A MESSAGE FROM THE ACTING COMMISSIONER

I am pleased to present our fiscal year 2016 *Agency Financial Report*. This report describes how we managed our resources and administered our programs, and demonstrates our commitment to responsible stewardship. We strive to provide excellent customer service in a tight fiscal climate, while positioning ourselves to accomplish our mission of delivering Social Security services that meet the changing needs of the public. We continue to make great strides by focusing on our Strategic Goals:

- Deliver innovative, quality services;
- Strengthen the integrity of our programs;
- Serve the public through a stronger, more responsive disability program;
- Build a model workforce to deliver quality service; and
- Ensure reliable, secure, and efficient information technology services.

Throughout our history, we have evolved to meet the changing needs of our customers, helping them to navigate through life's personal challenges and times of change. We are working toward achieving our long-term strategies embodied in our *Vision 2025*: providing a superior customer experience, developing and retaining exceptional employees, and building an innovative organization. Our customers remain our top priority, and we are committed to providing them with choices in the way they conduct business with us.

Modernizing our information technology infrastructure is foundational to helping us realize our vision. Investing wisely in technology is one of our top critical priorities as we work to deliver smart, secure, and efficient service. We are also committed to continue implementing data-driven decision making to provide the best possible service to the public. However, we need a sustained, long-term investment to develop a fully modern information technology infrastructure capable of supporting our immense responsibilities.

We continue to build upon our successes of the last several years, including the expansion of electronic services and exploring new technologies to improve efficiency in our disability program. We remain committed to ensuring the safety and security of the information and resources entrusted to us. We are collaborating with other Federal agencies to improve overall the efficiency and effectiveness of our service to the public. Through our program integrity work and vigorous anti-fraud efforts, we strive to protect every taxpayer dollar while reducing our costs. As we discover new threats, we deploy new tools and techniques to mitigate risks to our information security.

For the 23rd consecutive year, we received an unmodified opinion on our financial statements. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate. I am also pleased to announce that we have no material weaknesses in our internal controls.

Each day, our outstanding employees work diligently to serve the public with care and compassion. For more than 80 years, Social Security has helped secure today and tomorrow by providing benefits and financial protection for millions of people throughout their life's journey. However, our legacy of providing the public with exceptional service is now in jeopardy. Service delays are causing hardships for our most vulnerable citizens. We need adequate, sustained funding to carry out our important program integrity and stewardship work, while also ensuring adequate levels of service to beneficiaries and claimants.

Carolyn W. Colvin

Carolyn W. Colvin
Acting Commissioner
November 9, 2016

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To access this report online, please visit our **Fiscal Year 2016 *Agency Financial Report* webpage (www.socialsecurity.gov/finance)**.

INTRODUCTION

For fiscal year (FY) 2016, we chose to produce an *Agency Financial Report* (AFR) and an *Annual Performance Report* (APR). Our AFR provides financial management and high-level performance information that enables the President, Congress, and the public to assess how well we accomplished our mission, achieved our goals, and managed the financial resources entrusted to us. We organize our AFR into the following major sections:

Management's Discussion and Analysis: The *Management's Discussion and Analysis* section gives an overview of our mission, organization, Strategic Goals and Objectives, Priority Goals, and key FY 2016 performance measures. We highlight the FY 2016 results of our key performance measures and discuss our accomplishments and plans to achieve our mission. We provide a summary of the financial information contained in subsequent sections of the AFR. We also include a synopsis of our systems, controls, and legal compliance.

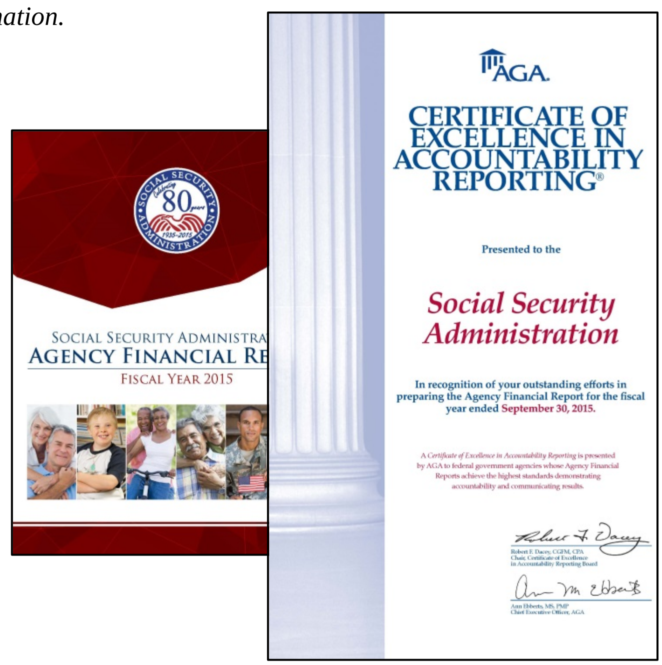
Financial Section: The *Financial Section* contains the Chief Financial Officer's Message, our audited financial statements, the accompanying notes to those statements, and required supplementary information, including the Schedule of Budgetary Resources and information on Social Insurance. This section concludes with the auditors' report.

Other Information: The *Other Information* section includes the *Inspector General Statement on SSA's Major Management and Performance Challenges*, as well as our Summary of Financial Statement Audit and Management Assurances tables. We also provide information on our entitlement reviews and the Office of the Inspector General's anti-fraud activities, civil monetary penalties, biennial review of user fee charges, Freeze the Footprint initiative, and debt collection and management activities. The *Improper Payments Information Detailed Report* concludes this section.

Appendix: The *Appendix* includes a glossary of acronyms, a list of our agency's top management officials, the members of the Board of Trustees, and the members of the Social Security Advisory Board.

We will present detailed performance results in our FY 2016 APR, which we will publish as part of our Congressional Budget Justification. We plan to publish our FY 2016 APR in February 2017 along with our FY 2016 *Summary of Performance and Financial Information.*

For the 18th year in a row, we received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting* (CEAR) *award for our annual Agency Financial Report. Receiving the CEAR for our FY 2015 Agency Financial Report is a significant accomplishment for a Federal agency.



Management's Discussion and Analysis

The *Management's Discussion and Analysis* (MD&A) section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* highlights our mission as set forth in our *Agency Strategic Plan*. We identify the major programs we administer and provide a brief explanation of our organization.

The *Overview of Our Fiscal Year 2016 Goals and Results* provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2016 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and objectives, and discuss how we plan to address the challenges we face.

The MD&A also addresses our financial performance in the *Highlights of Financial Position*. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds. We end this subsection with a summary of our progress in addressing improper payments.

Finally, *Systems and Controls* describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*.

OVERVIEW OF THE SOCIAL SECURITY ADMINISTRATION

OUR MISSION

Deliver Social Security services that meet the changing needs of the public

SOCIAL SECURITY BENEFITS AMERICA

We are entrusted with the enormous responsibility of administering the Nation's largest safety net and providing benefits to millions of Americans. We support our customers through every step of life's journey and offer them compassionate, world-class service during some of the most vulnerable times in their lives. In fiscal year 2016, we paid approximately $80 billion to almost 66 million beneficiaries each month. About 9 out of 10 individuals age 65 and older receive Social Security benefits. Our nation-wide service and our dedicated employees combine to make Social Security one of the most successful, large-scale Federal programs in our Nation's history.

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

OLD-AGE AND SURVIVORS INSURANCE PROGRAM

Today, most people plan their retirement based on the date they can receive their Social Security benefits. The Old-Age and Survivors Insurance program (which provides what most people think of as their Social Security benefit), created in 1935, provides retirement and survivors benefits to qualified workers and their families. Working and paying Social Security taxes earns workers credits toward Social Security benefits. Most people need 40 credits, or 10 years of covered work, to qualify for retirement benefits.

A person qualifies for full retirement benefits between the ages of 65 and 67, depending on the year he or she was born. Reduced retirement benefits are payable as early as age 62. Certain members of retired workers' families may also receive benefits. Spouses (including divorced spouses), minor children, and children who became disabled before age 22 may also be eligible for benefits.

Social Security also provides income for families of workers who die. Congress added survivor's benefits in 1939 and benefits for disabled widows and widowers in 1968. Widows, widowers (and divorced widows and widowers), dependent parents, and children may be eligible for survivor's benefits. In fact, 98 out of every 100 children of working parents could get benefits if a working parent dies. Social Security pays more benefits to children than any other Federal program.

DISABILITY INSURANCE PROGRAM

Social Security Disability Insurance provides benefits to people who cannot work because they have a severe medical condition expected to last at least one year or result in death. People who have worked long enough and paid Social Security taxes and certain members of their families can qualify for Social Security Disability Insurance benefits. The disability program began in 1956 as a benefit for disabled workers between the ages of 50 and full retirement. The program expanded in 1960 to include disabled workers of all ages.

