Management
  - Deputy Commissioner, Legislation and Congressional Affairs
- Deputy Commissioner, Operations
  - Chief Actuary
- Deputy Commissioner, Systems
  - Deputy Commissioner, Communications
- Deputy Commissioner, Human Resources
  - Deputy Commissioner, Policy
- Inspector General
  - Chief Information Officer
- General Counsel
  - Chief Strategic Officer
- Deputy Commissioner, Disability and Income Security Programs

Agency Challenges

Early in 2003, SSA published a new Agency Strategic Plan (ASP) for Fiscal Years (FY) 2003-2008. The new Plan reflects the priorities and direction of SSA's Commissioner and the Administration. It sets SSA's course (through FY 2008) for achieving measurable results that improve American lives. SSA's ASP is comprised of four strategic goals, which provide the framework for the Agency's efforts:

- **To deliver high-quality, citizen-centered <u>service</u>**
- **To ensure superior <u>stewardship</u> of Social Security programs and resources**
- **To achieve sustainable <u>solvency</u> and ensure Social Security programs meet the needs of current and future generations**
- **To strategically manage and align <u>staff</u> to support SSA's mission**

The Service, Stewardship, Solvency and Staff goals are comprehensive. They link to SSA's total resource needs and provide employees direction in all major areas of their work. The new ASP also outlines nine supporting strategic objectives that focus on key areas of importance or those needing improvement. These objectives address the major issues facing SSA over the next 5 years and are used as the framework for this section.

SSA's strategic goals are consistent with the themes expressed in the President's Management Agenda (PMA) initiatives. The PMA initiatives, which are listed below, are focused on more efficient use of taxpayer dollars.

- <u>Expanded Electronic Government</u> — makes it simpler for people to receive high-quality service from the federal government, while reducing the cost of delivering those services;

- <u>Competitive Sourcing</u> — seeks to achieve greater efficiencies in program administration, effective competition between public and private sources, and promotion of innovation;

- <u>Improved Financial Performance</u> — focuses on reducing improper payments and ensuring that federal financial systems produce accurate and timely information to support operating, budget and policy decisions;

- <u>Budget and Performance Integration</u> — calls for linking resources to performance, using program evaluation in planning and budget decisionmaking, and improving accountability for performance; and

- <u>Strategic Management of Human Capital</u> — calls for reducing the distance between citizens and decision-makers by streamlining the organization and reducing the time it takes to make decisions.

SSA recently received the highest rating for the PMA initiatives by achieving green for overall current status in financial management as well as green for progress in all five categories. SSA is proud of these scores and committed to doing even better.

The table that follows displays the major management challenges currently designated by the General Accounting Office (GAO) and the Office of the Inspector General (OIG). Specifically, the table crosswalks the major management challenges to SSA's strategic goals and objectives and to the PMA items. Following the table is a discussion of each of the major issues facing SSA and the strategies the Agency has in place at this time to meet these challenges. This discussion is organized according to the Agency's strategic goals and objectives.

| MAJOR MANAGEMENT CHALLENGES |||
| And Relationship to the President's Management Agenda (PMA) and SSA's Strategic Goals |||
SSA's Strategic Goals and Objectives	PMA Items	GAO and IG Designated SSA Major Management Challenges
A. SERVICE 1. Make the right decision in the disability process as early as possible 2. Increase employment for people with disabilities 3. Improve service through technology	Expanded Electronic Government	• Management of the Disability Process (OIG) • Better Position SSA for Future Service Delivery Challenges, Including Information Technology (GAO) • Electronic Government/Service Delivery (OIG) • Improve Programs that Provide Support for Individuals with Disabilities (GAO)
B. STEWARDSHIP 4. Prevent fraudulent and erroneous payments and improve debt management 5. Strengthen integrity of Social Security Number (SSN) 6. Increase the accuracy of earnings records 7. Efficiently manage Agency finances and assets and effectively link resources to performance outcomes	Competitive Sourcing Improved Financial Performance Budget and Performance Integration (including Program Assessment Rating Tool (PART) requirements)	• Homeland Security, Social Security Number Integrity and Misuse (OIG) • Fraud Risk (OIG) • Continue to Strengthen the Integrity of the SSI Program (GAO)/Improper Payments (OIG) • Integrity of the Earnings Process (OIG) • Disability High Risk (GAO) • Strengthen Controls to Protect the Personal Information SSA Develops and Maintains (GAO) • Critical Infrastructure Protection/Systems Security (OIG) • Budget and Performance Integration (OIG) • Integrity of Representative Payee Process (OIG)
C. SOLVENCY 8. Through education and research efforts, support reforms to ensure sustainable solvency and more responsive retirement and disability programs		
D. STAFF 9. Recruit, develop, retain a high-performing workforce	Strategic Management of Human Capital	• Human Capital (GAO and OIG)

Service

Make the right decision in the disability process as early as possible

One of SSA's highest priorities is to improve service to the public in the disability programs from the initial claim through the final administrative appeal. Each Social Security and Supplemental Security Income (SSI) disability claim represents a person and often a family. According to SSA's service delivery assessment of the disability process completed in 2002, persons pursuing their disability claims through all levels of Agency appeal wait an average of 1,153 days for that final decision. Due to backlogs, cases that go through all levels of appeal spend nearly 50 percent of the time (525 days) in "queue" waiting for SSA action. The length of time it takes to process these claims is unacceptable. It places a significant financial and emotional burden on applicants and their families. It also leads to re-contacts and re-handling by SSA employees, placing an enormous drain on Agency resources.

The most significant external factor that may affect SSA's ability to improve service to disability applicants is the potential for substantial growth of workloads. Applications are expected to rise as the baby boomers enter their disability-prone and then retirement years. With Disability Insurance (DI) rolls projected to grow 35 percent in the 10-year period ending 2012, SSA cannot keep doing things the same way.

> Responding to these challenges, SSA will improve economic security by:
> - Improving service to disability claimants and making accurate decisions on their claims faster; and
> - Helping disability beneficiaries with timely financial, medical and vocational support that helps them maximize their economic and physical well-being.

The following is a discussion of SSA's strategies and activities to address disability service.

Eliminating Backlogs — To reduce processing time, SSA must reduce and eventually eliminate disability backlogs. The Agency's long-term goal is to eliminate backlogs for initial disability claims, hearings and appeals by 2008. In 2003, process times were reduced by more than 100 days at the Appeals Council (AC) stage.

Disability Process Improvement — SSA has engaged in efforts to redesign and improve the disability determination process by testing a number of initiatives over the past several years. SSA carefully reviewed the results of these initiatives to identify the elements that show promise. Based on this review, SSA's short-term plan is to:

- Encourage early and frequent contacts with claimants during the development process;

- Eliminate the claimant conference at the end of the process; and

- Temporarily extend the "elimination of reconsideration step" feature in the ten prototype states that are currently doing this, while SSA develops an alternate approach.

In September 2003, the Commissioner announced a new approach for disability determinations to make longer-term improvements to the disability process. This proposal includes the following.

- Implementing a quick decision step to handle disability claims for people who are clearly disabled. These claims would be adjudicated in Regional Expert Review Units across the country. The Review Units would also provide medical expertise to disability decisionmakers in the State Disability Determination Services (DDS) and the Office of Hearings and Appeals (OHA).

- Requiring DDSs to more fully document decisions and establish a new in-line quality review process. This would help ensure consistent policy application, as well as more uniform decisions and documentation.

- Eliminating the reconsideration and AC stages of the process.

- Establishing a new position to evaluate all requests for review of disability claims that are denied at the initial level. This review would take place prior to a claim being sent to an Administrative Law Judge (ALJ).

- Establishing an oversight panel to conduct an end-of-line review of ALJ decisions.

The new approach is predicated on successful roll-out and full implementation of Accelerated e-Dib (see following section), as well as new regulations. To develop the final plan for the new approach, SSA will engage in a collaborative process involving the Administration, Congress, DDSs, and interested organizations and advocacy groups.

Accelerated electronic-Disability (Ae Dib Initiative) — To reduce delays inherent in mailing, locating and organizing paper folders, SSA is accelerating its transition to an electronic disability folder through the AeDib initiative. Rollout begins in January 2004, with full implementation to be completed within 18 months. See page 32 for additional discussion of the Agency's efforts on implementing the AeDib initiative.

Updating Medical Listings — SSA has a sequential process for evaluating disability and one of those steps is the consideration of medical listings. If an individual has an impairment which meets the statutory duration requirement and either meets or medically equals the severity of an impairment contained in the listings, SSA will find the individual disabled. The listings are categorized by body system and contain criteria for various impairments. Congress, GAO, OIG and the SSA Advisory Board have all called for the complete update of these listings. Most of the listings will be updated by the end of FY 2004, although some body systems will require more formal outreach to update the criteria consistent with usual and customary medical practices. Once the criteria in the listings are updated, SSA will keep them current by making changes on individual sections.

Improvements to the Hearings and Appeals Process —SSA's near-term efforts for improving the disability process will include:

- Involving ALJs in early case screening to more quickly identify cases for dismissal and on-the-record decisions;

- Ending the requirement that cases be certified "ready-to-hear";

- Expanding the use of technology in OHA, including video teleconferencing, speech recognition and digital recording of hearings; and

- Implementing differential case management (DCM), a process where incoming cases are reviewed, and those ready to work are immediately processed.

- Focusing the necessary resources to ensure the timely processing of certified court cases and continuing to evaluate process improvements.

Homeless Outreach — SSA's FY 2003 SSI appropriation included $8 million for outreach to "homeless and other underserved populations". SSI is often the critical financial foundation for a homeless person to be reintegrated into society. In support of the President's initiative to end chronic homelessness in America within 10 years, SSA plans to use these funds to award approximately 30 cooperative agreements to medical and social service providers. Grantees will offer direct help to claimants in completing SSA's disability application, obtaining medical evidence and maintaining contact with SSA while a decision is pending. SSA expects this to result in reduced claims processing time as well as a reduction in the number of claims denied due to the failure of the claimant to provide the information and evidence required under SSA's eligibility rules. An announcement of the availability of cooperative agreement funding was published in the Federal Register on September 26, 2003 and SSA anticipates making awards early in the second quarter of FY 2004.

Quality Initiative — To emphasize the importance of quality throughout the Agency, the Commissioner created the Office of Quality Management and adopted an agency definition of Quality for SSA. An independent contractor is

conducting a review of SSA's entire quality process, beginning with the disability program. The review includes documenting SSA's current process and developing short- and long-term recommendations for the future.

Increase employment for people with disabilities

Currently, only a small percentage of all disability beneficiaries work and earn enough to leave the disability rolls permanently, while an even smaller percentage work and earn enough to leave the rolls temporarily. SSA is dedicated to significantly increasing the number of DI and SSI disability beneficiaries who achieve employment.

> SSA's success in this area will increase the number of people with disabilities who are working and making an important contribution to the American economy with their talents and earnings.

The following is a discussion of SSA's strategies and activities to address employment for people with disabilities. These initiatives also address the GAO-designated Major Management Challenge, "Improve programs that provide support for individuals with disabilities," and the concerns they raised when they added federal disability programs to their High Risk list.

Ticket-to-Work Program and Work Incentives — Through the Ticket-to-Work and Self-Sufficiency Program, which has been implemented in 33 states, SSA is providing beneficiaries with more choices and expanded opportunities to help them go to work. The Ticket-to-Work program allows beneficiaries to select the service providers of their choice, including vocational rehabilitation, job training and other community-based support services. As of November 2003, the Ticket-to-Work program will be available nationwide. Other work incentives offered include expanded health care coverage — a critical feature since the loss of coverage has been a significant disincentive for people with disabilities to return to work.

Early Intervention — Many experts believe that providing intervention methods to individuals with disabilities, as close to the disability onset as possible, significantly improves their chance of returning to work. SSA, in collaboration with the Disability Research Institute, is developing a demonstration project that will test a variety of interventions for DI beneficiaries, such as early medical insurance, employment supports, etc. The goal of the project is to assist persons with disabilities to return to work as soon as possible, rather than transitioning to long-term dependency on the DI rolls. The demonstration project is slated to begin in the spring of 2004.

Youth Employment — Many children receiving SSI stay on the rolls for life, while many others lose benefits after completion of the required medical redetermination at age 18 without receiving the support they need to become self-sufficient. In addition, a significant number of young adults come onto the SSI rolls at age 18 when their parents' income no longer counts toward eligibility. SSA's youth demonstration project tests interventions to support the transition of young SSI beneficiaries to adulthood through higher education and employment support to help SSI youth maximize their economic self-sufficiency. The demonstration project began in October 2003 with the award of 7 cooperative agreements to sites in Colorado, California, Iowa, Maryland, Mississippi and two in New York.

Mental Health — Most forms of mental illness are treatable. However, there is evidence that many beneficiaries with mental impairments do not receive treatment and rehabilitation services that could help them recover and enjoy a more productive life. SSA is developing a mental health treatment study (for DI beneficiaries for whom a mental health disorder is the primary diagnosis) that will pay for the costs of outpatient treatments (pharmaceutical and psychotherapeutic) and/or vocational rehabilitation that are not covered by other insurance. The goal of the project is to encourage medical recovery and employment. SSA has just awarded a predesign contract for the demonstration project.

Benefit Offset — *Section 234* of the *Social Security Act* allows the Commissioner to test the impact and cost of a sliding-scale benefit offset for DI beneficiaries. SSA plans to test such offset structures, including a $1-for-$2 benefit offset. Under such benefit formulas, disability benefits would be reduced by a certain amount for each dollar a DI beneficiary earns above a given threshold, e.g., the Substantial Gainful Activity (SGA) amount. Under the current benefit formula, a DI beneficiary who completes a Trial-Work-Period and has earnings exceeding the SGA amount is in danger of losing the entire DI benefit 3 months later. This potential loss of benefits, and eventually the corresponding loss of Medicare benefits, may keep many beneficiaries from attempting to work. Congress gave SSA the authority to test sliding-scale benefit formulas as a means of mitigating the impact of earnings on benefit levels. This would be done by phasing out benefits while allowing a beneficiary's net income to rise. Over time, benefits would gradually be reduced and eventually be phased out altogether. SSA has issued a Request for Information to assist the Agency in refining a Statement of Work for this demonstration project.

Improve service through technology

Improved productivity is essential to meeting the challenges ahead. The Social Security Advisory Board has noted that the combination of dramatic workload growth and SSA's employee retirement wave "will place extraordinary pressures on the Agency to meet the public's need for service". In the face of these challenges, technology is essential to achieving efficiencies and enabling employees to deliver the kind of service that every claimant, beneficiary and citizen needs and deserves.

> Improving SSA service through technology will:
> - Provide Americans with easy and efficient access to SSA services without leaving their home or workplace, ultimately saving time and resources; and
> - Improve Agency productivity and, therefore, improve service and preserve trust fund and general revenue monies.

The following is a list of SSA's strategies and activities to improve service through technology, which also addresses the GAO identified Major Management Challenge to "better position SSA for future service delivery challenges, including information technology," and the PMA and OIG identified challenge with respect to "Electronic Government/Service Delivery".

Expanded Electronic Government — SSA will continue to give high priority to projects that promise large productivity increases and support the President's government-wide e-Government initiative. To this end the Agency has:

- *E-Government-to-citizen:*

  – Relaunched SSA's website to improve the ease of use by the public, which includes a marketing plan announcing the change in the Internet address, the redesigned website, and the availability of online services, including the retirement application;
  – Expanded electronic self-service options with secure, friendly and knowledge-based authentication and real-time claimant, beneficiary and citizen support;
  – Participated actively with General Services Administration's e-Authentication initiative to explore alternative authentication processes;
  – Integrated access to SSA's services through the Internet and telephone so that the public can switch from one "channel" to another;
  – Used speech technology to increase access;
  – Expanded the number of automated telephone services that the public can access 24 hours a day, 7 days a week, including fully automating manual processes that currently require agent handling or human intervention, and exploring the feasibility of cross-agency applications and transactions;
  – Used a portfolio management approach to achieve cost-effective e-Service delivery, by adding new services and enhancing existing ones based on sound business case justifications;

- Expanded video teleconferencing of hearings to reduce travel for claimants and ALJs, saving time and money;
- Used technology to improve SSA's notices; and
- Developed and implemented AeDib to reduce delays inherent in mailing, locating and organizing paper disability folders.

- *E-Government-to-business:*

  - Increased electronic wage reporting to make it easier for businesses to comply with reporting responsibilities and reduce earnings discrepancies;
  - Expanded electronic verification of employees' name/social security number (SSN); and
  - Built a web presence that supports e-Procurement and e-Grants.

- *E-Government-to-government:*

  - Implemented "e-Vital" to provide timely electronic access/transmittal of birth and death records among state and federal workers;
  - Collaborated actively with other federal agencies serving SSA's beneficiary population (such as Center for Medicare and Medicaid Services (CMS) and the Railroad Retirement Board) to promote electronic services; and
  - Provided other trusted third parties with legitimate needs, such as state motor vehicle agencies and voter registration offices, also utilize electronic SSN verification.