SUPPLEMENTAL SECURITY INCOME PROGRAM

The Supplemental Security Income (SSI) program, established in 1972, is a Federal program providing monthly payments to people with limited incomes and resources who are aged, blind, or disabled. Adults and children under the age of 18 can receive payments based on disability or blindness.

General tax revenue, not workers' Social Security taxes, funds the SSI program.

HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2016

- A combined total of around $968 billion was paid in Social Security and SSI benefits;
- About 88 percent of the American population age 65 and over received Social Security benefits;
- Among elderly Social Security beneficiaries, 21 percent of married couples and 43 percent of unmarried individuals relied on Social Security for 90 percent or more of their income;
- About 96 percent of individuals age 20-49 who worked in covered employment had survivors protection for their young children and a surviving spouse caring for the children; and
- On average each month, more than 1.2 million blind or disabled children under age 18 received SSI benefits.

HOW WE SERVED AMERICA IN FISCAL YEAR 2016

- Issued 16 million new and replacement Social Security cards;
- Performed over 2 billion automated Social Security number verifications;
- Posted over 267 million earnings items to workers' records;
- Handled over 37 million calls on our National 800 Number;
- Assisted 43 million visitors in field offices;
- Mailed nearly 350 million notices;
- Registered over 5.8 million users for *my* Social Security, a personalized online account;
- Processed over 121.9 million online transactions;
- Completed 2,688,977 initial disability claims;
- Received approximately 5.1 million retirement, survivor, and Medicare applications;
- Completed 666,948 reconsideration disability claims;
- Through data exchange partnerships with the Centers for Medicare and Medicaid Services, we identified over $22.7 million in estimated incorrect payments;
- Provided online access to the Social Security Benefit Statement, allowing beneficiaries to access their statements online more than 40.5 million times;
- Completed approximately 159,000 Appeals Council requests for review; and
- Completed 652,241 requests for hearings.

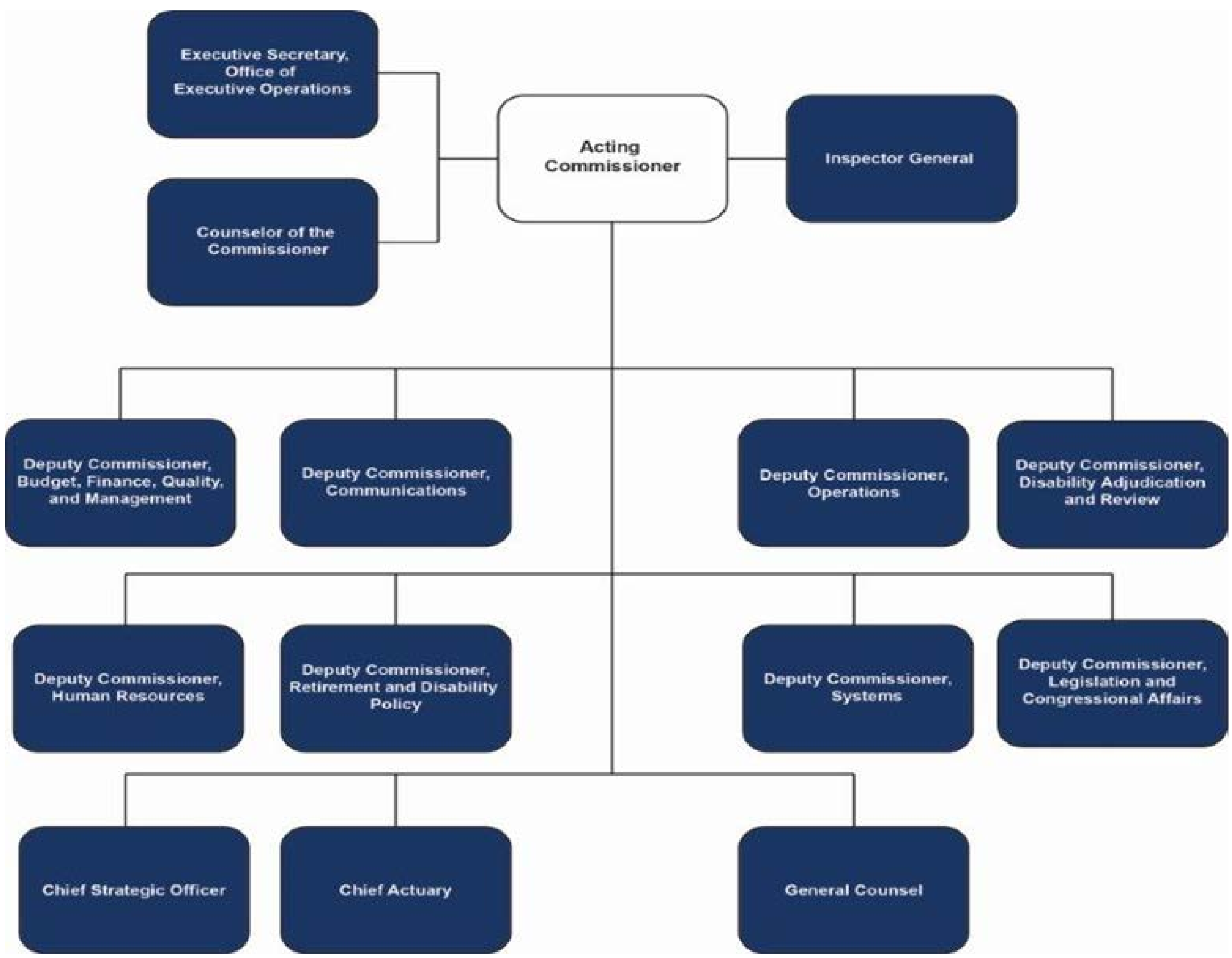
OUR ORGANIZATION

Serving the American public requires a vast network of facilities, technology, and skilled staff. Every day, more than 65,000 Federal and State employees provide service to our customers. Nationwide, we have a network of more than 1,500 offices, including regional offices, field offices, Social Security card centers, teleservice centers, processing centers, hearing offices (including satellite offices and National Hearing Centers), the Appeals Council, and our headquarters in Baltimore, Maryland. Internationally, we deliver services in U.S. embassies in hundreds of countries.

Customers receive in-person service mainly at our field offices and Social Security card centers. Our teleservice centers primarily handle calls to our National 800 Number. Employees in our processing centers typically handle Social Security retirement, survivors, and disability payments. These employees also provide a wide range of other services, including handling telephone calls to our National 800 Number. To locate your nearest local office, visit the Social Security Office Locator (www.secure.ssa.gov/ICON/main.jsp).

We have created strong partnerships with State agencies, and we depend on State employees in 54 State and territorial disability determination services offices to make disability determinations. Administrative law judges in our hearing offices and the administrative appeals judges at our Appeals Council decide appeals involving Social Security and SSI issues. For more information about our components and their functions, visit our Organizational Structure webpage (www.socialsecurity.gov/org).

The following chart illustrates our organizational structure:



OVERVIEW OF OUR FISCAL YEAR 2016 GOALS AND RESULTS

HOW WE MANAGE PERFORMANCE

Our Performance Framework: The *Government Performance and Results Modernization Act of 2010* (GPRMA) describes how agency strategic plans and goals should align with presidential terms and broader Federal efforts.

Setting goals and measuring our performance is vital to our success. We define our performance framework in the *Fiscal Year* (FY) *2014-2018 Agency Strategic Plan* (www.socialsecurity.gov/asp). Our *Agency Strategic Plan* (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

Strategic Goal 1: Deliver Innovative, Quality Services;

Strategic Goal 2: Strengthen the Integrity of Our Programs;

Strategic Goal 3: Serve the Public through a Stronger, More Responsive Disability Program;

Strategic Goal 4: Build a Model Workforce to Deliver Quality Service; and

Strategic Goal 5: Ensure Reliable, Secure, and Efficient Information Technology Services.

Our Planned Performance: In February 2016, we published our *Annual Performance Plan for FY 2017, Revised Performance Plan for FY 2016, and Annual Performance Report for FY 2015* (www.socialsecurity.gov/agency/performance) as a part of the *President's FY 2017 Budget Request* (www.socialsecurity.gov/budget/). Collectively, we refer to this combined document as our *Annual Performance Report* (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP and finalizes our performance commitments for FY 2016.

Each September, a draft of the APR accompanies our budget submission to the Office of Management and Budget (OMB). The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the *FY 2016 Operating Plan* (www.socialsecurity.gov/budget/).

Our Actual Performance and Program Results: We accumulate much of our performance data based on an operating month, rather than a true calendar month. An operating month cuts off on the last Friday of the calendar month. Each fiscal year contains 52 weeks. Every 5 or 6 years, the fiscal year contains 53 weeks because the year is not equally divisible by 7 days. FY 2016 is a 53-week fiscal year. Throughout this report, we list our 53-week performance. A comparison chart of our 52-week versus 53-week performance results is included in the appendix of our APR.

We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR, containing our actual FY 2016 results, in February 2017. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2016. The following table shows our operating expenses by Strategic Goal.

FY 2016 OPERATING EXPENSES BY STRATEGIC GOAL
(DOLLARS IN MILLIONS)

Deliver Innovative, Quality Services	$ 3,120
Strengthen the Integrity of Our Programs	$ 2,456
Serve the Public through a Stronger, More Responsive Disability Program	$ 6,426
Build a Model Workforce to Deliver Quality Service	$ 469
Ensure Reliable, Secure, and Efficient Information Technology Services	$ 1,107

Our Priorities: In support of the GPRMA, we established four Agency Priority Goals (APG). We routinely review our progress and take actions to improve our outcomes, stimulate innovation, and deliver favorable results.

Our four APGs for FY 2016 and FY 2017 are:

APG 1: Improve customer service and convenience by increasing online transactions by 25 million each year;

APG 2: Increase customer satisfaction with our services;

APG 3: Improve the integrity of our programs by increasing our Supplemental Security Income (SSI) payment accuracy rate to 95 percent; and

APG 4: Improve customer service by reducing the wait time for a hearing decision.

Our APGs are aggressive 24-month goals and reflect the performance improvement priorities of our executive leadership, as well as those of the Administration. You can find additional information on our APG performance by visiting Performance.gov (www.performance.gov/agency/social-security-administration?view=public).

Established by GPRMA, Cross-Agency Priority (CAP) goals accelerate progress on presidential priority areas. Multiple agencies actively collaborate to achieve results in these areas.

OMB established CAP goals based on input from Federal agencies and congressional committees. These goals reflect the President's second-term priorities.

There are three mission-oriented and six management-focused CAP goals. Each CAP goal has two senior leaders – one within the Executive Office of the President and one within a key delivery agency. The Social Security Administration and OMB co-lead the Customer Service CAP goal.

Additional information about CAP goals and our participation in them is available on Performance.gov (www.performance.gov/clear_goals).

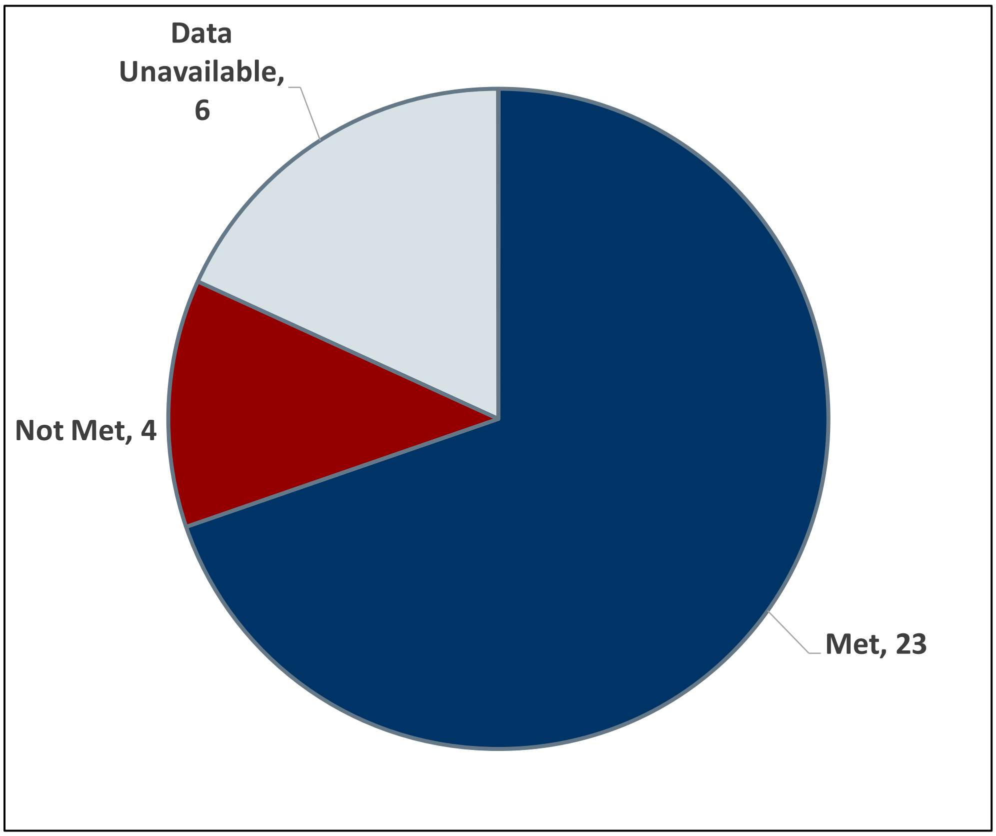
SUMMARY OF FISCAL YEAR 2016 PERFORMANCE

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2016. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on our full budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

Final data for 3 of the 10 performance measures and targets we highlighted in the *Management's Discussion and Analysis* was not available at the time we published this report. We will include those overall results in our FY 2017 *Agency Financial Report*. We met our targets for six of the seven performance measures with available data.

Additionally, we met our targets for 23 of the 33 total performance measures that we use to track agency progress towards meeting our Strategic Goals and objectives. Final data for 6 of the 33 performance measures and targets was not available at the time we published this report. Data on those performance measures will be published in our *Annual Performance Plan for FY 2018, Revised Performance Plan for FY 2017, and Annual Performance Report for FY 2016* in February 2017.

SUMMARY OF OUR FY 2016 PERFORMANCE MEASURE RESULTS



STRATEGIC GOAL 1:
DELIVER INNOVATIVE, QUALITY SERVICES

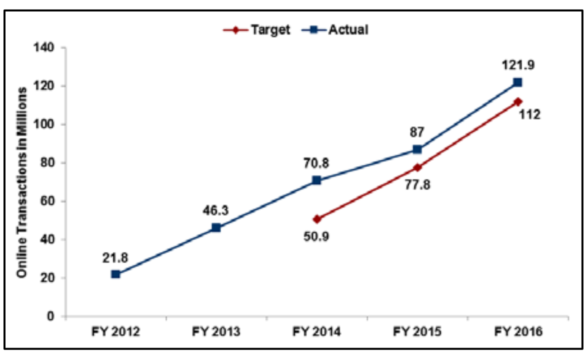
Strategic Objectives

- Develop and Increase the Use of Self-Service Options
- Enhance the Customer Experience by Completing Customers' Business at the First Point of Contact
- Partner with Other Agencies and Organizations to Improve Customers' Experience and Align with the Administration's One-Government Approach
- Evaluate Our Physical Footprint to Incorporate Improved Service Options

Create an account:
www.socialsecurity.gov/myaccount

We selected the following performance measures to help demonstrate our progress in delivering innovative, quality services:

IMPROVE CUSTOMER SERVICE AND CONVENIENCE BY INCREASING ONLINE TRANSACTIONS BY 25 MILLION EACH YEAR (APG)



Analysis: We processed over 121.9 million online transactions in FY 2016. In the past few decades, advances in technology have revolutionized the business world, changing the pace of our business processes and increasing our ability to offer innovative service options. We improved access to our services in FY 2016 by increasing the number of citizens who complete their business with us online by more than 40 percent over FY 2015.

INCREASE CUSTOMER SATISFACTION WITH OUR SERVICES (APG)

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2016 Target	Target Achieved
Performance	82 satisfaction rating with online services	82 satisfaction rating with online services	82 satisfaction rating with online services	83 satisfaction rating with online services	85 satisfaction rating with online services	84.5 satisfaction rating with online services	Met
	81% satisfaction rating for office and telephone services	80% satisfaction rating for office and telephone services	Data is not available for office and telephone services	79% satisfaction rating for office and telephone services	80% satisfaction rating for office and telephone services	80% satisfaction rating for office and telephone services	Met

Analysis: One of our highest priorities is delivering world-class customer service to all of our customers, whether online, in the office, or on the phone. In FY 2016, 7 of the 8 SSA online applications exceeded the ForeSee E-Government Satisfaction Index with scores of 80 or higher. A score of 80 or higher is considered the threshold for excellence. We also met our target satisfaction rating for office and telephone services despite increasing staff shortages.

Our efforts to deliver innovative, quality services include:

Expanding Online Access through Social Security Express: Our new service options expand online service access, including services to customers who may not own a personal computer. Our Social Security Express initiative provides access to our online services in our field offices and in external locations. Using these services helps minimize wait times for visitors who must complete their business with us in person.

We have three major Social Security Express projects underway:

- **Self-help personal computers** are available in 797 offices nationwide. Self-help personal computers allow our customers to access our online services using computers in our offices. Using the computers enables customers to perform some transactions without waiting to see a representative.
- **Social Security Express Desktop Icons** provide a direct link from a public computer or website to most of our online services. These icons are available at external partner sites, such as libraries and senior centers. Users can access the same services that are available through the self-help personal computers in our field offices. If customers have questions or require assistance accessing online services through the icon links, they can call our National 800 Number or visit a field office for help completing their tasks.