Stewardship

Prevent fraudulent and erroneous payments and improve debt management

The PMA initiative on Improved Financial Management directs agencies to set goals to reduce improper payments[1] for each of their programs. SSA's own analyses, as well as assessments by the OIG, the Social Security Advisory Board and the GAO, have identified several major areas susceptible to erroneous or fraudulent payments.

> Preventing fraudulent/erroneous payments and improving debt management will:
> - Ensure that Americans receive the benefits they are due; and
> - Assure taxpayers that trust fund money and general revenue funds are spent correctly.

The following is a discussion of these areas and the activities SSA is engaged in to prevent, detect and collect erroneous payments, including the Major Management Challenges, "Fraud Risk" (OIG), "Continue to Strengthen the Integrity of the SSI program" (GAO), "Improper Payments" (OIG), "Integrity of the Representative Payee Process" (OIG), and "Improved Financial Performance" (PMA).

SSI Corrective Action Plan — Because of SSA's progress in addressing SSI payment accuracy problems, GAO removed the SSI program from its high-risk list of government programs vulnerable to waste in January of 2003. The Agency developed a Corrective Action Plan and implemented many initiatives over the last few years to prevent and detect SSI overpayments. SSA will continue to process substantial numbers of eligibility reviews and implement additional initiatives designed to improve accuracy even further. These activities will also address the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) evaluation of the SSI Aged

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[1] The Agency uses the terminology "improper payments" and "erroneous payments" interchangeably. For consistency, the term "improper payments" will be used throughout the document except when referencing the strategic objective to "prevent fraudulent and erroneous payments and improve debt management".

program that requires SSA to address payment accuracy issues by aggressively pursuing strategies outlined in its SSI Corrective Action Plan.

Special Disability Cases and Workers' Compensation Cases — Despite the high level of accuracy with respect to Old Age, Survivors and Disability Insurance (OASDI) payments (99.8 percent free of error), SSA has pinpointed two areas causing errors:

- SSA identified a number of SSI beneficiaries who earned sufficient work credits to qualify for benefits under the DI program, but for whom an application was never completed. The Agency has already taken the appropriate steps to prevent this from occurring in the future. SSA is also in the process of reviewing approximately 476,000 complex Special Disability Workload cases for potential DI entitlement. At the end of the fiscal year, over 62,000 cases had been reviewed. The entire review is expected to be completed by the end of fiscal year 2007.

- SSA also identified a number of DI beneficiaries whose workers' compensation payments changed but whose DI benefits were not adjusted accordingly. To address this problem, SSA instituted a comprehensive action plan that includes:

    - Completing 40,000 workers' compensation cases per year through FY 2008 in addition to having already completed a review of 112,000 cases currently affected by worker's compensation;
    - Updating all instructional material;
    - Retraining the appropriate Operations employees to handle these types of changes;
    - Improving the Agency's computer systems; and
    - Institutionalizing new processes to ensure continued accuracy.

Representative Payees — SSA appoints representative payees for individuals who are incapable of directing or managing their benefits. Based on in-depth agency analysis and increased congressional, media, OIG and advocate concerns, SSA is reexamining representative payee program operations. SSA has made progress on several fronts and continues to work on ways to improve the representative payee program. Refer to page 42 for more details.

Continuing Disability Reviews (CDR) — CDR processes are SSA's first line of defense to ensure that only those people who continue to meet the disability requirements remain on the rolls. SSA's ongoing goal is to initiate CDRs when needed and complete them within prescribed timeframes. By making use of a research and statistical contractor, SSA has steadily made improvements in the CDR profiling process resulting in an increased number of CDRs being processed. SSA met its FY 2003 goal for processing CDRs. Refer to page 44 for more details.

Cooperative Disability Investigations (CDI) — The CDI program is a joint effort by OIG and SSA to improve stewardship responsibilities in the Social Security disability program, with a zero tolerance for fraud and abuse. The CDI units are made up of an OIG team leader and staff from SSA field offices, DDSs and local law enforcement agencies. At the end of FY 2003, SSA had 17 CDI units in full operation, with one more unit preparing to start operation.

The units provide investigative support to select DDSs during the initial and continuing disability review process. They help combat fraud by investigating questionable statements and activities of claimants, medical providers, attorneys, interpreters, or other service providers who may be involved in the facilitation or promotion of disability fraud. The investigative evidence is provided to the DDSs to make timely and accurate disability determinations. The evidence is also used by the OIG in determining whether criminal prosecution is warranted.

Overall productivity and program savings from the CDI units continue to increase every year. In FY 1998, when the program began, it accounted for $2.8 million in cumulative savings for SSA. Through September 2003, cumulative SSA program savings had increased to over $278 million, with an additional $152 million in projected savings for non-SSA programs. In addition to these savings, the public's awareness of the CDI program is expected to have a deterrent effect on fraud and provide intangible benefits.

Debt Collection Initiatives — SSA continues to use aggressive debt collection tools to recover delinquent benefit overpayments from former beneficiaries. SSA refers delinquent debts to the Treasury Offset Program to recover

debts from Federal tax refunds and other Federal payments. In addition, SSA withholds SSI overpayments from the benefits of individuals who become entitled to OASDI payments and refers debts to credit bureaus. A project under development is the use of Administrative Wage Garnishment as a means to collect debts through a debtor's employer.

In addition, SSA's strategy for improving the management of debt includes the following initiatives:

- Identifying those SSI debtors whose debts have been determined to be uncollectible and who are now receiving SSI and/or Social Security payments. Once identified, action would be taken to recover as much as 10 percent of the debts each month from ongoing benefit payments. Taking action on these "now" inactive debts will increase the proportion of debt in a collection arrangement. Initiating withholding from benefits also will result in increased recovery of debts.

- Building a scoring system that prioritizes unresolved debts. This supports actions to bring debt workloads into balance with operational resources and ensures that resources are expended on the debt with the best potential for recovery.

- Developing a connection between SSA-level performance goals related to debt resolution and Processing Center, Field Office and Teleservice Center performance measures.

- Providing SSA operating components with a tool that organizes debt information more efficiently for individual case processing and better workload management. This tool, named "OP-WIZ," is now operational.

Strengthen the integrity of the Social Security Number (SSN)

The original purpose of the SSN was to enable SSA to keep an accurate record of earnings covered under Social Security and to pay benefits based on those earnings. Over time, the SSN has become a primary means of identification in both the public and private sectors. As use of the SSN has grown, so has identity fraud. This has led to the GAO and OIG designation of SSN misuse and identity fraud as significant management issues. These issues were the subject of recent Congressional hearings pertaining to Homeland Security and of a Federal Trade Commission report and survey on identity theft.

Most instances of identity fraud result not from any action or failure to act by SSA, but from proliferation of personal information in our society. Many institutions besides SSA have a role in combating identity fraud, including the Federal Trade Commission and the Department of Homeland Security. A unified approach involving intergovernmental collaboration is required to safeguard the SSN when used by government, and particularly when used in public records. SSA's role in this effort is to further strengthen the enumeration process by ensuring that SSNs are issued appropriately and preventing SSN misuse. SSA notes that contrary to what some entities understand the Agency's role to be, SSA does not verify identity. Rather, the Agency verifies if information presented matches information in SSA's records.

> Strengthening the integrity of the SSN will:
> - Ensure that SSNs are issued appropriately;
> - Support efforts to increase domestic safety and the security of our nation's borders;
> - Protect Americans from incidents of identity fraud; and
> - Improve the economy through reduction of theft facilitated by identity fraud.

The following is a discussion of the activities SSA is engaged in to strengthen the integrity of the SSN and address the OIG identified Major Management Challenge with respect to "Homeland Security, Social Security Number Integrity and Misuse".

Evidentiary Requirements and Methods — SSA is strengthening the SSN application process by:

- Creating a Social Security Card Center in Brooklyn, New York, to test if such centers would improve and expedite the document verification process;

- Eliminating drivers' licenses as a valid reason for issuing a non-work SSN;

- Verifying with the issuing agency the records of any birth certificates submitted by U.S.-born citizens, age one or older who are applying for an original SSN;

- Verifying with the Bureau of Citizenship and Immigration Services (BCIS) all alien documentation submitted by non-citizens in support of applications for an original or replacement SSN card; and

- Decreasing reliance on applicant-submitted evidence by using Enumeration-at-Entry, a process whereby SSA will assign SSNs to new arrivals based on data collected by the Department of State and the BCIS at the time right-of-entry into the U.S. is authorized.

SSN Verification Processes — The Social Security Act provides that the SSN may be used by a number of governmental agencies for designated purposes. Such programs as Food Stamps and such agencies as State Departments of Motor Vehicles depend on the accuracy of the SSN. For a number of years SSA has verified that the SSN, name, and sometimes date of birth provided by authorized SSN users are consistent with information in SSA's records. Similar processes are in place to verify SSN related data provided by an employer to ensure that wages are reported to the correct SSN. While SSA is unable to provide identity verification, the assurance that information provided matches the data in SSA's records will help to ensure the integrity of the SSN. SSA is strengthening its SSN verification processes by:

- Completing a comprehensive review of SSN verification services to identify ways to strengthen processes and systems;

- Identifying and eliminating redundancies;

- Providing SSN verifications that include additional disclosable data such as death information;

- Ensuring consistency of responses for the same user;

- Tightening processes for registering and monitoring users; and

- Developing a more effective process to evaluate SSN verification requests by large volume users.

Increase the accuracy of earnings records

Accuracy of the earnings records that SSA maintains for all working Americans is critical. SSA uses these records to determine whether an individual has earned enough wage credits to be eligible for benefits and the amount that will be paid. Despite the Agency's good record (96.4 percent of earnings are assigned correctly to individual workers' records), the amount of earnings that cannot be assigned to individuals' work records has been growing in recent years and is a major concern.

The OIG has designated the integrity of the earnings reporting process as a significant management issue. Over 250 million earnings wage items are submitted annually by employers. Of those, approximately 10 percent (25 million) initially do not match SSA's records. SSA is able to match about 64 percent (16 million) of these mismatches. Still, about 9 million names and/or SSNs cannot be matched to an individual's record due to an invalid name/SSN combination. SSA maintains the information on these earnings in a "suspense file" for potential future reconciliation.

> By increasing the accuracy of earnings records, SSA is:
> - Ensuring that Americans receive the full Social Security benefits to which they are entitled;
> - Protecting the trust funds by ensuring that benefits are being paid accurately; and
> - Increasing the public's confidence in the reliability of the Social Security system.

The following is a discussion of the activities SSA is engaged in to increase the accuracy of the Agency's earnings records and address the OIG identified Major Management Challenge, "Integrity of the Earnings Process".

Earnings Suspense File — SSA's strategies for reducing the size and growth of the suspense file include:

- Employing new software routines that enable matching greater numbers of suspense file items to the correct earnings record;

- Notifying employers who submit a large number of incorrect wage items, name/SSN discrepancies, and/or request corrections, as well as each individual employee who submits incorrect information in these areas; and

- Collaborating with the Internal Revenue Service (IRS) to achieve more accurate wage reporting.

Educating Employers — SSA is undertaking an aggressive educational campaign to inform the wage reporting community of the various verification tools and error detection utilities available to them. For example, SSA is encouraging greater use of SSN verification through the Employee Verification Service that allows employers to verify a valid name/SSN combination. SSA is currently piloting an Internet-based SSN verification service that provides immediate or next business day response to name and SSN verification requests. At this time the pilot is only open to a small number of participating companies. It is anticipated that this option may be open to all employers after evaluation of the pilot.

Electronic Wage Reporting — SSA is working with employers to encourage greater use of electronic filing. To this end, the Agency provides employers with online filing status and error information.

Efficiently manage Agency finances and assets, and effectively link resources to performance outcomes

Recognizing the importance of good management to the efficient and economic delivery of desired results, the PMA identifies five government-wide initiatives intended to work together as a mutually reinforcing set of management reforms. The Administration uses a scorecard of red (unsatisfactory), yellow (mixed results, i.e., achieved some but not all the criteria), and green (success) to rate agencies on both the progress and status of each initiative. SSA's current ratings are recognized as among the best for major federal agencies. In a July 2003 announcement from OMB on the PMA scorecard, SSA received the highest rating by getting to green for *progress* in all five categories. SSA's overall current *status* in financial management was also upgraded to green.

> SSA's efforts to "get to green" for successfully implementing the PMA initiatives will:
> - Improve the efficiency and productivity of SSA operations, thereby, saving taxpayer and trust fund money for use by future generations.

The following is a discussion of the Agency's activities in implementing the PMA initiatives at SSA.

- **Expanded Electronic Government** (Status: <mark>Yellow</mark>; Progress: <mark>Green</mark>) — This is addressed with the discussion of the OIG identified Major Issue "Improving Service through Technology" on page 19.

- **Competitive Sourcing** (Status: <mark>Red</mark>; Progress: <mark>Green</mark>) — SSA is building the infrastructure needed to support public-private competition and improve the efficiency and effectiveness of Agency processes.

  SSA has established a public-private competition process that ensures competitive sourcing is used to improve the efficiency and effectiveness of Agency processes and provide the greatest benefit to the taxpayer. The Agency has established a centralized component called the Office of Competitive Sourcing with contracting, human resource, budget and A-76 (the OMB guidelines that cover the competitive sourcing process) expertise. SSA has developed competitive sourcing procedures, processes, delegations and policies. SSA has a communication plan in place that uses workgroup members, memos and a website to disseminate this information. The Agency uses contractor support with A-76 experience to assist in training and conducting studies. SSA has implemented several steps to ensure that competitions are completed within given timeframes. The steps include:

  - The inclusion of pre-planning in the SSA process which results in personnel being adequately trained on the A-76 process;
  - Project plans for each study; and
  - Carefully monitoring milestone dates.

  The Agency's first OMB Circular A-76 Competitive Sourcing Streamlined Study for the software validation function was decided in favor of SSA.

- **Improved Financial Performance** (Status: <mark>Green</mark>; Progress: <mark>Green</mark>) — SSA received an unqualified audit opinion on its financial statements for FY 2002; the ninth consecutive year. The Agency has submitted timely and accurate financial information, releasing its FY 2002 financial statements in mid-November, thereby achieving the FY 2004 government standard 2 years ahead of time. In addition, for the fifth consecutive year, SSA was awarded the Certificate of Excellence in Accountability Reporting by the Association of Government Accountants for its FY 2002 Performance and Accountability Report (PAR). SSA holds the distinction of being the only federal agency to receive this prestigious award every year since its inception. SSA submitted its FY 2003 second quarter financial statements on April 21, 2003, which included a full set of comparative financial statements as of March 31, 2003 and March 31, 2002, meeting the FY 2004 government standard for quarterly reporting one year ahead of time. SSA's systems allow routine assessment of performance and financial information that managers can use to make day-to-day decisions. SSA will enhance these systems over the next few years with the SSA Unified Measurement System (SUMS) and the Managerial Cost Accountability System (MCAS) initiatives.

  Another important aspect in SSA's effort to reduce improper payments is addressed with the discussion of the Major Issue "Preventing fraudulent and erroneous payments and improving debt management" on page 20.

  SSA's goal is to improve overall productivity by at least 2 percent per year. Advances in automation will be key to SSA's improvement, however, process and regulation change will also be contributing factors.

  Also see page 48 for additional discussion of the Agency's efforts on improving financial performance.

- **Budget and Performance Integration** (Status: <mark>Yellow</mark>; Progress: <mark>Green</mark>) — OMB has indicated that SSA must improve its ability to present a performance budget that permits direct comparisons between incremental budgeted amounts and outcomes in specific activities. SSA presented a fully integrated budget and performance plan to OMB in September 2003. The budget aligns costs and workyears with overarching performance goals, e.g., it identifies resources needed to reduce backlogs and takes into account savings from expected efficiencies.

In the past, SSA's OIG has cited general performance management and budget and performance integration as significant management issues, specifically in relationship to data reliability issues. SSA is further strengthening the linkage between resources and performance by:

– Working with the private sector to continue to improve SSA's budget formulation system by enhancing modeling capabilities that estimate what level of performance to expect for different levels of funding; and
– Ensuring that SSA's budget formulation and execution processes continue to reflect the Agency's strategic and performance plans, with a greater emphasis on aligning outputs and costs to outcomes.

- **Strategic Management of Human Capital** (Status: **Yellow**; Progress: **Green**) — This initiative is addressed as a part of the OIG and GAO identified Major Management Challenge regarding "Recruiting, developing and retaining a high-performing workforce" on page 27.