  In FY 2015, we designed a process allowing partner sites to download the desktop icon directly to a personal computer or website and launched the site nationally on May 15, 2015. The installation process is now more efficient, and we have added 134 new partners. In FY 2016, we logged almost 86,000 visits.

  In April 2016, we added the Internet Social Security Number Replacement Card to our list of available Desktop Icon services.
- **Customer service stations** are stand-alone units, containing a computer with a touch screen monitor and video access, enabling the user to have real-time contact with a representative.

Leveraging *my* Social Security: To date, we have over 45,000 web pages, 20 online services, information in 18 languages, and a presence on several social media sites. We average nearly 12 million visits to our website each month. We are responding as quickly as possible to increased customer demand for online services, while ensuring *my* Social Security (www.socialsecurity.gov/myaccount) remains secure and easy to use.

Current features enable Social Security Disability and SSI beneficiaries to access their benefit verification letters, payment histories, and earnings records instantly. Beneficiaries can also change their addresses and direct deposit information online. Since it launched in 2012, *my* Social Security has registered more than 26.9 million users and consistently ranks as one of the top 10 in customer satisfaction for all Federal websites.

Work is now underway on a new feature called SMART Claim that will allow our customers to file a claim for retirement, disability, Medicare, and SSI benefits using a single application within *my* Social Security. We hope to have our first release by the first quarter of FY 2018.

Additional features added to *my* Social Security and SMART claim in FY 2016 include:

- New secure customer engagement tools, including enhancements to click-to-call back, dynamic help assistance, a secure message center, and alerts and notifications;
- Online continuing disability review notification and response options for beneficiaries; and
- A claims appeal path.

Implementing Online Social Security Number Card Application: Replacing Social Security number cards is one of our most requested services. In FY 2016 alone, we issued 11 million replacement cards in field offices and Social Security card centers across the country. We also launched a new feature to select States, enabling certain *my* Social Security users to apply online for a replacement Social Security number card. Participating States include Michigan, Washington, Wisconsin, Nebraska, Iowa, Kentucky, New Mexico, and the District of Columbia.

The application provides users with a secure, trusted, and legally sufficient, real-time method to request replacement Social Security number cards online and allows our employees more time to process other workloads.

Providing Real-Time Assistance to Online Users: Delivering world-class customer service to all of our customers, including our online users, is one of our highest priorities. We use *my* Social Security to provide online information and help tools. In FY 2016, we released two new communication features behind *my* Social Security. The first is our secure Message Center, enabling *my* Social Security users to receive alerts, messages, and agency announcements. We also released click-to-chat, which allows *my* Social Security users to communicate directly with us to answer their questions.

STRATEGIC GOAL 2:
STRENGTHEN THE INTEGRITY OF OUR PROGRAMS

Strategic Objectives

- Transform the Way We Record Earnings to Enhance Data Accuracy
- Protect the Public's Data and Provide Secure Online Services
- Increase Payment Accuracy

Report Wages from Your Mobile Device

Available now in
Google Play: play.google.com/store and Apple app: www.apple.com/itunes/charts/free-apps/

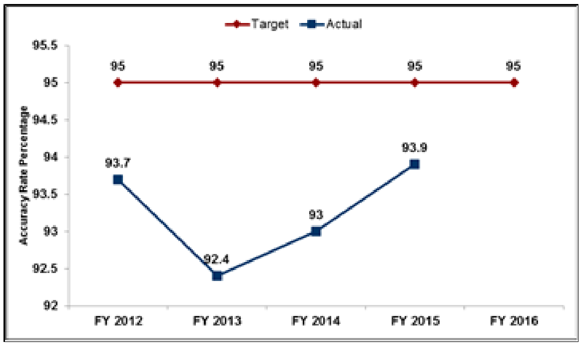
We selected the following performance measures to indicate our progress in strengthening the integrity of our programs:

ENHANCE OUR SECURITY FEATURES AND BUSINESS PROCESSES TO PREVENT AND DETECT FRAUD

Fiscal Year	2014 Actual	2015 Actual	2016 Actual	2016 Target	Target Achieved
Performance	Using Public Facing Integrity Review data, we were able to create and implement the routing transit number blocking process.	The fraud referral process was transferred to the newly established Office of Anti-Fraud Programs. We use Public Facing Integrity Review data to create and implement the routing transit number blocking process.	Identified and investigated 4,264 claims presenting characteristics indicative of fraud	Identify and investigate at least 500 claims presenting characteristics indicative of fraud	Met

Analysis: We are committed to safeguarding the public's personal information and their investment in Social Security. We continually strengthen our record protection systems to combat emerging identity threats, as well as other forms of fraud. In FY 2015, we established an Office of Anti-Fraud Programs to provide centralized oversight and accountability of initiatives to prevent, detect, and deter fraud. In FY 2016, we exceeded our target by identifying 4,264 claims presenting characteristics indicative of fraud.

IMPROVE THE INTEGRITY OF THE SSI PROGRAM BY ENSURING THAT 95 PERCENT OF OUR PAYMENTS ARE FREE OF OVERPAYMENT (APG)



Analysis: We attribute most of our improper payments to non-reporting, a lack of access to third-party data, and the complexity of our programs. Our overpayment accuracy for FY 2015 was 93.9 percent. Although it was not a statistically significant increase over FY 2014, it is the highest overpayment accuracy since FY 2003. FY 2016 data is not available until April 2017.

Some of the initiatives we are undertaking to strengthen the integrity of our programs include:

Expanding the Access to Financial Institutions: Excess resources in financial accounts are a leading cause of SSI payment errors. The Access to Financial Institutions (AFI) system uses an electronic process to verify bank account balances with financial institutions to help determine SSI eligibility and payment amount. In addition to verifying alleged accounts, the process may detect undisclosed bank account balances by using a geographic search to generate requests to other financial institutions. Along with preventing overpayments, the AFI process will help eliminate ineligible applicants at the beginning of the application process.

The *Bipartisan Budget Act of 2015* expanded the use of AFI for waivers. SSI applicants can request that we waive overpayment because they are without fault and unable to repay the amounts overpaid. Generally, applicants must provide us with their authorization to obtain their financial institution records before we waive our right to overpayment recovery. However, the Act allows us to deny the waiver if the applicants refuse to grant authorization. We implemented AFI for waivers nationally on March 14, 2016.

Implementing Data Exchange and Verification Online: We have a mission-critical need to share data with partner agencies and organizations to ensure that we have the correct information to administer our various programs. We currently maintain approximately 3,000 electronic information exchange agreements with Federal, State, local, and foreign government agencies, as well as court systems, the medical community, and employers. We use the two-way data exchanges to help make essential eligibility and entitlement decisions.

To enhance these exchanges, we implemented the Data Exchange and Verification Online application. The new system is more efficient and enables us to respond more quickly to data requests and new legislative mandates. We also implemented the Data Exchange and Verification Online web service, which provides Social Security number verifications online.

We are working to develop the following data exchanges:

- An exchange with the Department of Homeland Security to identify people who become ineligible for SSI payments by leaving the United States for a month or longer;
- An exchange with the Department of State to share real-time passport verification data; and
- An exchange with the Department of Labor to identify *Federal Employees' Compensation Act* beneficiaries who are also receiving disability benefits.

We also recently completed developing a new exchange with the Office of Child Support Enforcement.

In FY 2016, we re-engineered our data exchange and verification processes. We also developed modernized business rules and policy to govern the data exchanges with partner agencies.

Deploy Management System for Personally Identifiable Information and Federal Tax Information: We developed the Enterprise Test Data Management System to manage and purge personally identifiable information and Federal tax information in our test and training systems. Our test and training systems are well controlled and have a low risk of exposing sensitive public data. When fully implemented, the Enterprise Test Data Management System will provide sanitized test data (data modified to conceal a person's identity) to our test environments (development, validation, integration, and training). This will further minimize our risk of unnecessarily exposing public data.

We released the basic system infrastructure in FY 2014. In FY 2016, we maintained and worked on developing many improvements, including:

- Procuring a third-party tool that will help sanitize name and address information;
- Developing requirements for enhancing a third-party tool to help sanitize name and address information;
- Designing, developing, and implementing enhancements to the existing system to improve performance and usability; and
- Beginning analysis and design for future requirements and enhancements.

Using Predictive Modeling in Continuing Disability Review Enforcement Operation: The Work Continuing Disability Review Smart Process (Work Smart) identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. A continuing disability review is a routine review we perform to make sure that the beneficiaries receiving Social Security and SSI benefits are still disabled and entitled to those benefits. The Work Smart process provides us with quarterly work alerts based on beneficiaries' quarterly earnings up to one year earlier than our previous review process. By receiving work alerts earlier, we will be able to reduce work-related overpayments.

We also developed and piloted a predictive model to identify cases that have a high likelihood of receiving overpayments. We prioritize these cases for work-related reviews. These reviews determine if beneficiaries' work status or earnings make them ineligible for disability benefits. Eighty percent of the cases we identify using the predictive model are likely to result in benefit termination. By prioritizing the work-related reviews, we identify and avoid potential overpayments more quickly.

In FY 2016, we opened approximately 217,000 cases using the predictive model and completed about 123,000 work-related reviews. Subsequently, about 63,000 cases resulted in cessation of benefits because beneficiaries' work status or earnings made them ineligible to receive disability benefits.

STRATEGIC GOAL 3:
SERVE THE PUBLIC THROUGH A STRONGER, MORE RESPONSIVE DISABILITY PROGRAM

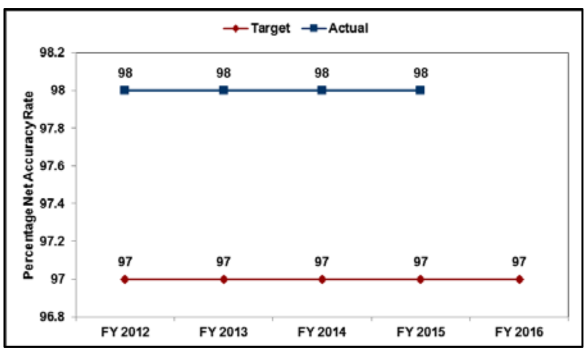
Strategic Objectives

- Improve the Quality, Consistency, and Timeliness of Our Disability Decisions
- Maximize Efficiencies throughout the Disability Program
- Enhance Employment Support Programs and Create New Opportunities for Returning Beneficiaries to Work

Disability facts:
www.socialsecurity.gov/disabilityfacts/index.html

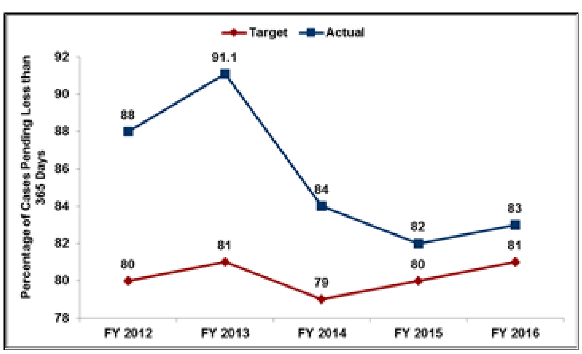
We selected the following performance measures to demonstrate our efforts to serve the public through a stronger, more responsive disability program:

ENSURE THE QUALITY OF OUR DECISIONS BY ACHIEVING THE DISABILITY DETERMINATION SERVICES NET ACCURACY RATE FOR INITIAL DISABILITY DECISIONS



Analysis: While our customers expect us to make timely decisions, they also expect us to make accurate decisions. We have consistently met our target for this measure since FY 2010. In FY 2015, we ensured the quality of our decisions by achieving the disability determination services (DDS) net accuracy rate of 98 percent for initial disability decisions, exceeding our target of 97 percent. FY 2016 data is not available until January 2017.

INCREASE OUR ABILITY TO PROVIDE TIMELY DECISIONS BY REDUCING THE PERCENTAGE OF PENDING APPEALS COUNCIL REQUESTS FOR REVIEW 365 DAYS OLD OR OLDER



Analysis: From FY 2007 through FY 2016, we experienced a tremendous increase in requests at the hearing level. As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions. In FY 2016, we once again exceeded our target of reducing aged cases at the Appeals Council.

IMPROVE CUSTOMER SERVICE BY REDUCING THE WAIT TIME FOR A HEARING DECISION (APG)

Fiscal Year	2016 Actual	2016 Target	Target Achieved
Performance	98%	Decide 99% of the cases that begin the fiscal year 430 days old or older	Met*

Analysis: *Our budget assumptions for the universe of hearings pending and administrative law judge (ALJ) hiring did not materialize and substantially impacted our ability to achieve the FY 2016 target. In light of our substantial progress in reducing the aged case pending, we consider this target met for FY 2016. We will continue to focus on this critical workload.

Our efforts to deliver quality disability decisions and services include:

Conducting Inline Quality Reviews: Performing inline quality reviews of hearing level claims promotes consistency and continuous improvement in case processing by ensuring that:

- Case files are properly prepared and scheduled;
- Records are adequately developed; and
- Draft decisions are legally sufficient.

Inline quality reviews identify errors and correct those errors before an ALJ issues a decision. This improves the quality of the decisions and reduces the number of errors that can later result in an ALJ having to reconsider a decision. Since FY 2011, our inline quality review initiative has provided data to help us improve our processes. In FY 2016, we conducted 12,727 reviews (2.43 percent of all hearing decisions).

Reducing the Pending at the Appeals Council: As we decide more cases at the hearing level, the Appeals Council receives more requests for review of hearing decisions.

In FY 2016, we focused on decreasing the percentage of pending Appeals Council requests for review over 365 days old. We were able to decrease the number of pending requests for review from 149,147 in FY 2015 to 127,134 in FY 2016.

Hire Sufficient Administrative Law Judges to Ensure Public Access to Agency Services:
From FY 2008 to FY 2010, the Office of Disability Adjudication and Review made significant progress in reducing the number of claimants waiting for an ALJ hearing. However, our inability to hire ALJs in sufficient numbers due to the Office of Personnel Management delays coupled with budget constraints caused a public service crisis. Now more than 1.1 million claimants are waiting for a hearing, more than any other time in history.

We ended FY 2015 with nearly 1,530 ALJs on duty, about 85 more than we had at the beginning of the year. To combat the expected increase in hearing wait time, we hired 264 ALJs in FY 2016. We lost 109 ALJ's during the same span.

Developing the Disability Case Processing System: We are investing in a modernized Disability Case Processing System to replace the 54 independent legacy systems in use throughout the DDS offices. By consolidating the existing systems into a single system, we will reduce the technical complexities associated with sharing workloads between DDS offices.

The system will also directly incorporate the case analysis functionality currently housed in the Electronic Claims Analysis Tool. The system will provide a single application for case receipt, development, analysis, documentation, and closure activities. The first release will allow us to intake and process new initial and reconsideration cases from start to finish. In December 2016, the first release of the system is deploying to two States.

In FY 2016, we added the functionality for receipt, processing, and closing an initial adult disability claim with medical evidence in the electronic file to support a fully favorable medical decision.

Using Health Information Technology to Expedite Disability Decisions: Obtaining medical records electronically from health care organizations increases efficiencies in our disability determination process and dramatically improves service to the public by:

- Reducing the time to obtain medical records;
- Decreasing the time to complete a disability claim;
- Helping offset increasing workloads and staffing constraints; and
- Enabling computerized decision support.

We request more than 10 million medical records from healthcare organizations for approximately 2.6 million initial disability claims annually. Our primary goal is to increase the volume of medical evidence received via health information technology (IT) by expanding existing partnerships and adding new partners.

In FY 2016, we expanded our health IT partner organizations from 48 in FY 2015 to 54, which increased the number of providers to 6,949. We also increased the number of States, plus the District of Columbia, Guam, and Puerto Rico, with participating health IT providers from 33 to 49. We increased the percentage of initial disability claims with health IT medical evidence to 9.61 percent.

We also partnered with the Department of Defense to exchange health information via health IT. As of February 2016, we fully implemented our health IT capability with the Department of Defense, and it is operational nationwide.

STRATEGIC GOAL 4: BUILD A MODEL WORKFORCE TO DELIVER QUALITY SERVICE

Strategic Objectives

- Attract and Acquire a Talented and Diverse Workforce That Reflects the Public We Serve
- Strengthen the Competency, Agility, and Performance of Our Workforce to Align with the Needs of the Public
- Foster an Inclusive Culture that Promotes Employee Well-Being, Innovation, and Engagement
- Enhance Planning and Alignment of Human Resources to Address Current and Future Public Service Needs

Best places to work:
www.bestplacestowork.org/BPTW/index.php

The following performance measure demonstrates our efforts to build a model workforce to deliver quality service:

BECOME ONE OF THE TOP 5 BEST PLACES TO WORK AMONG LARGE AGENCIES IN THE FEDERAL GOVERNMENT

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2016 Target	Target Achieved
Performance	Top 10 Rank	Top 10 Rank	Top 10 Rank	Top 10 Rank	Data available December 2016	Top 5 Rank	

Analysis: One of our strategic objectives is to foster an inclusive culture that promotes employee well-being, innovation, and engagement. Our employees are our most valuable asset. Each year since 2007, our employees have ranked us in the top 10 Best Places to Work in the Federal Government. In FY 2015, our employees ranked us as number six among large agencies. For FY 2016, we increased our target to become one of the top five best places to work among large agencies. Data for FY 2016 will not be available until December 2016.

Some of the initiatives we are undertaking to remain an employer of choice for top talent include:

Highlighting the Pathways Programs (for Students and Recent Graduates to Federal Careers):
Our Pathways programs offer opportunities through three specific programs:

- **The Internship program** provides students in high schools, colleges, trade schools, and other qualifying educational institutions with paid opportunities to explore Federal careers while completing their education;
- **The Recent Graduates program** provides developmental experiences to individuals who, within the previous two years, graduated from qualifying educational institutions; and
- **The Presidential Management Fellows program** provides entry-level positions and leadership development for advanced degree candidates and recent advanced degree graduates.