Solvency

Support reforms to ensure sustainable solvency and more responsive retirement and disability programs through education and research efforts

Today about 3.3 people pay into Social Security for every one person receiving benefits. By 2030, this ratio is expected to decline to about 2.2 to 1. Based on actuarial projections, within 15 years, SSA expects to begin paying more in benefits than it collects in taxes. The actuary projects that by 2042, the trust funds will be exhausted and the payroll taxes collected will be insufficient to pay the benefits owed. Based on actuarial projections in the 2003 Trustees Report, without reforms, benefits scheduled to be paid under present law would have to be reduced by 35 percent by the end of the next 75 years.

> Ensuring Social Security solvency will ensure economic security for generations to come.

The President, Social Security's Trustees, the Social Security Advisory Board, GAO's Comptroller General and many members of Congress have stated that the sooner reforms happen, the more gradual and less costly the changes will need to be. In his comments on the 2003 report of the Social Security Trustees, the President expressed hope that "Congress will join with the Social Security Administration and other interested parties in a national dialogue about how best to strengthen and protect Social Security".

As the debate moves forward on how best to strengthen Social Security for the future, SSA must work to ensure that policymakers and the public have the information needed to assess the implications of all proposals under consideration.

Public Education — Through SSA's ongoing communications program, the Agency will continue to educate the public about financing challenges facing Social Security programs. Additionally, SSA has changed its yearly survey of public knowledge to help the Agency better understand what the public knows about important Social Security issues, including long-range financing. SSA will use this information to develop a national information campaign with partners that will focus on a variety of activities aimed at increasing the public's knowledge of basic program facts and long-range financing issues.

Research Capability — In the GAO's January 2003 report on *Major Management Challenges and Program Risk*s, they acknowledged the steps SSA has taken to strengthen its research, evaluation and policy development activities and eliminated this issue as a management challenge. SSA will continue to:

- Maintain an in-house capacity of policy, actuarial and legislative expertise to respond to decisionmakers' questions about the fiscal, distributional and administrative aspects of proposals to reform the Social Security programs; and

- Work with the Administration and Congress as legislative proposals to achieve sustainable solvency are developed.

Disability High-Risk — The *Americans with Disabilities Act* and medical and technological advances are altering the concept of disability. This and other related concerns led the GAO to add modernizing all federal disability programs to its high-risk list. SSA's and OMB's PART evaluation of the DI program also indicated that the program no longer meets the needs of people with disabilities. The Social Security disability program must respond to these developments.

Staff

Recruit, develop and retain a high-performing workforce

SSA's employee retirement wave will not only affect the Agency's ability to deliver service to the American public, but will also result in a significant drain of institutional knowledge. SSA will be faced with the continuing challenge of hiring and retaining a highly skilled and diverse workforce in what is expected to be a very competitive job market.

SSA was early in recognizing the implications of the retirement wave and in taking actions to address it. Succession planning has led the Agency to implement aggressive employee development programs at all levels and redeployment of positions to direct service. The Agency has also emphasized the recruitment of Presidential Management Interns and outstanding scholars and increased the use of hiring flexibilities.

As SSA deals with significant workload growth and an increased number of retirements, the Agency will strive to maintain a high-performing workforce and enhance productivity through automation, job enrichment opportunities and training, redistribution of staff to direct service positions, succession planning, leadership development, new performance management systems, and other service enhancements. SSA's response to the challenges of recruiting, developing and retaining a high-performing workforce is framed by and addresses the PMA that directs agencies to make government citizen-centered through the strategic management of human capital.

> SSA's strategies to recruit, develop and retain a high-performing workforce will allow the Agency to continue to provide the highest quality, timely service to the American public, and result in productivity increases that will save trust fund and general revenues monies.

SSA strategies include a wide array of tools and activities. These activities address the PMA Initiative's concerns, as well as the Major Management Challenge: "Human Capital" identified by both the OIG and GAO.

Future Workforce Transition Plan — SSA has developed and continues to implement a Future Workforce Transition Plan that is closely aligned with the Agency's strategic plan and supports its four strategic goals of *Service, Stewardship, Solvency* and *Staff.* To facilitate human capital coordination and manage the plan, SSA established a Human Capital Planning Staff (HCPS). The HCPS will be a focal point not only for workforce planning, but also for studies, analyses, benchmarking and evaluation of selected human capital issues.

Recruitment and Retention — SSA will expand the use of personnel hiring flexibilities in strategic areas with above minimum pay for systems analysts, awards and reemployment annuitant waivers. The Agency will continue to maximize the use of flexible work schedules. Also, SSA's workforce will mirror the diversity of the American public it serves. The Agency will increase the number of employees in direct service positions, while maintaining proper technical, policy, systems and administrative support.

Leadership and Employee Development — SSA will ensure ongoing job enrichment opportunities and training. The Agency will do so by developing core competencies, delivering employee competency-based training and providing technology-based skills training critical to ensuring SSA's direct service employees' ability to manage the Agency's increasing workloads. SSA's knowledge management strategies include succession analysis, collection of baseline training data, filling vacancies before the incumbent leaves, and targeting critical positions. SSA will continue to use national, component and regional leadership development programs to ensure ongoing exc ellence in Agency leadership positions.

Performance Culture — The Agency will improve accountability through new performance management systems for Senior Executive Service (SES) members and for General Schedule (GS) employees. A new SES performance management framework is already in place, as are performance management plans for GS-15 non-bargaining unit employees. Efforts are underway to increase results-oriented performance assessments throughout the rest of the Agency.

Performance Goals and Results

In FY 2003, SSA made major strides toward achieving the long-term goals in the Agency Strategic Plan (ASP) for 2003-2008. The Performance and Accountability Report (PAR) is the Agency's opportunity to describe that progress. The Agency's progress is presented in the context of the Government Performance and Results Act of 1993 (GPRA). The GPRA statute requires federal agencies to develop and institutionalize processes to plan for and measure mission performance.

Background: The ASP, Annual Performance Plan (APP) and PAR comprise the main elements of SSA's response to the GPRA requirements and support the Agency's budget request. Together, these elements create a recurring cycle of planning, program execution, measurement, and reporting. By forging a strong link between resources and performance, these plans and reports show what is being accomplished, reinforce accountability for the money that is being spent, and demonstrate the effectiveness of programs.

At SSA, Agency officials and staff use these plans and reports to manage and administer Social Security's programs. They are also used by the President and Congress when formulating programmatic and policy decisions and for oversight. The public uses these plans and reports to get information about the purpose and effectiveness of SSA's programs and activities.

The FY 2004 APP and Revised Final FY 2003 APP were published in May 2003. These Agency plans revised the strategic goals, objectives, and performance measures to correspond with SSA's new Strategic Plan. Beginning in FY 2003, SSA significantly reduced the number of indicators used to measure Agency performance and structured the performance indicators to be more outcome-oriented and more meaningful to external audiences than in prior years. The FY 2003 PAR is the Agency's first report on results achieved in the context of the long-term outcomes envisioned in SSA's new ASP.

As the Agency met its day-to-day challenges, it also made considerable progress toward meeting its 5 year ASP goals, achieving its strategic performance commitments for FY 2003, and preparing for the projected workload increases and employee retirements that will occur over the next decade.

During FY 2003, SSA used 45 distinct GPRA performance indicators to manage and track Agency progress. These measures were established in SSA's Revised Final FY 2003 APP and reflect the changes in the Agency's strategic goals and objectives articulated in SSA's new ASP. The number of performance measures was significantly reduced for FY 2003 and FY 2004 to focus on SSA's most critical challenges and areas in need of improvement. SSA's performance for all GPRA measures is reported in the "GPRA Performance Results/Individual Performance Indicator Results" section on page 72, or in this section in the discussion of the Key Performance Indicators (KPI). SSA's 17 KPIs were chosen because the Agency believes they best tell the story of its efforts to address the most critical challenges. They are a sub-set of the 45 performance indicators in SSA's APP.

For a limited number of performance indicators, where actual levels of FY 2002 full year performance data were not available in time for the publication of the FY 2002 PAR, actual performance for FY 2002 is being reported in the "GPRA Performance Results/Individual Performance Indicator Results" section, on page 93 of this document. In turn, where actual levels of FY 2003 full-year performance data were not available in time for this publication, actual performance for FY 2003 will be reported in the FY 2004 PAR.

In addition, the FY 2004 APP and Revised Final FY 2003 APP presented for the first time the Office of Management and Budget's (OMB's) Program Assessment Rating Tool (PART). SSA was asked to identify performance measures and targets for the Disability Income (DI) and Supplemental Security Income (SSI) Aged programs, the two programs evaluated by OMB in the spring of 2002 and summer of 2003. While some of the measures and targets identified in PART were GPRA measures, some of the measures and targets are new.

For your reference, electronic versions of the documents discussed can be viewed at the following Internet addresses:

SSA's 2003-2008 ASP can be found at http://www.socialsecurity.gov/strategicplan.html
SSA's FY 2004 APP/Revised Final FY 2003 APP can be found at http://www.socialsecurity.gov/performance/

For a paper copy of either SSA's ASP or APP write to:
Social Security Administration
Office of Strategic Management
4215 West High Rise
6401 Security Boulevard
Baltimore, MD 21235

President's Management Agenda: SSA made significant progress in FY 2003 in support of the President's Management Agenda (PMA) in the following areas: Expanded Electronic Government, Competitive Sourcing, Improved Financial Performance, Budget and Performance Integration, and Strategic Management of Human Capital. SSA incorporated the PMA initiatives into its strategies for achieving the Agency's mission and strategic goals. Multi-year plans for achieving the goals of all five PMA initiatives were developed. SSA made PMA achievement a KPI in the Performance and Accountability Report. SSA's FY 2003 goal was to receive a "green" for progress on all five PMA initiative plans. The Agency met this goal. For FY 2004, SSA's goal is to receive a "green" for status on four of five PMA initiatives. Refer to pages 24 and 25 for a discussion of SSA's FY 2003 PMA performance.

Program Assessment Rating Tool (PART): The PART is a diagnostic tool used to examine different aspects of program performance to identify the strengths and weaknesses of a given federal program. OMB selected the DI and SSI Aged programs during its initial assessment period in 2002, and the results were published in the FY 2004 President's budget. The same two programs were reevaluated in the summer of 2003 and the results will be published in the FY 2005 President's budget. These two programs account for 50 percent of SSA's programs to be evaluated using PART. The other two programs to be evaluated are the SSI Blind and Disabled (B&D) and the Old Age, Survivors Insurance (OASI program). Next summer (2004), SSA plans to evaluate the SSI B&D program as a part of the FY 2006 budget. Therefore, by the summer of 2004, SSA will have evaluated 75 percent of its programs. The findings from the evaluation of the SSI B&D program will be published in the FY 2006 President's budget. Plans are to evaluate the OASI program in the summer of 2005 as a part of the FY 2007 budget, at which point SSA will have evaluated 100 percent of its programs. Results will be published in the FY 2007 President's budget. Refer to page 91 for a complete narrative regarding the PART reviews and performance measure results.

Major Management Challenges: The Agency also took action to address the major management challenges identified by the General Accounting Office (GAO) and SSA's Office of the Inspector General (OIG). The "Agency Challenges" section of this report, which begins on page 14, outlines these major challenges. GAO has removed the SSI program and SSA's Office of Policy from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA's efforts to improve the management of the program. This section of the PAR looks at SSA's actions around each of the currently identified major management challenges in the context of the Agency's performance on the 17 KPIs.

Workloads: In FY 2003, as in prior years, the largest use of SSA's administrative resources went to processing its substantial day-to-day workloads. These workloads included:

- Paying benefits to more than 51 million people every month;

- Evaluating evidence, and making determinations of eligibility for benefits on more than 5 million new claims;

- Making decisions on almost 1.6 million hearings and appellate actions;

- Issuing over 17.5 million new and replacement Social Security Number (SSN) cards;

- Processing 257 million earnings items for crediting to workers' earnings records;

- Handling 53.7 million calls to SSA's 800-number;

- Issuing 140.6 million Social Security Statements;

- Processing at least 1.37 million continuing disability reviews (CDR); and

- Processing 2.45 million non-disability SSI redeterminations to ensure that SSI eligibility is still met.

FY 2003 Performance by Strategic Goal

This section presents a summary discussion of FY 2003 performance for each of SSA's four strategic goals including:

- The contribution of SSA's FY 2003 performance toward achieving Agency strategic goals and long-term key outcomes;

- The strategies and activities SSA undertook during FY 2003 to accomplish the results;

- The impact of actual FY 2003 performance on expected FY 2004 strategies and performance; and

- The KPI/Workload Measure results and analysis.

Strategic Goal A: To deliver high-quality, citizen-centered service

SSA's *Service* goal encompasses the Agency's traditional and electronic services to applicants for benefits, beneficiaries and the general public, as well as services to and from States, other agencies, third parties, employers and other organizations, such as financial institutions and medical providers.

This goal supports the delivery of citizen-centered service and the expansion of the e-Government element of the PMA. SSA's aim is to deliver quality service. The attributes of service that define quality include accuracy, productivity, cost, timeliness and service satisfaction.

Following is a discussion of SSA's FY 2003 accomplishments and the progress SSA made in the context of its long-term key outcomes and GAO or OIG identified Major Management Challenges for this goal:

Strategic Objective 1: Make the right decision in the Disability Process as early as possible

SSA's key long-term outcomes are to significantly reduce the time it takes for a disability claimant to receive a final Agency decision and to eliminate backlogs for disability claims at the initial hearings and appeals levels.

SSA has engaged in a number of efforts to redesign and improve the disability determination process by testing several initiatives over the past several years. SSA carefully reviewed the results of these initiatives to identify the elements that show promise. Based on this review, SSA decided to:

- Encourage early and frequent contacts with claimants during the development process;

- Eliminate the claimant conference at the end of the process; and

- Temporarily extend the "elimination of the reconsideration step" feature in the ten prototype States that are currently participating in this project, while SSA develops an alternate approach.

SSA is also considering other initiatives to improve the disability process. In fact, in testimony before the House Ways and Means Committee on September 25, 2003, the Commissioner introduced her new approach for disability determination which includes the following:

- People who are obviously disabled will receive quick decisions;

- Adjudicative accountability will be reinforced at every step in the process;

- Processing time will be reduced by at least 25 percent;

- Decisional consistency and accuracy will be increased; and

- Barriers for those who can and want to work would be removed.

Additional information on the Commissioner's approach to improving the disability program may be found on SSA's website at: http://www.socialsecurity.gov/pressoffice/pr/DDPImprovement-pr.htm.

Appeals Council — The primary tool used by SSA's Appeals Council (AC) to improve case processing has been Differential Case Management, a process where all incoming cases are reviewed and placed on different processing tracks according to the factors present in each particular case. The Office of Hearings and Appeals (OHA) also added case tracking improvements, including bar coding at the Mega-Site Folder Storage Facility, for more rapid retrieval of files needed for case processing. As a result, requests for review of pending status have declined and the average fiscal year (FY) processing time for appeals declined by more than 100 days from the prior year. As the AC continues to process the remainder of its aged cases, processing time is expected to decline further.

Accelerated Electronic Disability (AeDib) — In FY 2003 a significant portion of SSA's systems resources was dedicated to the AeDib project, which will eventually replace the current paper disability claims folder with an electronic folder. This will eliminate the need to create, mail and store paper disability files, and will allow staff to process claims by quickly accessing and retrieving information. Initial rollout of AeDib is set to begin in January 2004, with full implementation to be completed within 18 months.

Additional activities that support AeDib are:

- The use of scan-to-print technology to support the creation of electronic records (implemented in FY 2003);

- Expansion of the Electronic Disability Collection System to capture disability claims interview information (implemented in FY 2003);

- Expansion of Internet services for people who want to file for disability benefits (implemented in FY 2003);

- Development of a Case Processing and Management System to interface with the electronic folder (implementation expected in FY 2004);

- Implementation of digital recording of hearings, which will become part of the electronic folder (implementation expected in FY 2004);

- Migration of Disability Determination Services (DDSs) to an Information Technology (IT) platform that will allow them to interface with the electronic folders (ongoing implementation); and

- Development of electronic processes to speed the request and retrieval of evidence from medical and educational sources (implemented in FY 2003).

Office of Hearings and Appeals (OHA) Technology — During FY 2003, OHA distributed speech recognition software to decision writers and Administrative Law Judges (ALJs) for producing decisions, instructions and other case-related documents. This software reduces the processing time for cases where the decision was dictated on tape.

Also during FY 2003, SSA finalized plans to implement digital recording in OHA hearing offices, replacing outdated analog cassette recordings. The digital recordings will ultimately become part of electronic folders, eliminating the storage of cassette tapes and all but eliminating the remand of cases due to lost or inaudible tapes. This will free up resources to work on pending cases.
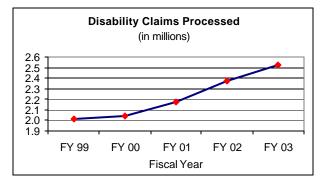
1.1 — Key Performance Indicator: *Initial Disability Claims Processed*

FY 2003 Goal: 2,498,000

Actual FY 2003 Performance: 2,526,020

SSA met its goal. In FY 2003, the DDSs placed increased emphasis on initial claims . Additional funding was provided to maintain the FY 2002 pending level and position the DDSs to eliminate initial claims backlogs in future years. The DDSs also diligently managed medical costs and increased productivity to ensure maximum results.