Hiring through these programs enables us to offer participants clear career paths, along with meaningful training and development opportunities. These programs enhance our ability to attract and hire a talented and diverse workforce that reflects the public we serve.

In FY 2016, we hired approximately 15.7 percent of our new employees through the Pathways programs. We will continue participating in the Pathways program to attract new employees as our budget allows.

Focusing on Career Development Programs: Our future depends on developing employees' leadership and management skills throughout their careers. One way we identify and develop potential leaders is through our National Career Development Programs:

- **The Leadership Development Program** prepares employees for General Schedule (GS)-11 through GS-13 leadership positions; and
- **The Advanced Leadership Development Program** prepares employees for GS-14 and GS-15 leadership positions.

These programs target employees with proven leadership potential. We strengthen their leadership skills through developmental assignments and formal training.

To help our experienced managers prepare for senior-level positions, we offer the Senior Executive Service Candidate Development Program. This program is a key element of our succession management strategy for filling future executive-level leadership vacancies.

In FY 2016, participants in the Advanced Leadership Development Program continued their developmental assignments, attended leadership and congressional training, completed individualized training, and completed the other program requirements (e.g., leadership readings, executive interviews, executive shadows). As of September 30, 2016, we promoted 8 of the 34 participants.

Supporting Employees through Mentoring: Our mentoring program is a partnership through which one person (mentor) shares knowledge, experience, and wisdom to foster the personal and professional development of another (mentee). We use mentoring to promote a knowledge-sharing culture that supports our succession-planning efforts, enables skill and competency development, and increases employee engagement.

To support our employees and prepare them for future job requirements, we successfully piloted a mentoring program consisting of both traditional mentoring (one-on-one mentoring relationships) and flash mentoring (one-time event) in FY 2015. According to survey data, participants' (mentees and mentors) satisfaction rate was 93 percent. Based on the successful results of the pilot, the permanent mentoring program began in September 2016 and is now open to all employees.

Highlighting Diversity and Inclusion: Our *Diversity and Inclusion Strategic Plan* highlights proven best practices for attracting, hiring, and retaining a diverse workforce. The plan also fosters a work environment that draws on our collective talents, respects individual differences, and leverages diversity.

To sustain our diversity commitment, we instituted a Diversity and Inclusion Council with representation from all levels of the agency, including senior leadership, labor, management associations, and Advisory Councils. Our Advisory Councils include the:

- American Indian and Alaska Native Advisory Council;
- Black Affairs Advisory Council;
- Hispanic Affairs Advisory Council;
- National Lesbian, Gay, Bisexual, and Transgender Advisory Council;
- National Women's Advisory Council;
- Pacific Asian American Advisory Council; and
- Veterans and Military Affairs Advisory Council.

Our Advisory Councils work with the Diversity and Inclusion Council to create an inclusive employee environment. The Advisory Councils also provide ideas to improve services and promote our programs in their respective communities.

Each year, we hold up to 12 commemorative programs or exhibits recognizing groups that are under-represented in the Federal Government. In FY 2016, 98 percent of our employees also completed diversity and inclusion training.

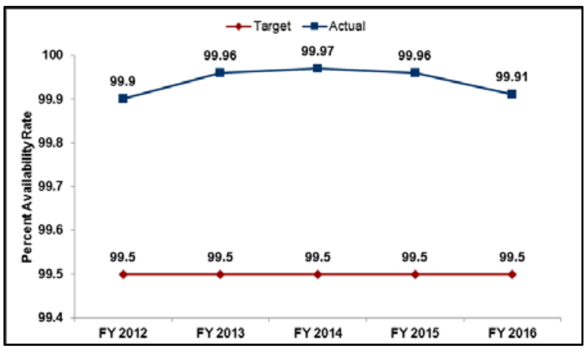
STRATEGIC GOAL 5: ENSURE RELIABLE, SECURE, AND EFFICIENT INFORMATION TECHNOLOGY SERVICES

Strategic Objectives

- Maintain System Performance and the Continuity of Information Technology Services
- Enhance and Execute Plans to Modernize Our Systems
- Incorporate Innovative Advances in Service Delivery
- Continuously Strengthen Our Cyber Security Program

We selected the following performance measures to demonstrate our efforts to ensure reliable, secure, and efficient IT services:

PROVIDE UNINTERRUPTED ACCESS TO OUR SYSTEMS DURING SCHEDULED TIMES OF OPERATION



Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to meeting our obligation to the public. If our systems experience problems, our productivity and service immediately decline. Since FY 2012, we have exceeded the target for this measure.

PROVIDE SECURE AND EFFECTIVE SERVICES TO THE PUBLIC BY IMPROVING CYBER SECURITY PERFORMANCE

Fiscal Year	2014 Actual	2015 Actual	2016 Actual	2016 Target	Target Achieved
Performance	Homeland Security Presidential Directive 12 Compliance – result 87% Information Security Continuous Monitoring – result 98% Trusted Internet Connections Consolidation – result 100% Trusted Internet Connections 2.0 Capabilities – result 94%	Hardware Asset Management – result 100% Software Asset Management – result 100% Vulnerability and Weakness Management – result 100% Unprivileged Network Users – result 86% Privileged Network Users – result 99% Anti-Phishing Defense – result 100% Malware Defense – result 100% Blended Defense – result 100%	Hardware Asset Management – result 100% Software Asset Management – result 100% Vulnerability and Weakness Management – result 100% Anti-Phishing Defense – result 100% Malware Defense – result 100% Blended Defense – result 100%	Achieve an average of 97% for the following Cyber Security Cross-Agency Priority Goals: Anti-Phishing Defense; Malware Defense; Blended Defense (anti-phishing and malware defense measures); Hardware Asset Management; Software Asset Management; and Vulnerability and Weakness Management.	Met

Analysis: Continuously strengthening our cyber security is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect the information entrusted to us. Since FY 2013, we have met the Department of Homeland Security cyber security standards and requirements.

Some of our ongoing efforts to maintain secure and reliable IT services include:

Maintaining Systems Performance While Transitioning to the National Support Center: The National Support Center has been in continuous operation as a data center since all current production data transitioned there in FY 2015. The National Support Center maintains demographic, wage, and benefit information that enables us to make prompt and accurate benefits payments.

We track our systems availability rate daily and adjust resources as required to meet the changing needs of the agency and the public. To maintain systems availability, our service level agreement (a standardized service contract) covers:

- The reactive and proactive process we use to achieve the service level goal;
- How we will manage the service process; and
- How we will measure the service goal and process.

In FY 2016, we exceeded our systems availability target of providing uninterrupted access to our systems during scheduled times of operation 99.5 percent of the time by achieving a 99.91 percent availability rate. This availability ensures that the data center is available for the agency and our partners to conduct business and for beneficiaries to use online services.

Implementing an Information Security Program: We maintain a comprehensive, agency-wide information security program to protect information and communications assets. We review our policies and processes continually to ensure adequate safeguards are in place to prevent misuse and unauthorized access to our systems and data. We are also strengthening the security of our systems by implementing consistent management controls at all of our data facilities.

We achieved the following security outcomes in FY 2016:

- 100 percent secure configuration management: defined by the percentage of the hardware assets with an automated capability to identify deviations from the approved configuration baselines;
- 95 percent unprivileged network users: defined by the percentage of all users who have limited privileges on our network and who are required to use Personal Identity Verification cards or other approved identity verification to access our network; and
- 100 percent privileged network users: defined by the percentage of all users who have elevated privileges on our network and who are required to use Personal Identity Verification cards to access our network.

LOOKING FORWARD – FACING OUR CHALLENGES

Generations of Americans have relied on our programs and dedicated employees to help face the challenges of life's journey. While we celebrate our partnership with and service to the American public, the threat of a funding shortfall now threatens our shared legacy. Without reliable and sustained funding, it will be difficult to meet our performance goals and provide the world-class, compassionate customer service that our customers deserve.

We developed Vision 2025 (www.socialsecurity.gov/vision2025/), our long-range strategic plan, to guide us in our mission to deliver Social Security services that meet the changing needs of the public. Our vision inspired us to transform the way we do business and we now offer services in-person, by telephone, and online. We will continue to use our vision to shape the future of Social Security service delivery and as the framework with which we will approach our current challenges.

We addressed the following major management challenges in FY 2016:

- Improve Customer Service;
- Invest in IT Infrastructure to Support Current and Future Workloads;
- Reduce Improper Payments and Increase Overpayment Recoveries;
- Improve the Responsiveness and Oversight of the Hearings Process;
- Strengthen Planning, Transparency, and Accountability;
- Improve the Timeliness and Quality of the Disability Process;
- Strengthen the Integrity and Protection of the Social Security Number;
- Secure Information Systems and Protect Sensitive Data;
- Prevent Waste, Fraud, and Abuse;
- Have Enough Employees with the Right Skills in the Right Place at the Right Time;
- Innovate the Future of Service Delivery; and
- Keep Pace in the Disability Program with Medicine, Technology, and the World of Work.