Disability Claims Processed
(in millions)

| **FY 1999:** 2,012,047 | **FY 2000:** 2,035,627 |
| **FY 2001:** 2,166,623 | **FY 2002:** 2,376,572 |

Trend: The number of claims processed continues to increase each year.

Data Definition: DDS count of initial disability claims processed, including disabled dependents.

Data Source: National Disability Determination Services System.

1.2 — Key Performance Indicator: *Number of Hearings Processed*

FY 2003 Goal: 602,000

Actual FY 2003 Performance: 571,928

SSA did not meet its goal. SSA came very close to achieving the challenging goal that was set for this year, processing more than 39,000 more hearings than last year. A number of issues played a part in the Agency narrowly missing this goal. First, SSA continued to be unable to hire ALJs because of the *Azdell* litigation. Hiring additional adjudicators is critical in helping the Agency make decisions at the hearings level. Second, an initiative to have adjudicators other than ALJs process fully favorable on-the-record decisions was not implemented. This initiative, called the Senior Attorney Program, should be in place for next year. SSA had record-breaking productivity of 2.26 cases per ALJ per day. We will strive to maintain this level of ALJ productivity in order to meet the FY 2004 target.

Hearings Processed
(in thousands)

| **FY 1999:** 596,999 | **FY 2000:** 539,426 |
| **FY 2001:** 465,228 | **FY 2002:** 532,106 |

Trend: The number of hearings processed by SSA has risen by over 100,000 over the past 2 years.

Data Definition: All hearings processed by OHA, which includes hearing requests from all programs.

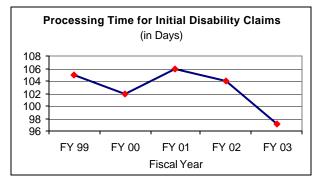*Data Source:* OHA Hearing Office Tracking System.

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1.3 — Key Performance Indicator: *Average Processing Time for Initial Disability Claims (Days)*

FY 2003 Goal: 104 days

Actual 2003 Performance: 97 days

SSA met its goal. The Agency provided additional funding to the DDSs to focus on processing initial disability claims. Receipt levels remained high providing a pool of quick turn-around cases that examiners could process while developing the more complex claims.

FY 1999: 105 days   **FY 2000:** 102 days
FY 2001: 106 days   **FY 2002:** 104 days

Processing Time for Initial Disability Claims
(in Days)

Trend: Processing time shows improvement over the past 2 years, taking approximately 7 fewer days to complete actions on disability claims.

Data Definition: This is the fiscal year average processing time for DI and SSI claims combined. Processing time is measured from the application date (or protective filing date) to either the date of the denial notice or the date the system completes processing of an award.

Data Source: Title II MIICR Processing Time and Title XVI SSICR Processing Time Systems.

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1.4 — Key Performance Indicator: *Average Processing Time for Hearings (Days)*

FY 2003 Goal: 352 days

Actual FY 2003 Performance: 344 days

Hearings Processing Time
(in Days)

SSA met its goal. Despite meeting SSA's FY 2003 goal, hearing processing time continues to edge higher. The number of Medicare hearings receipts has been lower than anticipated. Certain types of Medicare cases are much faster and easier to process. Therefore, having fewer Medicare hearings contributed to an increasing average processing time and a lower number of hearings processed per workyear (PPWY). In FY 2004, SSA expects to begin hiring ALJs and support staff, which should help meet the target. The full benefit of this additional staff should be seen in FY 2005 when the new ALJs are fully productive. This year, the Agency's efforts resulted in record-breaking productivity of 2.26 cases per ALJ per day, which helped SSA meet the processing time goal.

FY 1999: 316 days   **FY 2000:** 297 days
FY 2001: 308 days   **FY 2002:** 336 days

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Trend: SSA expects a steady rise in the number of cases pending in FY 2004. This, combined with SSA's past inability to hire ALJs because of the *Azdell* litigation, will likely cause the average processing time to continue to increase over the next year. The process for hiring ALJs takes a minimum of 3 months. To staff some of the Agency's most critical needs, SSA plans to hire a limited number of ALJs in FY 2004 from the existing Office of Personnel Management (OPM) register which has not been open to new applicants since 1999. The Agency will then hire a substantial number of ALJs in FY 2005 once the OPM register is updated.

Data Definition: Beginning FY 2000, this indicator was redefined, from the one included in the FY 1999 APP, to represent the average elapsed time (from the hearing request date until the date of the notice of the decision) of all hearing-level cases processed during all months of the fiscal year. The FY 1999 APP measure reflected the average elapsed time of hearing-level cases processed only in the last month of the FY (September).

Data Source: Hearing Office Tracking System (HOTS).

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1.5 — Key Performance Indicator: *Number of Initial Disability Claims Pending*

FY 2003 Goal: 593,000

Actual FY 2003 Performance: 581,929

SSA met its goal. The number of initial claims pending had escalated from FY 1998 to FY 2002 due to increasing receipt of cases and the focus on ensuring the medical CDR workload is current. In FY 2003, the DDSs placed increased emphasis on initial claims. Additional funding was provided to maintain the FY 2002 pending level and position the DDSs to eliminate initial claims backlogs in future years. The DDSs also diligently managed medical costs and increased productivity to ensure maximum results.

Initial Disability Claims Pending (in Thousands)

FY 1999: 457,823   **FY 2000:** 535,407
FY 2001: 578,524   **FY 2002:** 592,692

Trend: Pending cases decreased slightly this year in contrast to a rising trend in 1999-2002.

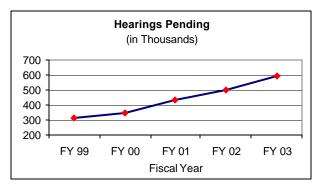**Data Definition:** DDS count of initial disability claims pending, including disabled dependents.

Data Source: National Disability Determination Services System.

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1.6 — Key Performance Indicator: *Number of Hearings Pending*

FY 2003 Goal: 587,000

Actual FY 2003 Performance: 591,562

Hearings Pending
(in Thousands)

SSA did not meet its goal. While the Medicare hearings receipts have been lower this year, the total hearings receipts have been significantly higher than last year as a result of increased DDS processing of claims. Through August, OHA had received almost 62,000 more hearing requests than at the same time last year. This year, SSA continued to be unable to hire ALJs because of the *Azdell* litigation. ALJs are critical in helping the Agency make decisions on hearings. Additionally, an initiative to have adjudicators other than ALJs process fully favorable on-the-record decisions was not implemented. This initiative, called the Senior Attorney Program, should be in place for next year. SSA had record-breaking productivity of 2.26 cases per ALJ per day. The Agency will strive to maintain this level of ALJ productivity, which should help SSA meet the FY 2004 target.

FY 1999: 311,958	**FY 2000:** 346,756
FY 2001: 435,904	**FY 2002:** 500,757

Trend: The level of hearings pending has continued to increase over the past 4 years. SSA is working hard to address this negative trend.

Data Definition: All hearings pending in the OHA, including hearing requests from all programs. The FY 2003 target for the number of hearings pending includes both SSA and Medicare cases. The Administration's plan is to transfer the Medicare hearings function to the Department of Health and Human Services starting with FY 2005. The FY 2003 target, excluding Medicare hearings, is 532,000.

Data Source: OHA Hearings Office Tracking System (HOTS).

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Strategic Objective 2: Increase employment for people with disabilities

SSA's key long-term outcome is to increase the number of people with disabilities who achieve employment by 50 percent from 2001 levels. SSA continues to improve Agency programs and resources and to develop a nationwide infrastructure that will help beneficiaries with disabilities achieve self-sufficiency through employment, including:

- Expanding the Ticket-to-Work Program. The Ticket-to-Work Program offers SSA disability beneficiaries greater choice in obtaining the services they need to help them go to work and attain their employment goals. In November 2002, SSA began Phase 2 of the program, sending tickets to approximately 2.5 million beneficiaries in 20 States and the District of Columbia. This rollout was concluded in September 2003. Phase 3 will begin in November 2003.

- Recruiting more Employment Networks (EN) to provide employment, vocational rehabilitation or other support services necessary to help SSA's beneficiaries achieve their vocational goals. To date, SSA has awarded over 800 EN contracts nationwide.

- Providing training about employment support programs and related systems enhancements for field office staff so they may better help SSA's beneficiaries with their vocational goals. A new position called the Area Work

Incentive Coordinator (AWIC) was created in 2003 to support this objective. SSA's 58 AWICs will provide and/or oversee training on SSA's employment support programs for all direct service personnel. The AWICs will also coordinate with the 1335 Work Incentives Liaisons in local offices, Public Affairs Specialists, the Plan for Achieving Self-Support Cadre members and other personnel to facilitate outreach activities, provide improved services and information on SSA's employment support programs to beneficiaries with disabilities who want to start or keep working.

- Continuing to fund, train and manage two grant programs with community-based organizations. These programs provide work incentives planning and assistance to beneficiaries with disabilities, conduct outreach efforts, provide information and advice about receiving vocational rehabilitation and employment services, and provide advocacy services that beneficiaries with disabilities may need to secure or regain employment. Over 70,000 beneficiaries have been served by these programs.

- Initiating a free, national referral service for employers to assist them in hiring qualified workers with disabilities from the Ticket-to-Work Program. This specialized unit of the Department of Labor's Employer Assistance Referral Network is the Ticket-to-Hire Program, which began in October 2002. It seeks to help disabled beneficiaries connect with employer networks, State Vocational Rehabilitation agencies and other employment support groups.

Strategic Objective 3: Improve service with technology

SSA's key long-term outcome is to substantially increase the use of electronic services.

Electronic Access to Service — During FY 2003, SSA focused attention on providing citizens with better access to SSA, improving service and meeting increasing demands for electronic services. During FY 2003, citizens have accessed SSA's informational e-Services 29,628,663 times. Although visits to the website are leveling off, other services, such as Frequently Asked Questions (FAQ), continue to grow. The volume of FAQs viewed in FY 2003 increased by 71 percent over last year. SSA's redesigned website, www.socialsecurity.gov, made it easier for the public to find the information needed and to conduct business. During the most recent SSA public survey, 71 percent of those surveyed rated the site as excellent, very good, or good. Results of an online survey, presented at the completion of several of SSA's Internet applications, showed that 96 percent of users felt the applications were easy to use and would recommend them to others.

While SSA is committed to ensuring privacy and security in the Internet environment, the Agency continues to review the limitations to online transactions. SSA also continues to work with the General Services Administration's (GSA's) e-Authentication initiative to explore other authentication methods, including third party processes. Additionally, SSA has started the steps necessary to implement knowledge-based authentication to augment current Personal Identification Number (PIN)/Password protected e-Services.

Use of e-Service — Much research and analysis has been done to determine ways SSA can increase use of e-Service through changes or enhancements to Agency applications. SSA's citizen-centered approach to providing e-Government services includes thoroughly understanding the wants and needs of the public. SSA conducted research and collaborated with other agencies to determine trends in e-Service usage to better align the Agency's strategic planning efforts. All new applications and the enhancements to existing ones are now tested in SSA's Usability Center to ensure ease of use for citizens.

People must also know that SSA's services exist before they can take advantage of them. SSA's Office of Communications began a national marketing plan in April 2003, to announce the change in the Internet address, the redesigned website, and the availability of online services, including the retirement application. The purpose of the marketing plan is to increase the use of SSA's on-line services. Regional offices have encouraged third parties, such as large employers and the medical community, to help promote e-Service usage throughout their communities.

Measurement of Overall Service Satisfaction — SSA continues to monitor the satisfaction of those who call or visit the Agency. SSA's Office of Quality Assurance and Performance Assessment captures public satisfaction shortly after service contacts, either by telephone or in-person, take place. Refer to the associated KPI on page 40 for more details.

Telephone Service — SSA's national 800-number network provides toll-free telephone access to SSA services, including equal accessibility to citizens with hearing impairments. People in the United States, Puerto Rico, Guam and the Virgin Islands have greater access to filing applications for benefits, reporting changes that impact the accurate payment of benefits and obtaining information and other services. Agent service is available Monday-Friday from 7 a.m. to 7 p.m.; automated services are available 24-hours a day, 7 days a week. Increased network efficiency and additional automated telephone options will further improve the Agency's service to the public.

Electronic Service to Employers — SSA's FY 2003 accomplishments include:
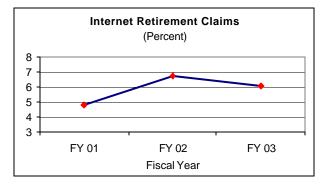
- New services for employers were implemented in January 2003. These included the ability to view error information and notices on-line, the ability to request an extension for filing a resubmission, and electronic notification of errors via e-mail.

- SSA worked closely with software vendors to provide guidance on the best method to incorporate electronic filing functionality into their commercial off-the-shelf business and tax software products.

- SSA developed a document entitled "Business Services Online Connection Specifications for Software Developers" to provide the software development community the programming requirements for incorporating SSA's business services online into their software.

- Through participation in the Internal Revenue Service's (IRS) nationwide Tax Forums, SSA is able to annually reach approximately 10,000 tax accountants who represent small businesses. These forums provide the opportunity to disseminate electronic filing marketing material and answer questions from the accounting community.

- SSA's Regional Offices contact organizations and their local chapters to offer electronic filing outreach activities.

- Publications such as the IRS/SSA Report (*http://www.socialsecurity.gov/employer/pub.htm*) encourages electronic filing and promotes the benefits associated with electronic filing.

3.1 — Key Performance Indicator: *Percent of Retirement Claims Initiated via the Internet*

FY 2003 Goal: **7.1% (conservative)**
7.4% (mid-range)
8.1% (optimistic)

Actual FY 2003 Performance: 6.1%

SSA did not meet its goal. When the Internet retirement claims goal was set, SSA expected to be able to make improvements in FY 2003 to the Internet retirement application to make it more user-friendly. Additionally, the Agency's planned media campaign was not implemented due to across-the-board budget

Internet Retirement Claims
(Percent)

reductions. SSA has taken actions to achieve the performance target in FY 2004 through an aggressive campaign to market the new website to the public and promote electronic filing of retirement claims. The Agency plans to use a broader performance goal for FY 2004 that incorporates seven Internet applications, and projects a growth in usage of 50 percent for those applications over the FY 2002 base. Based on a composite of SSA's FY 2003 performance for these seven applications, it is expected that SSA will meet and exceed the FY 2004 goal.

FY 1999: Not Available **FY 2000:** Not Available
FY 2001: 4.8% **FY 2002:** 6.7%

Trend: After experiencing significant growth last year, the number of Internet Retirement Claims fell somewhat this past year. Depending on the availability of resources, SSA will conduct a media campaign to encourage on-line filing.

Data Definition: SSA's FY 2003 goal is stated as a range of percentages of retirement claims initiated via the Internet. This range is more appropriate than a specific target since the workload is still new and SSA has a limited baseline to detect trends. The range represents a conservative (5 percent growth rate), mid-range (a 10 percent growth rate), and optimistic (a 20 percent growth rate).

Data Source: Executive and Management Information System (EMIS), Title II Internet claims report provides the universe of retirement claims received and those initiated via the Internet.
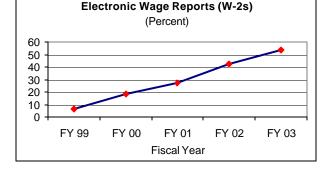
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3.2 — Key Performance Indicator: *Percent of Employee Reports (W-2s) Filed Electronically*

FY 2003 Goal: 48.0%

Actual FY 2003 Performance: 53.4%

SSA met its goal. SSA has worked with the employer, payroll and software communities to encourage electronic filing during the past several years with continued success. The systems architecture is in place and the Agency has worked hard to acquaint employers and software developers with electronic filing through outreach activities. SSA will continue to market the electronic wage reporting message extensively.

Electronic Wage Reports (W-2s)
(Percent)

FY 1999: 6.6% **FY 2000:** 18.4%
FY 2001: 27.0% **FY 2002:** 42.5%

Trend: This is an extremely positive upward trend, exceeding SSA's goal.

Data Definition: This percent is the number of W-2s filed electronically and processed to completion for a tax year, divided by the total number of W-2s for that tax year processed to completion by the end of the processing year (mid-January).

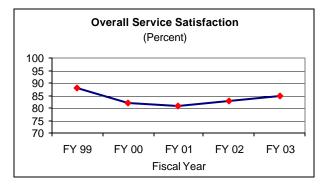**Data Source:** Earnings Management Information Operational Data Store (EMODS) reports.

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FY 2003 Goal: 83%

Actual FY 2003 Performance: 85%

SSA met its goal. The overall public satisfaction rating increased in FY 2003. Since people who do business with SSA primarily choose to use the telephone, satisfaction with telephone service is a key factor in the overall rating. Perceptions of access by telephone, i.e., ease of "getting through" has been a consistent determinate of overall satisfaction for those calling SSA's 800 number and field offices. In FY 2003, the high degree of satisfaction with 800 number service was influenced by a greatly improved telephone access rating, contributing to a significant increase in satisfaction with SSA service overall.

Overall Service Satisfaction
(Percent)

FY 99	88
FY 00	82
FY 01	81
FY 02	83
FY 03	85

FY 1999: 88%	**FY 2000:** 82%
FY 2001: 81%	**FY 2002:** 83%

Trend: FY 2003 was the second year in a row that the public's perception of SSA's service reflected a statistically significant improvement.

Data Definition: This is the percent of people who call or visit SSA surveyed by SSA's Office of Quality Assurance and Performance Assessment who rate overall service as "good," "very good," or "excellent" on a 6-point scale, ranging from "excellent" to "very poor," divided by the total number of respondents to that question.

Data Source: For FY 1999 and earlier, the SSA Annual Satisfaction Survey. For FY 2000 and beyond, the Service Satisfaction Surveys that captures satisfaction shortly after service contacts (either by telephone or in-person) take place.

Strategic Goal B: To ensure superior Stewardship of Social Security programs and resources

Ensuring program stewardship is an inherent aspect of the Agency's responsibility to provide good service to the public. The people of America who fund the Social Security programs through payroll tax contributions and the SSI program through income tax payments expect and deserve well-managed programs. Taxpayers must be confident that their tax dollars are properly spent. Beneficiaries must know that their benefits are correctly paid.

Good stewardship also demands the effective and efficient use of the resources SSA receives to administer the programs. This goal addresses three PMA areas that are aimed at sound financial management: Competitive Sourcing, Improved Financial Performance, and Budget and Performance Integration.

Finally, good stewardship encompasses the responsibility to ensure the security of SSA's information systems and the integrity and privacy of the information that SSA maintains.

The following describes SSA's FY 2003 performance in the context of the Agency's key long-term outcomes, the PMA initiatives and the GAO and OIG major management challenges.

Strategic Objective 4: Prevent fraudulent and erroneous payments and improve debt management

SSA's key long-term goal is to increase SSI payment accuracy to 96 percent (free of preventable error) and to 95 percent (free of error). In FY 2003, SSA continued to build on SSI program management improvements. SSA improved its systems control by automating the "netting" of additional amounts due for some months against excess payments made for other months. The Agency's two performance indicators related to SSI accuracy are discussed beginning on page 79. Other FY 2003 activities that helped improve the integrity of the SSI program were:

- Aggressively using new debt collection tools, i.e., reporting errors to credit bureaus, referring debtors to the Treasury Offset Program, recovering tens of millions of dollars through recovery of SSI overpayments from OASDI benefits (cross-program recovery);

- Referring cases to the Agency's OIG for prosecution or administrative sanctions;

- Piloting electronic verification of vital events, e.g., electronic death verification;

- Conducting a monthly wage reporting pilot;

- Exploring the feasibility of electronic verification of bank accounts;

- Publishing a Notice of Proposed Rulemaking for "administrative wage garnishment"; and

- Increasing the number of high-error profile non-disability redeterminations.

Fraud Risk and Improper Payments — SSA's key long-term goals include:

- Maintaining the OASDI payment accuracy goal of 99.8 percent. Based on the most recent actual data, SSA exceeded its accuracy target with an actual accuracy rate of 99.9 percent in FY 2002:

- SSA completed the backlog of DI and SSI Continuing Disability Reviews (CDR) in FY 2002. In FY 2003, the special CDR funding lapsed and SSA made some difficult spending decisions, placing the focus on initial disability claims rather than CDRs.   The result was that the Agency remained current with DI CDRs, because they are more cost effective to process, but not with SSI CDRs of which approximately 121,000 were not processed in FY 2003. SSA anticipates that the backlog from FY 2003 will be fully eliminated in FY 2005, provided that the Agency receives adequate funding;

- Completing work on special disability cases (refer to page 21 for more details);

- Reducing the backlog of workers' compensation cases (refer to page 21 for more details).

Cooperative Disability Investigations (CDI) — The CDI program is a joint effort by the OIG and SSA to improve Agency stewardship responsibilities in the Social Security disability program, with a zero tolerance for fraud and abuse. The CDI units are comprised of an OIG team leader and staff from SSA field offices, DDSs and local law enforcement agencies. At the end of FY 2003, SSA had 17 CDI units in full operation, with one more unit preparing to start operation.

The units provide investigative support to select DDSs during the initial and continuing disability review process. They help combat fraud by investigating questionable statements and activities of claimants, medical providers, attorneys, interpreters, or other service providers who may be involved in the facilitation or promotion of disability fraud. The investigative evidence is provided to the DDSs to make timely and accurate disability determinations. The evidence is also used by the OIG in determining whether criminal prosecution is warranted.

Overall productivity and program savings from the CDI units continues to increase every year. In FY 1998, when the program began, it accounted for $2.8 million in cumulative savings for SSA. Through September 2003, cumulative SSA program savings had increased to over $278 million, with an additional $152 million in projected

savings for non-SSA programs. In addition to these savings, the public's awareness of the CDI program is expected to be a deterrent to fraud and provide intangible benefits.

Integrity of the Representative Payee Process —

- *Selection of Representative Payees —* During FY 2003, SSA explored ways to strengthen the representative payee selection process including:

    – SSA wrote a statement of work to secure a contract to conduct focus groups and do criminal background checks on officers and employees of fee-for-service (FFS) payee organizations. The Agency has since decided to do the focus groups in-house, and the contract for criminal checks is pending.
    – SSA awarded a contract in September 2002 for credit and financial background checks on FFS organizations. As a result, the Agency will get background checks for 850 FFS organizations that currently serve as payees and expects to get background checks for the approximately 60 new organizational payees who apply each year.

- *Representative Payee System (RPS) Enhancements and Matching Activities:*

    – SSA has approved plans to improve the Representative Payee System (RPS). The Representative Payee Accountability Improvement Project will include more effective tracking of payee accountings.
    – SSA performed a second match of the Death Master File against RPS in 2003 and found 2,888 cases where there was incorrect or outdated information on one of the databases. These cases were distributed to SSA's field offices for corrective action.
    – Since July 2001, SSA has been imaging paper Representative Payee Reports. The electronic storage and retrieval of these paper accounting documents is a significant improvement over the manual retrieval process. SSA continues to keep the paper forms in case they are needed for payee misuse or fraud investigations.
    – In November 2001, SSA implemented changes to the RPS to prevent the appointment of individuals as payee who themselves have a payee. In addition, SSA performed two match operations to identify existing cases where a current payee has a payee for their own benefits. These cases were distributed to SSA's field offices for corrective action. A final match operation was conducted in August 2003.
    – The I-623 Proof of Concept pilot was launched in March 2003. The pilot, limited to 38 organizational representative payees, will test the feasibility of on-line representative payee accounting forms.
    – SSA performed a match of fugitive felon data against the RPS in 2003 and found 500 cases needing payee suitability investigation. SSA also issued instructions that require adjudicators to review the RPS whenever they receive a new fugitive felon alert.

- *Bonding and Licensing of Representative Payees —* SSA is developing a "notice of proposed rule-making" that sets $3,000 as the minimum bond required for fee-for-service organizations serving five beneficiaries, and an additional minimum coverage of $600 for each additional beneficiary above five. The Agency specified that if an organization is not bonded then it must be licensed (for the appropriate type of service provided) in each State in which it serves as representative payee.

- *Expanded Site Review Monitoring Program —* SSA initiated an expanded site review monitoring program for:

    – All payees receiving a fee for their services;
    – All organizational payees serving over 100 beneficiaries; and
    – All individual payees serving 20 or more beneficiaries.

This program, now in its 3rd year, has resulted in improved payee performance. SSA conducted 1,391 of these reviews through June 2003. These visits:

    – Improve communication between SSA and the payees;
    – Provide an opportunity to remind payees of their duties and responsibilities; and
    – Discover problems and make sure they are corrected.

In addition, SSA conducts random reviews of 30 percent of payees subject to the triennial review process. From March 2001 through June 2003, a total of 480 of these reviews were conducted.
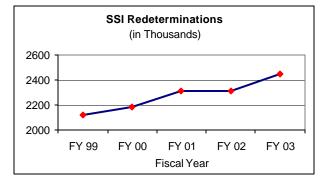
Improve Debt Management — SSA's key outcomes are to increase the percent of outstanding debt that is in a collection arrangement and to increase collections. The strategy for improving the management of debt includes a number of debt collection initiatives which are detailed in the "Agency Challenges" section on page 22.

4.1 — Key Performance Indicator: *SSI Non-Disability Redeterminations*

FY 2003 Goal: 2,455,000

Actual FY 2003 Performance: 2,449,674

SSA did not meet its goal. SSA narrowly missed processing the targeted number of non-disability redeterminations in FY 2003. Contractor delays in releasing approximately 100,000 mailings to SSI recipients in August, left the Agency with little time to compensate for the error. Nevertheless, SSA came within 0.2 percent of meeting the ambitious goal. This year, the Agency did process over 138,000 more non-disability redeterminations than in FY 2002. SSA had taken action earlier in the year to increase the number of cases to be worked, to ensure the Agency would meet the targeted number. Barring contractor error, the number would have been more than adequate to meet SSA's purposes. Based on this year's experience, SSA plans an even larger number of releases in FY 2004 to ensure that the Agency meets its goal.

SSI Redeterminations (in Thousands) — line chart showing FY 99 through FY 03.

FY 1999: 2,122,279 **FY 2000:** 2,182,027
FY 2001: 2,315,856 **FY 2002:** 2,311,499

Trend: SSA had a 6 percent growth in the number of non-disability redeterminations the Agency processed in FY 2003. The number of redeterminations to be completed is determined by the level of funding SSA receives to address the workload. The goal was missed by such a small percentage in 2003 that it does not represent a change in the trend. SSA fully expects to meet its goal this fiscal year.

Data Definition: All actions involving the redetermination of eligibility of SSI beneficiaries resulting from diary actions (scheduled) and initiated as a result of events reported by beneficiaries. The number of non-disability redeterminations completed includes those cases released to the Regions, as well as to the Wilkes-Barre Data Operations Center (WBDOC).
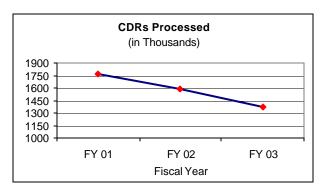
Data Source: Redeterminations Service Delivery Objective (RZ SDO) Report for PEODS.

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4.2 — Key Performance Indicator: *Continuing Disability Reviews (CDRs) Processed*

FY 2003 Goal: 1,129,000

Actual FY 2003 Performance: 1,371,255

CDRs Processed
(in Thousands)

SSA met its goal. Through FY 2002, SSA worked steadily toward the objective of becoming current with CDRs. SSA met that objective by the end of FY 2002. This effort was helped considerably by the special funding provided by Congress from FYs 1996-2002. In addition, SSA made improvements in the CDR profiling process, resulting in an increased number of CDRs processed by mailers rather than by more expensive full medical reviews. In FY 2003, the special CDR funding lapsed and due to the across-the-board resource reduction, SSA was forced to make some difficult spending decisions, placing the focus on initial disability claims rather than on CDRs. As a result, although SSA remained current with its OASDI CDRs, approximately 130,000 SSI CDRs were not released for processing in FY 2003. After the Agency developed its budget for FY 2003, operational components proceeded accordingly to meet this year's targeted goal. This included processing full medical review CDRs and mailers by both the Wilkes-Barre Data Operations Center (WBDOC) and the Program Service Centers (PSCs).

FY 1999: 1,703,414   **FY 2000:** 1,836,510
FY 2001: 1,762,517   **FY 2002:** 1,586,091

Trend: With special funding from Congress, SSA successfully completed its 7-year plan to eliminate the CDR backlog last year. This year, without special funding from Congress, the Agency achieved its new targeted number of CDRs.

Data Definition: Count combines periodic reviews and other CDRs processed by the DDSs, and mailers not requiring medical reviews.
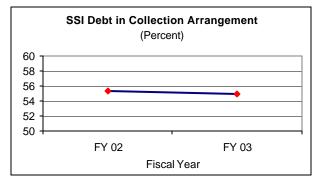
Data Source: Disability Operational Data Store (DIODS) and CDR Tracking File.

4.3 — Key Performance Indicator: *Percent Outstanding SSI Debt in a Collection Arrangement*

FY 2003 Goal: 55%

Actual FY 2003 Performance: 55.0%

SSI Debt in Collection Arrangement
(Percent)

SSA met its goal. While SSA's objective in managing the SSI program is to achieve the highest accuracy rate possible, it is inevitable that some debt will be created because of the dynamics of the program. SSA's stewardship responsibilities require that the Agency recover as much of this debt as possible. In FY 2003, SSA's recovery of a substantial amount of SSI debt was due to effective use of available debt recovery tools.

In FY 2004, the Agency's objective is to increase the percent of outstanding debt that is in a collection arrangement. In order to accomplish this objective, SSA will continue to use the aggressive debt collection tools available:

mandatory cross-program recovery, Treasury Offset Program for collection by administrative offset from other federal payments and tax refunds, and reporting delinquent SSI debtors to credit bureaus.

FY 1999: Not Available   **FY 2000:** Not Available
FY 2001: Not Available   **FY 2002:** 55.4%

Trend: Trend data is not available as this is a new indicator beginning in FY 2003.

Data Definition: This new measure for FY 2003 is the percent of outstanding SSI debt that is scheduled for collection by benefit withholding or installment payment. The rate is expressed as the average for the year. Outstanding SSI debt is grouped into four main categories: newly established debt; debt that involves a current due process request such as waiver; debt that is in a collection arrangement; and debt that is not in a collection arrangement. The percent of debt in a collection arrangement is computed by dividing the dollars in that category by the total dollar amount of outstanding debt in all four categories.
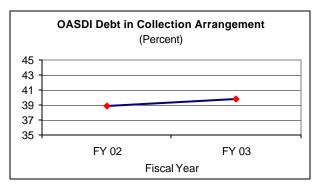
Data Source: Supplemental Security Record (SSR).

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4.4 — Key Performance Indicator: *Percent Outstanding OASDI Debt in a Collection Arrangement*

FY 2003 Goal: 38%

Actual FY 2003 Performance: 39.8%

SSA met its goal. While SSA's objective in managing the OASDI program is to achieve the highest accuracy rate possible, it is inevitable that some debt will be created because of the dynamics of the program. SSA's stewardship responsibilities require that the Agency recover as much of this debt as possible. In FY 2003, SSA's recovery of a substantial amount of OASDI debt was due to effective use of available debt recovery tools.

OASDI Debt in Collection Arrangement
(Percent)

In FY 2004, SSA plans to move toward a more ambitious goal. The Agency's objective is to increase the percent of outstanding debt that is in a collection arrangement. In order to accomplish this objective, SSA will continue to use the aggressive debt collection tools available: Treasury Offset Program for collection by administrative offset from other federal payments and tax refunds, and reporting delinquent debtors to credit bureaus.

FY 1999: Not Available   **FY 2000:** Not Available
FY 2001: Not Available   **FY 2002:** 38.9%

Trend: Trend data is not available as this is a new indicator beginning in FY 2003.

Data Definition: This is the percent of outstanding OASDI debt that is scheduled for collection by benefit withholding or installment payment. The rate is expressed as the average for the year. Outstanding OASDI debt is grouped into four main categories: newly established debt; debt that involves a current "due process" request, such as waiver; debt that is in a collection arrangement; and debt that is not in a collection arrangement. The percent of debt in a collection arrangement is computed by dividing the dollars in that category by the total dollar amount of outstanding debt in all four categories.

Data Source: The Recovery of Overpayments, Accounting and Reporting (ROAR) system.

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Strategic Objective 5: Strengthen the integrity of the Social Security Number (SSN)

SSA's key long-term goal is to ensure that SSNs are only issued based on verified documents.

Enumeration at Entry — In June 2003, SSA completed implementation of the Enumeration-at-Entry Process designed to issue SSN cards based on data collected by the Bureau of Citizenship and Immigration Services (BCIS) as part of the immigration process.

Publication of Regulation — SSA expedited publication of a regulation which will:

- Reduce the age requiring a mandatory in-person interview for an original Social Security Number (SSN) from age 18 to age 12;

- Eliminate the waiver of evidence of identity for children under the age of 7 applying for an original SSN card; and

- Clarify Agency rules regarding when SSA assigns an SSN to an alien legally in the U.S., but without authorization to work.