Our major management challenges continue to require our immediate attention. IT modernization, in particular, must provide a sturdy foundation upon which we will continue to develop and provide exceptional services. Having adequate and sustained resources and funding for updating our aging IT infrastructure is crucial to our vision's success. We will also continue to transform the way we do business and strive to protect every taxpayer dollar with our program integrity work and vigorous anti-fraud efforts, while reducing our costs.

Over the past eight decades, we have been there to help our customers during some of the most vulnerable moments in their lives. Our employees dedicate themselves to providing service with compassion, honor, and integrity. We will continue to secure today and tomorrow by providing our customers with financial benefits and information that provide a safety net throughout life's journey.

HIGHLIGHTS OF FINANCIAL POSITION

OVERVIEW OF FINANCIAL DATA

We received an unmodified opinion on our financial statements from KPMG LLP. Our financial statements combined the results from the programs we administer, which 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 funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information appear on pages 49 through 106 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2014 through 2016 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

TABLE OF KEY FINANCIAL MEASURES[1]
(DOLLARS IN BILLIONS)

Net Position (end of fiscal year)			
	2016	2015	2014
Total Assets	$2,888.4	$2,856.7	$2,828.9
Less Total Liabilities	$113.7	$112.4	$107.1
Net Position (assets net of liabilities)	$2,774.6	$2,744.3	$2,721.8
Change in Net Position (end of fiscal year)			
	2016	2015	2014
Net Costs	$982.2	$945.0	$906.8
Total Financing Sources[2]	$1,012.5	$967.5	$931.1
Change in Net Position	$30.3	$22.5	$24.2

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position displayed on page 52.

Balance Sheet: The Balance Sheet displayed on page 50 presents, as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2016 are $2,888.4 billion, a 1.1 percent increase over the previous year. Of the total assets, $2,870.7 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.4 percent of our assets, increased $34.3 billion over the previous year.

Liabilities grew in FY 2016 by $1.3 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries. The majority of our liabilities (90.3 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $30.3 billion to $2,774.6 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 51 presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2016, our total net cost of operations increased $37.2 billion to $982.2 billion, primarily due to a 2.2 percent increase in the number of OASI beneficiaries. The OASI, DI, and SSI net cost increased by 3.9 percent, 0.1 percent, and 14.4 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 8.3 percent, 9.4 percent, and 13.2 percent, respectively.

In FY 2016, our total benefit payment expenses increased by $35.6 billion, a 3.8 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2016 and FY 2015 for each of our three major programs.

BENEFIT CHANGES IN OUR MAJOR PROGRAMS DURING FISCAL YEARS 2016 AND 2015

	FY 2016	FY 2015	% Change
OASI			
Benefit Payment Expense	$765,024	$736,752	3.8%
Average Monthly Benefit Payment	$1,283.82	$1,269.65	1.1%
Number of Beneficiaries	50.02	48.93	2.2%
DI			
Benefit Payment Expense	$144,018	$144,102	(0.1)%
Average Monthly Benefit Payment	$1,028.50	$1,021.92	0.6%
Number of Beneficiaries	10.64	10.81	(1.6)%
SSI			
Benefit Payment Expense	$58,976	$51,520	14.5%
Average Monthly Benefit Payment	$540.16	$539.32	0.2%
Number of Beneficiaries	8.32	8.36	(0.5)%

Notes:

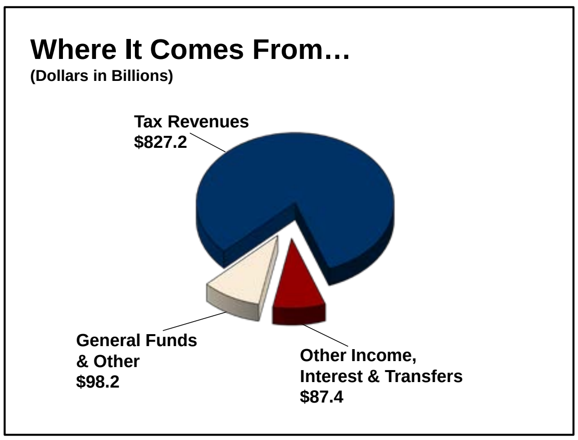
1. Benefit payment expense and the number of beneficiaries are presented in millions.
2. The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.
3. The average monthly benefit payment for OASI and DI programs reflects the September average monthly benefit payment for FY 2016 and FY 2015.
4. The FY 2016 number of beneficiaries and average monthly benefit payment for the SSI program are presented for August 2016, since September figures are not yet available. The values presented for FY 2015 are from September 2015.

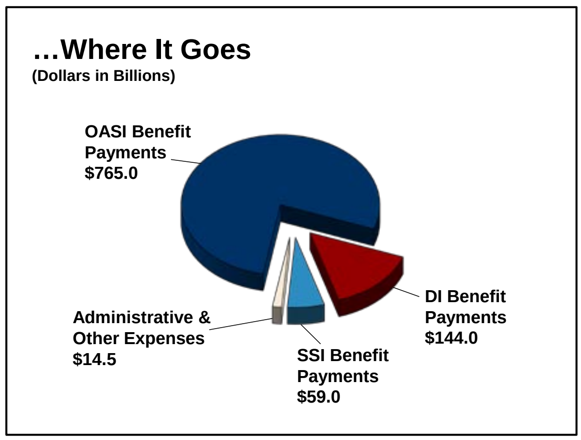
Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 52 presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of $30.3 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, the total of all tax revenues and interest earned continue to exceed benefit payments made to OASDI beneficiaries, keeping the agency's programs solvent. In FY 2015, DI's benefit payments exceeded its receipts, causing the DI Trust Fund to use its reserves, resulting in DI's net position decreasing $29.7 billion. However, in FY 2016 the passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorizes a temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions Act* payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.4 percent payroll tax is being allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in decreased growth in tax revenue for the OASI Trust Fund, and increased tax revenue for the DI Trust Fund, which resulted in DI's net position increasing $2.8 billion from $18.0 billion to $20.8 billion.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.5 percent.

In FY 2016, total financing sources, as shown in the Table of Key Financial Measures displayed on page 29, increased by $45.0 billion to $1,012.5 billion. The primary source for this increase is additional tax revenues received in FY 2016. The $1,012.5 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From…" as seen below. The activity reported in the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2016.





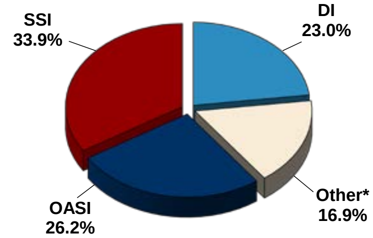
The SSI program's Cumulative Results of Operations are negative due to unfunded Benefits Due and Payable liabilities. Unadjudicated and adjudicated, or pending, claims make up a significant portion of SSI's Benefits Due and Payable activity. SSI will pay for these benefits using future years' resources. While the activity is unfunded, we still record an expense, which creates the negative Cumulative Results of Operations since we do not record an associated financing source.

Statement of Budgetary Resources: The Statement of Budgetary Resources displayed on page 53 provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2016. The Statement shows that we had $1,038.8 billion in budgetary resources, of which $6.3 billion remained unobligated at year-end. We recorded total net outlays of $976.8 billion by the end of the year. Budgetary resources increased $36.3 billion, or 3.6 percent, from FY 2015, while net outlays increased $32.7 billion, or 3.5 percent. The increase in budgetary resources is primarily due to an increase in tax revenues. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries.

USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2016 in terms of the programs we administer or support. Although the DI program comprises only 14.9 percent of the total benefit payments we make, it consumes 23.0 percent of annual administrative resources. Likewise, while the SSI program comprises only 6.1 percent of the total benefit payments we make, it consumes 33.9 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued entitlement to benefits. The FY 2015 use of administrative resources by program was 27.0 percent for the OASI program, 23.5 percent for the DI program, 33.5 percent for the SSI program, and 16.0 percent for Other.

Use of Administrative Resources by Program
FY 2016

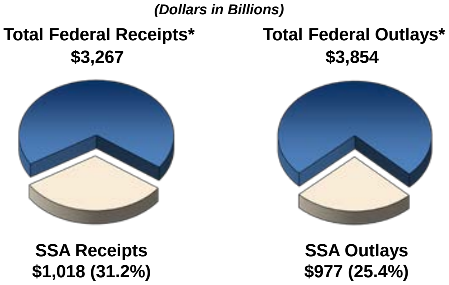


* Includes HI/SMI, Reimbursable Activity, and Philippine Veterans

SSA'S SHARE OF FEDERAL OPERATIONS

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2016 represented 31.2 percent of the $3.3 trillion in total Federal receipts, an increase of 1.2 percent over last year. Outlays decreased by 0.2 percent to 25.4 percent of Federal outlays.