Review of SSN Verification Processes — During FY 2003, SSA conducted a comprehensive review of its SSN verification processes. A team of technical experts reviewed SSN disclosure policy and various systems routines, and is making recommendations for ways to enhance verification services.

Strategic Objective 6: Increase the accuracy of earnings records

SSA's key long-term goal is to remove earnings items from the suspense file and post them to the correct earnings record.

Implementation of the Social Security Number Verification Service (SSNVS) Pilot —

- SSA annually processes 250 million W-2 forms. Ten percent of all W-2s have names and/or Social Security Numbers (SSNs) that do not match SSA's Numident files. Without a correct name and SSN, SSA is unable to post the earnings from the W-2 form to the proper earnings record.

- SSA provides tools to employers to help them ensure that they have the correct name and SSN to use on their employees' W-2s. We allow employers to call our toll free Employer Reporting Service Center and the SSA 800# to verify up to five names and SSNs. Employers may also mail a paper listing of up to 50 names and SSNs to their local Field Office or the Wilkes-Barre Data Operations Center. They may also send a tape or diskette to the Office of Central Operations to verify up to 250,000 names and SSNs.

- SSA is now piloting the use of the Internet for Employers to verify the accuracy of the names and SSNs of their employees. The pilot is named the Social Security Number Verification Service (SSNVS). In the first year of the pilot, April 2002 thru March 2003, six employers used SSNVS 500 times to verify 50,000 names and SSNs. The pilot was expanded in April 2003. As of September 30, 2003, 53 employers have used the SSNVS system over 11,000 times to verify over 2 million SSNs.

Strategic Objective 7: Efficiently manage Agency finances and assets, and effectively link resources to performance outcomes

SSA has set a goal of achieving an average of at least 2 percent per year improvement in productivity. Advances in automation are key to SSA's productivity improvement; however process changes have also made positive contributions. In FY 2002, SSA achieved a 5 percent productivity improvement over the prior year, enabling the Agency to process thousands more claims than expected. The Agency continued to improve its productivity at a rate of 2.1 percent this year. It is critical that the Agency improve productivity in the disability process. Therefore, SSA has included DDS productivity as a KPI. Additional information on SSA's overall productivity measure can be found on page 85. Some major initiatives to improve Agency productivity include:

- AeDib will capture and store all essential material from the disability folder electronically, allowing all components in the disability claims process immediate access to the file. The file will contain more data and reduce the need for re-contacting the claimant. SSA expects that in the long term, folder handling and mail time will be eliminated with the electronic folder.

- The following details ongoing projects that use technology to improve SSA's wage reporting system, the claims process and the postentitlement (PE) reporting process:

    – SSA implemented full Internet wage reporting capability, including completion of W-2 forms, a variety of responsive help desk services, a facility for employers to download wage reporting software and online error notice capability. The Agency's ability to receive electronically filed wage reports through the Internet provides the business community with an easy-to-use, cost-effective filing process and helps SSA lower costs, capture data quicker and transmit information to the IRS faster.
    – SSA continues to expand its Internet service to provide public access to several claims and PE options. The Title II Redesign project improves the claims application and PE processes by providing a single system for handling all initial claims and client-initiated PE actions in an online, interactive mode.
    – The SSI system is being enhanced to further improve productivity by reducing internal work hand-offs and multiple contacts with recipients. The upcoming release will automate windfall offset, create a database to control SSI alerts, integrate the modernized SSI claims system with other SSA systems and automate several other SSI actions not currently supported by automation.

- Improved automation in OHA:

    – Implementation plans for digital recording of hearings that reduces the volume of remands caused by the loss of audio cassettes or faulty recordings are already in place;
    – Speech recognition software that saves time in drafting decisions has been deployed to hearing offices;
    – Video teleconferencing that allows ALJs to conduct hearings with claimants who are located a distance from the hearings office is being expanded; and
    – Bar coding for case tracking in the Office of Appellate Operations' Megasite has been implemented and has reduced processing time for coding and filing cases.

- Expansion of the e-Government Internet initiative increases opportunities for the public to conduct business with SSA electronically and provides access to several claims and PE options.

Systems Security — SSA continues to have a strong and effective information technology (IT) security program. The Agency has consistently received high ratings from Congressional subcommittees and strives to continuously improve the IT enterprise security program to ensure protection of the public trust. During the course of the past year, the Agency has taken steps to ensure that information security is receiving top management attention. Performance measures on information security and critical infrastructure protection have been added to all senior executives' performance plans. Information security has been made a routine agenda item for the executive staff and has been incorporated into other processes that receive executive level attention. Most importantly, significant

progress was made in FY 2003 by SSA's integration of the Security Architecture into the Enterprise Information Technology Architecture.

President's Management Agenda — Following are SSA's FY 2003 activities and accomplishments that will help the Agency reach its long term 2008 goal of getting to green for "Status" on all five PMA initiatives. Currently the Agency is at "green" for Status on one PMA initiative - Improved Financial Performance - while the Agency is at green for "Progress" on each of the five initiatives:

- **Expanded Electronic Government** — SSA is a strong contributor to both Agency and government-wide e-Government initiatives. Additionally, SSA is a managing partner for the e-Vital project. Refer to page 19 for more details on the Agency's work with respect to e-Government.

- **Competitive Sourcing** — Competitive sourcing is a process by which government positions identified as commercial in nature are competed with the private sector. The competitor, whether the government or private sector, that provides the best price or the best value for the government wins the competition. The long term goal of competitive sourcing is to enhance government efficiency. SSA has developed an Agency-wide Competitive Sourcing Human Resource Plan providing basic policy on dealing with employees affected by competitions. Some of SSA's FY 2003 accomplishments include:

  - SSA achieved "green" for "Progress" on its June 2003 OMB rating;
  - To date, 49 positions have been competed with the private sector or converted to private sector ;
  - SSA's Office of Systems won a streamlined competition with the private sector on June 26, 2003. This streamlined competition included 36 positions;
  - SSA completed the Performance Work Statements (PWS) for two direct conversions and is working on solicitations for early FY 2004. A PWS explains the work that is required to be performed;
  - Standard competitions are progressing on target with award decisions expected in spring 2004;
  - Preplanning strategy is in progress for additional competitions; and
  - SSA's 2003 Federal Activities Inventory Reform (FAIR) Act Inventory was completed and submitted to OMB.

- **Improved Financial Performance** — During FY 2003, SSA's status for the PMA Improved Financial Performance was upgraded to "green" and remains "green" on "Progress" because the Agency submitted timely and accurate financial information, has made progress on the Social Security Unified Measurement System and the Managerial Cost Accountability System (SUMS/MCAS) and its financial accounting system, and continues to make progress on its SSI Corrective Action Plan. SSA's key long-term goals are to increase the percent of outstanding debt that is in a collection arrangement, annually receive an "unqualified opinion" on the Agency's financial statements with no material weaknesses reported by auditors, implement core functionalities of a comprehensive cost accountability system and a unified measurement system, and increase overall Agency productivity by at least 2 percent annually on average. Specifically, in FY 2003:

  - SSA received an unqualified opinion on its financial statements for the tenth consecutive year and accelerated the release of its FY 2002 PAR to mid-November, achieving the FY 2004 government standard 2 years ahead of time.
  - Beginning with the second quarter FY 2003, SSA submitted its quarterly unaudited financial statements to OMB 21 days after the end of the quarter, meeting the FY 2004 OMB requirement one year ahead of time.
  - SSA completed design and development, and started unit testing a new financial accounting system which was implemented in October 2003.
  - SSA met its FY 2003 milestones for SUMS and MCAS (refer to page 87 for details). Release 7 of the Cost Analysis System Renovation project was completed in May 2003, and the planning document for work time measurement and allocation efforts has been completed.
  - Due to SSA's progress in implementing an SSI Corrective Action Plan that focuses on preventing payment error caused by unreported wages and assets, GAO removed the SSI program from its "high-risk" list. The Agency implemented an SSI monthly wage reporting pilot as part of the corrective action plan.
  - SSA demonstrated the ability to provide integrated financial and performance information that was used to support day-to-day operations.

- **Budget and Performance Integration Including the Program Assessment Rating Tool (PART)** — SSA's budget clearly defined performance commitments, both in terms of quantifiable public service and program integrity workloads that SSA will handle, and the key outcomes it will achieve. Consistent with SSA's Strategic Plan and Service Delivery Plans, the over-arching goal is to eliminate backlogs and process special workloads. SSA's plans and budgeted activities reflect evaluations and feedback from the PART, Congress, the Social Security Advisory Board, the GAO, and the OIG. Accountability is clearly defined for major Agency initiatives and workloads, and productivity/process improvements are built in. Furthermore, in FY 2003, SSA continued the ongoing development of a new budget formulation system that will have capabilities to formulate and execute budgets based on fully loaded unit costs.

- **Strategic Management of Human Capital** — SSA's human capital strategies link to Agency mission and goals through the Future Workforce Transition Plan and the Agency Performance Plan. These strategies are supported through Agency budget commitments. SSA strategically plans and deploys its workforce, taking into consideration the use of competitive sourcing and e-Gov initiatives that ensure optimal citizen-centered service at the lowest cost. The Agency is also executing development programs and leadership succession in addition to identifying mission-critical competencies for hiring and training, and implementing strategies to enhance retention, sustain learning, and improve productivity. SSA's human capital planning is guided by measurable outcomes. Refer to page 52 for more details on the Agency's performance with respect to these outcomes.

7.1 — Key Performance Indicator: *Disability Determination Service (DDS) Cases Processed Per Workyear (PPWY)*

FY 2003 Goal: 264 cases per workyear

Actual FY 2003 Performance: 270.4 cases per workyear

SSA met its goal. The DDSs diligently managed medical costs and increased productivity to ensure that the maximum number of cases could be processed.

FY 1999: 259   **FY 2000:** 264
FY 2001: 262   **FY 2002:** 265

DDS Cases Processed Per Workyear
(Cases)

Trend: Since FY 2001, there has been a steady increase in the cases processed per workyear, and SSA expects this trend to continue. The expected net long-term effect of AeDib is an increase in the DDS PPWY, which is already built into the DDS budget.

Data Definition: This indicator represents the average number of DDS cases processed per workyear expended for all work. A workyear represents both direct and indirect time, including overhead (time spent on training, travel, leave, holidays, etc.). It is inclusive of everyone on the DDS payroll plus doctors under contract to the DDS.

Data Source: National Disability Determinations Service System.

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FY 2003 Goal: **100% of initiative plans receive "green" for progress.**

Actual FY 2003 Performance: **Received a "green" for progress on 100% of PMA initiative plans.**

SSA met the goal. The June FY 2002 and 2003 ratings for Status and Progress on the five PMA plans are:

PMA Plan	June 2002		June 2003	
	Progress	**Status**	**Progress**	**Status**
Expanded Electronic Government	**Yellow**	**Yellow**	**Green**	**Yellow**
Competitive Sourcing	**Yellow**	**Red**	**Green**	**Red**
Improved Financial Performance	**Green**	**Yellow**	**Green**	**Green**
Budget and Performance Integration	**Green**	**Yellow**	**Green**	**Yellow**
Strategic Management of Human Capital	**Green**	**Yellow**	**Green**	**Yellow**

Trend: For the first time this year, SSA is "green" on all five PMA plans for "Progress". In FY 2002, SSA was at "green" on three PMA plans for "Progress" (Expanded Electronic Government, Improved Financial Performance and Strategic Management of Human Capital) and "yellow" on two (Competitive Sourcing and Budget and Performance Integration). SSA's goal for next year is to receive an overall rating of "green" on four of five PMA initiatives on Status. At present, the Agency is at "green" for Status on one PMA initiative - Improved Financial Performance.

Data Definition: Receiving a "green" for "Progress" on PMA initiative improvement plans for FY 2003 and "green" for "Status" for FY 2004.

Data Source: OMB PMA initiative improvement plan rating and overall PMA score.

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Strategic Goal C: To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations

This goal addresses SSA's responsibility to continually assess the retirement and disability programs in the context of societal trends and support reforms to ensure the solvency of the programs for today's and tomorrow's beneficiaries. The Americans with Disabilities Act and medical and technological advances are removing barriers to work and changing the assumptions about what people with disabilities can do and want to do. This and other related concerns led the GAO to add modernizing all federal disability programs to its high-risk list. SSA must respond to these developments.

Without reforms, Social Security is not projected to be financially sustainable over the long term. When the first baby boomers reach retirement age in 5 years, the number of retirees will grow rapidly. Life-expectancy is also increasing and births are expected to be below population replacement rates. As a result, the ratio of workers paying taxes to the people drawing benefits is projected to decline from 3.3 to 1 today to 2.2 to 1 by 2030. Social Security's outgo will begin to exceed its tax income in 2018, and the Social Security trust funds will be exhausted by 2042. Projected assets (including current Trust Fund holdings and future tax income through 2077) are expected to fall short of the amount needed to adequately finance all scheduled benefits through 2077 by $3.5 trillion in present value terms. SSA will continue to educate the public on the solvency issue and possible solutions. The following describes SSA's FY 2003 performance in the context of this key outcome:

Strategic Objective 8: Through education and research efforts, support reforms to ensure sustainable solvency and more responsive retirement and disability programs

Ultimately, the achievement of SSA's long-term financial goal, sustainable solvency, requires an act of Congress and a Presidential signature. The Agency has completed a wide variety of policy analyses on solvency issues and is publishing a number of these, as well as making them available to policymakers on the Internet. SSA's annual Retirement Research Consortium focused on "Securing Retirement Income for Tomorrow's Retirees" and devoted substantial time to Social Security reform issues. In addition, Agency officials have made and will continue to make presentations concerning the solvency issue.

In addition, members of the Office of Legislation and Congressional Affairs and of the Office of the Chief Actuary have worked with members of the Congress and their staff evaluating their legislative proposals to reform the Social Security program. Also, the Office of the Chief Actuary has developed estimates of the financial effects of several legislative reform proposals.

Public Understanding Measurement — In FY 2003, a new survey of public knowledge was conducted. This survey included additional questions about the public's knowledge of long-range financing issues. Survey findings will help establish baseline data upon which future outcome measures and targets will be established.

8.1 — Key Performance Indicator: *Provide Support to the Administration and Congress in Developing Legislative Proposals to Achieve Sustainable Solvency for Social Security and Implementing Reform Legislation*

FY 2003 Goal: Conduct analysis on key issues related to implementing Social Security reforms.

Actual FY 2003 Performance: Conducted analysis and made recommendations related to Social Security reforms.

SSA met its goal. SSA provided senior Agency officials and high-level policymakers with a wide variety of policy analyses on solvency issues and evaluated several congressional and other reform proposals.

Trend: Trend data is not available as this is a new indicator beginning in FY 2003.

Data Definition: Conduct analysis on key issues related to implementing Social Security reforms.

Data Source: SSA Office of Policy records.

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Strategic Goal D: To strategically manage and align Staff to support SSA's mission

Strategic Objective 9: Recruit, develop and retain a high-performing workforce

This goal addresses the PMA Human Capital initiative and a similar GAO and the OIG identified Major Management Challenge regarding "Human Capital". There are six critical success factors that comprise the Human Capital Standards for success. Following is a summary of SSA's progress against those standards:

SSA's human capital strategy is aligned with the Agency's mission, goals and organizational objectives, and integrated into its strategic plan, performance plans and budgets — SSA's Strategic Plan for 2003-2008 outlines how the Agency will manage and align staff to support its mission. It contains human capital milestones regarding recruitment, retention, employee development and the creation of a satisfying work environment. SSA's Future Workforce Transition Plan (FWTP) flows from the Strategic Plan and is updated quarterly. SSA's Annual Performance Plan and budget request contain commitments to implement the human capital activities detailed in the FWTP. All commitments for FY 2003 have been met. These include implementing a new Senior Executive Services (SES) performance management system and developing a new system for non-bargaining GS-15 employees that went into effect October 2003. They also include redirecting resources to direct service, developing a Competitive Sourcing Human Resources Plan, piloting a competency-based structured interview process for external hiring, broadening SSA's National Recruitment Campaign, simplifying hiring practices through Recruitment One-Stop, redesigning entry-level training for mission critical claims representative and service representative positions, and other initiatives described below. Finally, SSA's Human Capital Assessment and Accountability Report, released in March 2003, documents Agency successes in the area of human capital management, and enables SSA to identify additional action items for further improvement.

SSA is citizen-centered, de-layered and mission-focused, and leverages e-Government and competitive sourcing — SSA developed a plan for updating retirement projections based on recent data and trends. This plan enables SSA to identify current and future human capital needs to enable the Agency to recruit necessary replacements and be responsive to the needs of citizens. SSA continues to work toward increasing the percentage of direct service employees. In FY 2003, 70 administrative positions were redirected to the front lines. SSA is making expanded use of e-Government initiatives, such as Recruitment One-Stop and e-Learning, and is moving quickly toward e-Payroll.

Agency leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance — SSA continues the aggressive use of national, component and regional-level development programs to ensure the continuity of leadership at SSA. SSA's Leadership Development (GS-9 through GS-12 employees), Advanced Leadership Development (GS-13 and GS-14 employees) and SES Candidate Development Programs (GS-15 employees) are recognized as among the best in government. The programs are designed to build leadership competencies, and they are structured and managed to link performance to results and provide a firm understanding of the Agency's four strategic goals. SSA's leaders promote cultural values by integrating the principles of integrity, pride and cooperation into the new hire orientation program and entry-level training packages. These national programs are supplemented by component-level and regional-level programs. The Agency strives to provide these job enrichment and developmental opportunities to 3 percent of its workforce annually.

In FY 2003, the Commissioner played a highly visible role in promoting learning across the Agency. She held a series of candid, interactive meetings with all supervisors, managers and executives in Headquarters and regional offices, discussing leadership principles, management philosophy and the Agency's four major performance areas – Service, Stewardship, Staffing and Solvency. This learning environment is further fostered by the Agency's efforts

to make available the equivalent of 40 hours of training to its workforce through its OnLine University and Interactive Video Teletraining broadcasts.

SSA has a diverse, results-oriented, high performing workforce, and has a performance management system that effectively differentiates between high and low performance and links to organizational goals and desired results — SSA continues to maintain a diverse, productive workforce. In FY 2002, 72.4 percent of SSA's new hires, both permanent and temporary, were minorities and women. This trend continued in FY 2003 where 83.6 percent were minorities and women. In FY 2002, SSA's productivity rate increased by 5.1 percent. This increase significantly exceeded the Agency's established goal of a 2 percent productivity increase. In FY 2003, SSA continued to improve its performance with an increase in productivity of 2.1 percent. On October 1, 2002, SSA implemented a new 5-tier SES performance appraisal system. A similar system has been developed for non-bargaining GS-15s and was implemented on October 1, 2003. SSA also substantially exceeded its goals to provide the equivalent of 40 hours of training to the Agency's workforce and to provide job enrichment opportunities to 3 percent of its employees.

One of SSA's goals is to increase the number of new hires who stay with SSA. Retaining good employees, results in a more productive workforce and a savings of training dollars. For that reason, SSA has chosen the "Percent Improvement in the New Hire Retention Rate" as a KPI for FY 2003.

SSA has closed most mission-critical skills, knowledge and competency gaps/deficiencies, and has made meaningful progress toward closing all — SSA successfully hired 100 percent of replacements due to retirement and other losses in FY 2003. A Competency Assessment Process (CAP) was developed to assess external applicants for the claims representative position on seven critical competencies. The CAP was piloted in FY 2003. The pilot results are now being evaluated. In addition, the technical competencies required for the claims representative and service representative positions have been identified and incorporated into revised technical training courses. The New Hire Attrition and Retention Study, which was finalized in FY 2003, examined attrition in specific mission-critical occupations. Analysis of the study results has yielded numerous action items to improve future retention rates. Continuation of leadership development programs will ensure there is no leadership gap at SSA.

SSA's human capital decisions are guided by data–driven, results-oriented planning and accountability systems — This document, the PAR, tracks human capital goals, and the FWTP tracks progress on human capital action items. Documented programs are tracked via the SSA Succession Plan, which describes the key elements in succession planning (including a retirement wave analysis, the FWTP, recruitment strategies, learning and diversity programs, and the numerous developmental programs in force throughout the country). In addition, programs and initiatives are outlined in the Annual Performance Plan and the FWTP. Finally, reviews of the personnel functions in the regional and headquarters servicing personnel offices are regularly conducted and results are shared with Agency leadership.

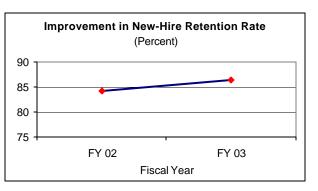## 9.1 — Key Performance Indicator: *Percent Improvement in the New Hire Retention Rate*

FY 2003 Goal: 84.6%

Actual FY 2003 Performance: 86.4%

SSA met its goal. SSA surpassed this goal by continuing to improve the Agency's processes for interviewing job applicants and by increasing the focus on early development of new hires, including mentoring.

Improvement in New-Hire Retention Rate
(Percent)

| FY 1999: | Not Available | FY 2000: | Not Available |
| FY 2001: | Not Available | FY 2002: | 84.3% |

Trend: Trend data is not available as this is a new indicator beginning in FY 2003.

Data Definition: The FY 2003 new hire retention rate will be determined by the percentage of FY 2001 new hires that remain with SSA during FY 2001 and 2002. The FY 2004 new hire rate will be determined by the percentage of FY 2002 new hires that remain with SSA during FYs 2002 and 2003.

Data Source: The Human Resource Management Information System.
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Data Quality

General Discussion: SSA is committed to providing clear and reliable data to those who use it for managing, decisionmaking and oversight of SSA's programs and management. SSA also ensures that, to the greatest extent possible, the data is quantifiable and verifiable by putting in place internal management controls and by being responsive to the insights provided by SSA's Office of the Inspector General (OIG), the General Accounting Office (GAO), and others.

SSA Data Integrity Systems and Controls: Performance data for most of the quantifiable measures in SSA's Annual Performance Plan (APP) are generated by SSA's automated management information and workload measurement systems as a by-product of the Agency's routine operations. Public satisfaction data is produced from statistically valid surveys. The performance data for SSA's accuracy measures comes from workload samples designed to achieve very high levels (95 percent confidence) of statistical validity. Additionally, SSA's Office of Quality Assurance and Performance Assessment (OQA) has recently begun using a stratified sample of recently completed actions to determine the accuracy of service transactions. The actions will be considered accurate if the field office employee who processed the transaction correctly followed the appropriate Program Operations Manual System (POMS) instructions in completing the transaction. The mechanism and frequency of reporting for this new system have not yet been decided. OQA also performs quality assurance payment (Stewardship) reviews of a random sample of SSA's ongoing Title II Social Security (Old-Age, Survivors and Disability Insurance) and SSI (Title XVI) payment rolls to measure the overall accuracy of the payment outlays. Payment reviews to assess the overall accuracy of payment outlays are conducted throughout the fiscal year and generally require that each selected case be redeveloped. The final payment reviews for a given fiscal year are initiated just after the close of each fiscal year. The payment review process, including data validation, generally takes 8 to 9 months after the close of the fiscal year to complete, so the accuracy data is not available until the end of June of the year following each fiscal year. As such, this information is generally reported in the subsequent year's Performance and Accountability Report (PAR). For example, in this FY 2003 PAR, SSA will be reporting on FY 2002 accuracy data. FY 2003 accuracy data will be reported in next year's PAR. Service transaction reviews are also conducted throughout the fiscal year, but the accuracy data will be available much sooner than the payment review (Stewardship) data since redevelopment will not be required. Assessment results are entered into a database, validated, analyzed and reported out.

Performance Report: This FY 2003 PAR displays the data definitions and data sources for each of the Agency's performance measures. SSA also includes margin of error information for the OASDI and SSI accuracy measures. Where applicable, the Agency identifies data weaknesses and the efforts underway to address such weaknesses. When performance goals cannot be defined in an objective/quantifiable form, SSA has established descriptive statements that define achievement.

OIG Reviews: SSA's OIG annually audits a number of SSA's performance measures and corresponding performance data. The objective of the audits is to ensure that the performance measures provide a meaningful indicator of whether the programs are achieving their stated objectives and that the processes they were designed to measure are operating in an effective and/or efficient manner. The audits also determine the reliability of the performance data. The OIG audits identify vulnerabilities in SSA's systems, and makes recommendations to correct those weaknesses to help SSA ensure that Agency systems are secure and not vulnerable to manipulation by intruders. Additionally, the OIG plays a key role in ensuring that performance measures are:

- Objective (i.e., measurable, reliable, and verifiable with quantifiable goals);

- Understandable (i.e., well-defined and clearly stated); and

- Outcome based (i.e., measure the intended results, effects, or impact on the program and its goals).

The OIG also evaluates the processes and systems used to measure progress to ensure that they provide reasonable and accurate assessments of performance.

In April 2003, the OIG issued the report, "Assessment of the Social Security Administration's Performance Measures". In the report, OIG reviewed 84 performance measures (in 11 key program and activity areas) that were included in SSA's Revised Final FY 2002 Annual Performance Plan, and reported that "SSA has made great strides in meeting GPRA's objectives and has shown continued refinement of its performance indicators from year to year".

The Report concluded that SSA's key programs and activities were covered by performance measures that were objective in all 11 key areas, understandable in 10 or 11 key areas, and partially outcome-based in 10 key areas and fully outcome-based in 1 key area. The Report also encouraged SSA to develop additional outcome-based measures when such measures will provide a better indicator of the Agency's ability to meet its goals.

In the OIG's Draft Semiannual Report to Congress for October 1, 2002 through March 31, 2003, it made several data quality recommendations:

1. Provide an adequate audit trail for the data used to measure the timely processing of disability claims. (SSA agreed with the recommendation and is developing a system to accomplish it.)
2. Develop performance measures to track progress in reducing the earnings suspense file. (SSA agreed with the recommendation and is developing a system to accomplish it.)

SSA takes appropriate action to correct any performance measure deficiencies reported by the OIG. These actions may include changes in performance measures, improvements to data collection systems, and disclosure of data limitations and weaknesses. SSA agreed with and incorporated many of the OIG's recommendations in its recently released FY 2004 APP and its revised final FY 2003 APP. For example, SSA now has measures for nearly all OIG-identified major management challenges. Additionally, the Agency has included two new performance measures that address the earnings suspense file issues and is committed to more outcome oriented measures for the 800-number network by 2005. SSA has also included productivity measures for disability claims and hearings, plus a 2 percent productivity measure for the Agency as a whole. The Agency enjoys its collaborative relationship with the OIG and assists them in developing audit plans that are mutually beneficial.

GAO Reviews: The GAO reviews SSA's APPs and PARs on a yearly basis. In January 2003, the GAO issued the report, "Major Management Challenges and Program Risks, Social Security Administration". The purpose of this report was to maintain congressional focus and a continuing agency focus on addressing the GAO-identified major management challenges:

1. Continue to strengthen the integrity of the SSI program;
2. Improve SSA's programs that provide support for individuals with disabilities;
3. Better position SSA for future service delivery challenges; and
4. Strengthen controls to protect the personal information SSA develops and maintains.

GAO has not identified any concerns about performance measures or data quality in the last several years. SSA is committed to being responsive to any future concerns GAO brings to the Agency's attention.

SSA has implemented many of the OIG and the GAO recommendations and the Agency is involved in ongoing discussions with them. The Commissioner and Agency leadership are committed to reducing the number of audit recommendations over 2 years old. As of December 31, 2001, SSA had 86 recommendations over 2 years old. Through the development of new guidelines for closing recommendations and ongoing executive emphasis to focus on the implementation of significant recommendations, the number of these aged recommendations has been significantly reduced. By August 2003, only 38 recommendations remained from the original aged group. This greater focus applies equally to audit recommendations received during the current Administration, so that relatively few now reach an aged status. For example, of 220 recommendations proposed by the OIG or the GAO during FY 2001, only 17 remain open at this writing (August 2003). SSA will continue to focus leadership attention and track progress on audit recommendation.

Audit of the Social Security Administration's FY 2002 Financial Statements: In accordance with the Chief Financial Officer's Act of 1990, SSA's financial statements were independently audited by PricewaterhouseCoopers LLP (PwC). The objective of this audit was to determine whether the financial statements present fairly, in all material respects, the financial position of SSA. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. PwC reported that SSA's assertion that its systems of accounting and internal control are in compliance with the statutory internal control objectives is fairly stated in all material respects. Additionally, PwC reported that they had "obtained an understanding of the components of internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02," with respect to SSA's Key Performance Indicators included in the FY 2002 PAR.
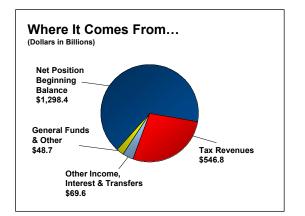
Highlights of Financial Position
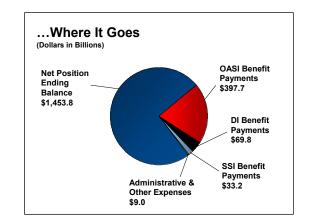
Overview of Financial Data

SSA's financial statements and footnotes appear on pages 117 through 145. The financial statements presented in this report can be considered complete and reliable as evidenced by the unqualified opinion the financial statements received from the independent audit firm of PricewaterhouseCoopers LLP. These statements combined the results from the programs administered by SSA. These programs include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination) and the Supplemental Security Income (SSI) program. OASI and DI have separate trust funds which are financed by payroll taxes, interest on trust fund investments and income taxes on retiree benefits (OASI only). SSI is financed by general revenues from the U.S. Treasury.

Balance Sheet: The Balance Sheet displayed on page 118 reflects total assets of $1,515.1 billion, an 11.5 percent increase over the previous year. Approximately 98 percent of assets are investments. These investments are commonly known as the Social Security Trust Funds. By statute, we invest those funds not needed to pay current benefits in interest bearing Treasury securities. The $155.2 billion growth (11.7 percent) in investments from 2002 is primarily due to tax revenues of $546.8 billion and interest on those investments of $84.2 billion, exceeding cost of operations of $509.4 billion. The majority of our liabilities, 81 percent, consist of benefits that have accrued as of the end of the fiscal year but have not been paid. By statute, OASI and DI program benefits for the month of September are not paid until October. Liabilities grew in 2003 by $1.1 billion (1.8 percent) primarily because of the growth in benefits due and payable. Reflecting the higher growth in assets than liabilities, the net position grew $155.4 billion or 12 percent to $1,453.8 billion. Interest on Investments, which is paid in the form of Treasury securities, represents 54.2 percent of the growth of the trust fund, up from 49.4 percent in 2002.

Statement of Net Cost: Net cost of operations increased $18.0 billion or 3.7 percent from $491.4 billion in 2002 to $509.4 billion in 2003. Of this increase, $17.7 billion (3.7 percent growth) resulted from increased benefit payments and $0.3 billion (3.8 percent growth) resulted from operating expenses. The net cost and benefit payments of the OASI program both grew 3.1 percent while operating expenses grew by 7.9 percent. The number of beneficiaries grew 0.5 percent to 39.4 million while average benefit payments grew by 1.0 percent to $830 per month. The net cost and benefit payments of the DI program both grew by 4.2 percent. Operating expenses grew by 4.7 percent. The number of DI beneficiaries grew by 5.6 percent while average benefits increased 3.0 percent to $706 per month. The SSI benefit payments increased 9.8 percent which was higher than the 9.1 percent increase in net costs because operating expenses were constant. The number of SSI beneficiaries grew by 1.5 percent while average benefits increased by 1.1 percent to $418 per month.

Statement of Changes in Net Position: The Statement of Changes in Net Position reflects an increase of $155.4 billion. This increase is primarily attributable to a $155.2 billion increase in trust fund reserves. The following charts summarize the activity on SSA's Statement of Net Cost and Statement of Changes in Net Position by showing the funds SSA was provided in FY 2003 and how these funds were used. These statements are displayed on pages 119 and 120, respectively. Most resources available to SSA were used to finance current OASDI benefits and to accumulate reserves to pay future benefits. When funds are needed to pay administrative expenses or benefit entitlements, investments are redeemed to supply cash to cover the outlays. Administrative expenses shown, as a percent of benefit expenses, is 1.7 percent. Total financing sources grew by $16.9 billion or 2.6 percent from $648.0 billion in 2002 to $664.9 billion in 2003. The primary sources for this growth were a payroll and income tax revenue increase of $9.1 billion (1.7 percent) from 2002 and investment income of $5.6 billion (7.1 percent) from 2002. The growth in investment income was due to the 11.7 percent growth in investment which was partially offset by the drop of average interest yield from 6.52 percent to 6.40 percent.

Where It Comes From…
(Dollars in Billions)

Net Position Beginning Balance $1,298.4

General Funds & Other $48.7

Other Income, Interest & Transfers $69.6

Tax Revenues $546.8

…Where It Goes
(Dollars in Billions)

Net Position Ending Balance $1,453.8

OASI Benefit Payments $397.7

DI Benefit Payments $69.8

SSI Benefit Payments $33.2

Administrative & Other Expenses $9.0

Statement of Budgetary Resources: This statement displayed on page 121 shows that SSA had $538.6 billion in budgetary resources of which $0.7 billion remained unobligated at year-end. SSA recorded total outlays of $508.0 billion by the end of the year. Budgetary resources grew $16.6 billion, or 3.2 percent from 2002, while outlays increased $19.4 billion, or 4.0 percent.
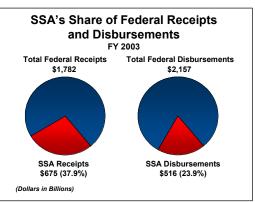
Statement of Financing: This statement reconciles "Total resources used to finance activities," an expression of budgetary spending, with the "Net cost of operations," the proprietary expenses of the Agency. The statement displayed on page 122 identifies $509.9 billion in budgetary spending for FY 2003, an increase of $16.4 billion or 3.3 percent over last year. This total is offset by $0.8 billion in resources not part of the net cost of operations, and is increased by $0.3 billion in components of net cost of operations that will not require or generate resources in the current period. The resulting balance reflects a $509.4 billion net cost of operations for the year, an increase of $18.0 billion or 3.7 percent over FY 2002.
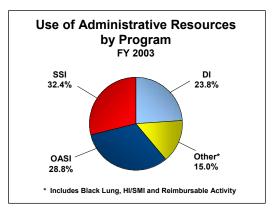
SSA's Share of Federal Operations

The programs administered by SSA constitute a large share of the total receipts and disbursements of the Federal Government as shown in the chart to the right. Receipts for our programs represented 37.9 percent of the $1.8 trillion in total Federal receipts, a decrease of 3.8 percent over last year. Disbursements decreased by 1.2 percent to 23.9 percent of Federal disbursements. However, this still accounted for 5.3 percent of the nation's estimated FY 2003 $9.8 trillion gross domestic product.

SSA's Share of Federal Receipts and Disbursements
FY 2003

Total Federal Receipts $1,782

Total Federal Disbursements $2,157

SSA Receipts $675 (37.9%)

SSA Disbursements $516 (23.9%)

(Dollars in Billions)

Use of Administrative Resources

The chart to the right displays the use of administrative resources for FY 2003 in terms of the programs SSA administers or supports. Although the DI and SSI programs comprise only 20.6 percent of the total benefit payments made by SSA, they consume over 56.2 percent of annual administrative resources. Claims for DI and SSI disability benefits are processed through State Disability Determination Services where a decision is rendered on whether the claimant is disabled. In addition, the Agency is required to perform continuing disability reviews on many individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2002 use of administrative resources by program was 27.7 percent for the OASI program, 23.6 percent for the DI program, 33.6 percent for the SSI program and 15.1 percent for Other.

Use of Administrative Resources by Program
FY 2003

SSI 32.4%

DI 23.8%

OASI 28.8%

Other* 15.0%

* Includes Black Lung, HI/SMI and Reimbursable Activity

Trust Fund Solvency

Pay-as-you-go-Financing

The Social Security Trust Funds are deemed to be adequately financed on a pay-as-you-go basis as long as assets (including current income and Trust Fund holdings) are sufficient to finance program obligations. Such adequacy is reflected in the maintenance of a positive Trust Fund balance. In recent years, current income has exceeded program obligations, and thus the Trust Fund holdings have been growing. The following table shows that Trust Fund holdings, expressed in terms of the number of months of program obligations that these holdings could, alone, finance has grown from 25.1 months at the end of FY 1999 to 36.3 months at the end of FY 2003, an increase of 45 percent.
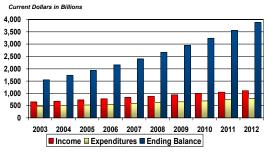
Number of Months of Expenditures Year End Assets Can Pay (End of FY)					
	1999	**2000**	**2001**	**2002**	**2003**[1]
OASI	25.9	28.7	31.8	35.0	38.1
DI	19.9	22.8	24.6	26.0	26.3
Combined	25.1	27.9	30.8	33.6	36.3

1. Estimates are based on 2003 Trustees Report intermediate assumptions.

Short Term Financing

The Social Security Trust Funds are deemed adequately financed for the short term when actuarial estimates of Trust Fund holdings for the beginning of each year are at least as large as program obligations for the year. Estimates in the 2003 Trustees Report indicate that the Social Security Trust Fund is adequately financed over the next 10 years. The graph shows that while combined OASDI expenditures and income are expected to increase by 70 and 77 percent, respectively, over the 10-year period, Trust Fund assets are expected to grow by 181 percent to $3.9 trillion.

OASDI Income Exceeds Expenditures Increasing Assets for Short Term

Current Dollars in Billions

Long Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. By 2018, benefit payments will exceed tax revenues, and, by 2042, the Trust Fund will be exhausted according to the projections by Social Security's Chief Actuary. The primary reason for the projected long-term inadequacy of financing under current law is the changing demographics of the United States: baby boomers approaching retirement, retirees living longer, and birth below population replacement rates. In present value terms, the 75 year shortfall is $3.5 trillion, which is a $200 billion increase from the 2002 estimate. Possible reform alternatives being discussed -- singularly or in combination with each other -- are (1) increasing payroll taxes, (2) decreasing benefits, (3) using general revenues or (4) increasing returns through either personal savings accounts or direct investments of the trust funds.

Page 26 provides additional discussion of the long term solvency of the OASDI Trust Fund. Pages 146 through 163 include the disclosures required by Federal Accounting Standards Advisory Board Statement 17, Accounting for Social Insurance.

Improper Payments

A key component of the President's Management Agenda is the initiative to reduce improper payments. The Improper Payments Act of 2002 (Public law 107-300) requires federal agencies to report annually on the extent of the improper payments in those programs that are susceptible to significant improper payment and the actions they are taking to reduce such payments. The Act has extended the improper payments reporting requirements beyond those programs and activities listed in Section 57 of Office of Management and Budget's (OMB) Circular A-11.

On August 28, 2003, OMB issued their decision that only avoidable overpayments are to be included in the amount of improper payments reported under the Improper Payments Act. Under this decision, payments resulting from legal or policy requirements are considered unavoidable and are not improper. OMB guidance on implementation of the Act calls for SSA to continue to report on improper payments information for the OASI and DI programs, in addition to the SSI program, as was required by Section 57 of OMB Circular A-11. SSA is to continue to report on the improper payments found in the OASI and DI programs even though the level of such payments in these programs have continually been well below the threshold cited in the Improper Payments Act of 2002. The OMB guidance also calls for SSA's FY 2003 Performance and Accountability Report to include the FY 2002 results in reducing improper payments. (SSA's detailed report on the FY 2002 results and the plans to reduce improper payments is included under Other Information in the Financial Section of the report.)

SSA's OASI, DI and SSI quality assurance (QA) payment accuracy (Stewardship) reviews provide the data to measure the payment outlays in these programs each fiscal year. The OASI accuracy rate continues to exceed 99.8 percent, as does the DI accuracy rate. With the very high accuracy rates of the OASI and DI program payment outlays, the Stewardship QA sample data, at the 95 percent confidence level, have a statistical precision usually in the range of ± 0.25 to ± 0.35 percent. Even though we have achieved this high accuracy rate within this confidence level, nevertheless, we still strive to make additional achievements in payment accuracy. For example, SSA is developing software processes to identify missing military service (MS) wage credits and to remove MS credits that were incorrectly granted. The processes involve reviewing the military employer identification numbers used in SSA's earnings records, verifying SSA's MS information against other government databases and developing MS profiles using SSA's data stores. Subsequently, SSA will pay any underpayments that are due beneficiaries and collect overpayments identified by the new processes.

The detailed report on SSA's efforts to reduce improper payments identifies the major causes of improper payments over the past several years in the OASI and DI programs and the actions the Agency has taken to address these causes. However, because of the high level of accuracy of the payments in the OASI and DI programs, and the fact that categories of improper payments often change from year-to-year, it is not possible to provide any specific plan to reduce improper payments in these two programs.

In the SSI program, SSA has established a 5-year goal to achieve 96 percent overpayment accuracy by FY 2008. In the OASDI program, SSA's goal is to maintain overpayment accuracy at 99.8 percent. Success in achieving the SSI goals is dependent on the effectiveness of the activities outlined in SSA's SSI Corrective Action Plan. In FY 2002, SSI payment accuracy results were 93.4 percent for overpayments and 98.6 percent for underpayments. The major causes of SSI overpayments in FY 2002 were financial accounts (such as savings and checking accounts) and wages. The major causes of SSI underpayments in FY 2002 were living arrangements, wages and in kind support and maintenance.

The Foster Care and Independence Act of 1999 gives the Commissioner the authority to require SSI recipients to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA has developed regulations that will allow the Agency to query financial institutions electronically.

Effective January 2001, SSA began using online queries to access the Office of Child Support Enforcement's (OCSE) quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. In an effort to learn more quickly about unreported work, SSA is exploring the usefulness of a quarterly match with the "new hires" OCSE file. Improper SSI payments due to living arrangements and in-kind support and maintenance result from recipients not reporting changes in their household living situations or changes in the recipient's contributions to household expenses. This is a complex area where recipient understanding of reporting requirements is very difficult to address. For this reason a portion of the annual SSI redetermination workload is targeted to addressing improper payments due to living arrangement changes. The redetermination process is the most powerful tool available to SSA for preventing and detecting all types of SSI improper payments, including those due to living arrangements and in-kind support and maintenance. To detect improper SSI payments, SSA regularly reviews cases that statistical profiles indicate are most likely to be in error

The update on SSA's activities being taken or planned to address improper payments in the SSI program are outlined in the detailed report found under Other Information in the Financial Section of the report.

Limitation on Financial Statements

The principal financial statements beginning on page 118 have been prepared to report the financial position and results of operations of SSA, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of SSA in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to 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 the U.S. Government, a sovereign entity.

Systems and Controls

Federal Managers' Financial Integrity Act

Federal Managers' Financial Integrity Act (FMFIA) Program

SSA has a well established agencywide management control and financial management systems program as required by FMFIA. The Agency accomplishes the objectives of the program by:

- Integrating management controls into its business processes and financial management systems at all organizational levels;
- Reviewing its management controls and financial management systems controls on a regularly recurring basis; and,
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

For the second year in a row, SSA has no FMFIA material weaknesses to report. Agency managers are responsible for ensuring that effective controls are implemented in their areas of responsibilities. At the senior manager level, the Agency's Executive Internal Control (EIC) Committee ensures SSA compliance with the requirements of FMFIA and other related legislative and regulatory requirements. The Committee provides executive oversight of the management control program, addresses management control issues that have a substantial impact upon the Agency's mission, monitors the progress of actions to correct management control weaknesses, ensures SSA's critical infrastructure is protected and ensures the Agency has a viable continuity of operations plan.

Effective internal controls are incorporated into the Agency's business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls and the new or changed processes and systems are reviewed by management to certify that the controls are in place. The controls are then tested prior to full implementation to ensure they are effective.

The controls of the new or changed processes or systems are monitored to ensure they remain effective. Management control issues and weaknesses are identified through audits, reviews, studies and observation of daily operations. SSA conducts internal reviews of management and systems security controls in its administrative and programmatic processes and financial management systems. The reviews are conducted to evaluate the adequacy and efficiency of the Agency's operations and systems to provide an overall assurance that the Agency's business processes are functioning as intended. The reviews also ensure that management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circulars A-123, A-127 and A-130. The reviews encompass SSA's business processes such as enumeration, earnings, claims and postentitlement events, debt management and SSA's financial management systems. SSA develops and implements corrective action plans for weaknesses found through the reviews and audits and tracks the corrective actions until the weaknesses are corrected.

Management Control Review Program

SSA has an agencywide review program for management controls in its administrative and programmatic processes. The Agency requires that a minimum of 10 percent of field offices (FO) be reviewed each fiscal year (FY). The FOs are chosen for review by considering performance measures in selected critical processes and by using the experience and judgement of the regional security personnel. During FY 2003, SSA's managers and contractors conducted reviews of 215 FOs and two Program Service Centers (PSC).

SSA has also taken great strides to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). During FY 2003, SSA issued the revised DDS Security Document which requires each DDS to prepare a security plan and, on an annual basis, perform a self review using the Security Review Checklist prepared by SSA. Additionally, SSA's Regional Offices (RO) perform an independent security review of the DDSs using this same review checklist. The ROs develop a 5-year review plan in which each State DDS is reviewed at least once to ensure adherence to SSA's policies. During FY 2003, SSA conducted reviews of 21 DDS sites.

SSA contracted with an independent public accounting firm to review the Agency's management control program, evaluate the effectiveness of the program and make recommendations for improvement. During FYs 1999-2003, the contractor reviewed operations at SSA's central office, processing centers, all 10 ROs, 162 FOs and 6 PSCs. The contractor's efforts have indicated that SSA's management control review program appears to be effective in meeting management's expectations for compliance with Federal requirements. The contractor did not find any significant weaknesses during this 5-year period.

Financial Management Systems (FMS) Review Program

OMB Circular A-127 requires agencies to maintain an FMS inventory and to conduct reviews to ensure FMS requirements are met. In addition to financial systems, SSA also includes all major programmatic systems in this FMS inventory. Within a 5-year period, SSA conducts both a detailed review and a limited review of each system. An independent contractor conducts the detailed review at audit level standards including transaction testing and the system manager conducts the limited review.

During FY 2003, SSA's contractor conducted detailed reviews of the Debt Management System and the Recovery of Overpayments, Accounting and Reporting System. The systems managers conducted limited reviews of the Social Security Number Establishment and Correction System, the Earnings Record Maintenance System and the Supply System. The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations or Federal standards.

Federal Financial Management Improvement Act

On July 25, 2003, the Commissioner determined that SSA's financial management systems were in substantial compliance with Federal Financial Management Improvement Act (FFMIA) for FY 2002. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2002 financial statements, the report on management's assertion about the effectiveness of internal controls and the report on compliance with laws and regulations. She also considered the results of the financial management systems reviews and management control reviews conducted by the Agency and its independent contractor and the progress made in addressing the weaknesses identified in the audit and review reports. That progress is discussed in the section below entitled "Financial Statement Audit."

Under Section 803(c)(2) of FFMIA, the determination for FY 2003 shall be made no later than 120 days after the earlier of (A) the date of receipt of an agencywide audited financial statement or (B) the last day of the fiscal year following the year covered by such statement. We expect to receive the final management letter report(s) for the FY 2003 audit in February 2004.

Federal Information Security Management Act

Federal Information Security Management Act (FISMA) requires Federal agencies to conduct an annual self-assessment review of their information technology security program, to develop and implement remediation efforts for identified security weaknesses and vulnerabilities, and to report to OMB on the Agency's compliance. As in prior years, SSA employed the services of a public accounting firm to perform an independent review of SSA's self-assessments of its 17 sensitive systems. The contractor's evaluation indicated that SSA's self-assessment methodology was consistent with established FISMA requirements. SSA's Office of Inspector general also performed an independent review of SSA's compliance with FISMA and concluded that, with the exception of procedural areas needing improvement, SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on September 22, 2003.

Financial Statement Audit

The OIG contracted for the audit of SSA's FY 2003 financial statements as it has for the last 7 years. For the tenth year in a row the auditor found that the principal financial statements were fairly stated in all material respects and issued an unqualified opinion. The auditor also found management's assertion that SSA's systems of accounting and internal controls were in compliance with OMB's internal control objectives to be fairly stated in all material respects. Although the auditor identified a reportable condition involving internal controls in FY 2003, it was not identified as material weakness as defined by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02.

The reportable condition read "SSA needs to further strengthen controls to protect its information." The auditor indicated that SSA had made significant progress in addressing information protection issues raised in prior years. The auditor particularly noted that SSA had implemented enhanced risk models to standardize platform security configurations, implemented new tools and procedures to monitor adherence to standards, reduced the number of servers with known high risk security weaknesses, maintained strong access-based rule settings and standardized monitoring and logging procedures for firewalls, continued progress in implementing a program to monitor and control system user access requirements, continued progress on implementing dataset naming standards and establishing data ownership, and continued progress in planning for continuity of operations in field activities.

Although the auditor noted significant progress in strengthening security controls, it also noted the need for further progress regarding (1) the review of security access assignments, including vetting of access assignments for access to transactions and data, (2) establishment and full use of dataset naming conventions for datasets, (3) establishment of a dataset dictionary for existing datasets and transactions, and (4) enforcement of the new dataset naming rules and standards for sensitive systems. The auditors also note the need for high level test exercises to ensure the viability of the newly drafted high level procedures to move workloads between RO/PSC and DDS sites for continuity of operations purposes.

The auditors recommended that SSA:

- Continue the acceleration of the Standardized Security Profile Project program to ensure that sensitive systems, as defined by the SSA systems accreditation and certification process, are adequately addressed regarding proper access assignments, dataset naming standards, and inclusion in the dataset dictionary;
- Continue to improve physical security controls for the DDS sites; and
- Continue to enhance continuity of operations activities, including testing of newly developed procedures for RO/PSC and DDS sites.

SSA will continue to work with the auditor to improve controls in those areas.