SSA's Share of Federal Receipts and Outlays
FY 2016
(Dollars in Billions)



*Data Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government

OVERVIEW OF SOCIAL INSURANCE DATA

TABLE OF KEY SOCIAL INSURANCE MEASURES[1]
(DOLLARS IN BILLIONS)

Statements of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2016	**2015**	**2014**
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), current year valuation	-$14,169	-$13,440	-$13,330
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), prior year valuation	-$13,440	-$13,330	-$12,294
Change in present value	-$730	-$110	-$1,035

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Future net cash flows are estimated over the appropriate 75-year period.

Statements of Social Insurance: As displayed on page 54, the Statements of Social Insurance present the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age (age 62 and over) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age (ages 15-61) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants (those under age 15, and to be born and to immigrate during the period) and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those to be born and to immigrate during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, *plus* the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$13.4 trillion, as of January 1, 2015, to -$14.2 trillion, as of January 1, 2016. The deficit, therefore, increased in magnitude by about $0.7 trillion. Including the asset reserves in the combined OASI and DI Trust Fund increases this open group measure to -$11.4 trillion for the 75-year valuation period. Therefore, including the asset reserves decreases the open group measure, in magnitude, by about $2.8 trillion.

The present value of estimated future net cash flows for all current participants over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust Fund as of the beginning of the period, is -$28.7 trillion (closed group measure). Including future participants over the next 75 years decreases the projected deficit by $17.3 trillion to the open group measure of -$11.4 trillion.

Statements of Changes in Social Insurance Amounts: The Statements of Changes in Social Insurance Amounts displayed on page 55 reconcile the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

From January 1, 2015 to January 1, 2016: The present value as of January 1, 2016 decreased (became more negative) by $0.5 trillion, due to advancing the valuation date by one year and including the additional year, 2090. Changes for this valuation period, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.6 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.9 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by less than $0.1 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent for the current valuation period, compared to 2.7 percent for the previous valuation period;
- The ultimate real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period;
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent for the current valuation period, compared to 2.9 percent in the previous valuation period; and
- The effects of the *Bipartisan Budget Act of 2015*.

From January 1, 2014 to January 1, 2015: The present value as of January 1, 2015 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2089. Changes for this valuation period, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in programmatic data, assumptions, and methods increased the present value of estimated future net cash flows by about $0.7 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period;
- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period; and
- The effects of the President's executive actions on immigration.

OASI AND DI TRUST FUND SOLVENCY

PAY-AS-YOU-GO FINANCING

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing.

The *Bipartisan Budget Act of 2015*, passed by Congress and signed into law by the President, reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund. Under the intermediate assumptions of the 2016 Trustees Report, this reallocation is expected to ensure full payment of disability benefits into 2023. Without reallocation, the DI Trust Fund asset reserves were projected to have been depleted by the fourth quarter of 2016.

The following table shows that OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 40.1 months at the end of FY 2012, to 38.9 months at the end of FY 2013, to 37.6 months at the end of FY 2014, and to estimated values of 36.6 and 35.5 months at the end of FY 2015 and FY 2016, respectively. The historical values shown in the table for the DI Trust Fund have declined in recent years because expenditures have increasingly exceeded income. This trend is projected to continue in FY 2015 and FY 2016, although at a slower rate of decrease due to the payroll tax reallocation in the *Bipartisan Budget Act of 2015*.

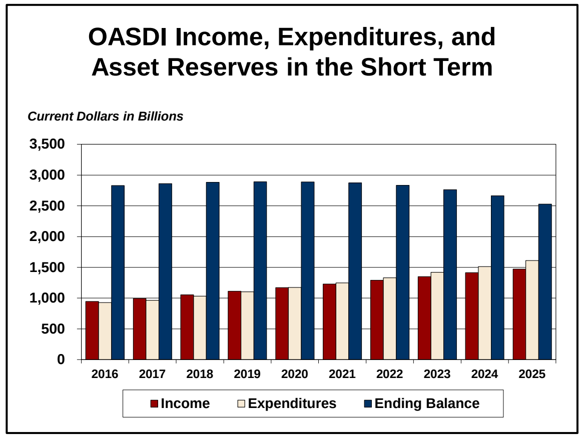
NUMBER OF MONTHS OF EXPENDITURES
FISCAL-YEAR-END ASSET RESERVES CAN PAY[1,2]

	2012	2013	2014	2015	2016
OASI	46.3	45.2	43.9	43.1	41.6
DI	11.1	8.3	5.7	3.4	3.3
Combined	40.1	38.9	37.6	36.6	35.5

Notes:

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
2. Values for FY 2015 and FY 2016 are estimates based on the intermediate set of assumptions of the 2016 Trustees Report.

SHORT-TERM FINANCING



A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2016 Trustees Report indicate that, on a theoretical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate assumptions of the 2016 Trustees Report, OASDI estimated cost and income for 2025 are 79 percent and 60 percent higher than the corresponding amounts in 2015 ($897 billion and $920 billion, respectively). From the end of 2015 to the end of 2025, asset reserves are projected to decrease by 10 percent, from $2.8 trillion to $2.5 trillion. In addition, under those assumptions, the DI Trust Fund asset reserves were expected to deplete at the end of 2016. However, with the passage of the *Bipartisan Budget Act of 2015*, the DI Trust Fund is expected to have sufficient asset reserves to pay full scheduled benefits into 2023.

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. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2034, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 79 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 74 percent of scheduled benefits in 2090.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers approaching retirement. In present value terms, the 75-year shortfall is $11.4 trillion, which is 2.49 percent of taxable payroll and 0.9 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

- Increasing payroll taxes;
- Slowing the growth in benefits;
- Finding other revenue sources (such as general revenues); or
- Increasing expected returns by investing the OASI and DI Trust Fund asset reserves, at least in part, in private securities.

Significant uncertainty surrounds the estimates for the Statements of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near term and ultimate assumptions used in the projections. For more information, pages 95 through 106 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements beginning on page 49 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the

Office of Management and Budget (OMB), 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.

SUMMARY OF IMPROPER PAYMENTS INFORMATION

BACKGROUND

The *Improper Payments Information Act of 2002* (IPIA), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in programs susceptible to significant improper payments and the actions to reduce such payments. OMB guidance on IPIA implementation requires us to report improper payment information for the OASI, DI, and SSI programs.

President Obama signed the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) into law on July 22, 2010. IPERA amends IPIA and further increases our accountability, transparency, reporting of improper payments, and reporting on our payment recapture auditing efforts.

The enactment of the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) provided an opportunity for OMB to re-examine existing guidance to ensure agencies are able to more efficiently reduce their improper payment rates, while also complying with multiple legislative and administrative requirements. On October 20, 2014, OMB issued implementing guidance to transform the improper payment compliance framework to create more unified, comprehensive, and less burdensome requirements.

We report information about our improper payments, as required by IPIA and amended by IPERA and IPERIA, in the *Improper Payments Information Detailed Report* in the *Other Information* section of this report.

AGENCY EFFORTS AND FUTURE PLANS

We have multiple efforts underway to prevent, detect, and recover our improper payments. For FY 2016, we continued to focus our improper payments strategy to align with our improper payments governance.

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, and SSI cases to determine payment accuracy rates. Stewardship review findings provide the data necessary to meet the IPIA reporting requirements, as well as data for other reports to monitoring authorities. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for current and previous reporting periods.

For the past five years, OASDI payments have been very accurate. However, the sheer magnitude of the payments made in the OASDI program, over $853 billion in FY 2015, means that even a small percentage of error results in substantial improper payments. In FY 2015, the OASDI overpayment accuracy rate was 99.6 percent, representing projected overpayments of $3.1 billion, and the underpayment accuracy rate was over 99.9 percent, or almost $0.6 billion in projected underpayments. Each tenth of a percentage point in payment accuracy represents about $854 million in OASDI program outlays.

In the SSI program, the overpayment accuracy rate has increased over a 5-year period, FY 2011 through FY 2015, from 92.7 percent to 93.9 percent. We based the FY 2015 rate of 93.9 percent on overpaid dollars totaling a projected $3.4 billion. In FY 2015, the SSI underpayment accuracy rate was 98.6 percent based almost $0.8 billion in projected underpayments. For FY 2015, each tenth of a percentage point in payment accuracy represented about $56.6 million in SSI program outlays.

The following are examples of initiatives to improve payment accuracy in the OASDI and SSI programs. We provide additional information, as well as other corrective actions we have taken, in the *Improper Payments Information Detailed Report* in the *Other Information* section of this report.

NEW IMPROPER PAYMENT INITIATIVES

In addition to enhancing our ongoing efforts for FY 2016, we are pursuing the following new initiatives:

- For our Data Exchange Initiative, which will enhance the administration of our programs and prevent improper payments, we developed a strategic initiative to identify and seek new data to improve program administration and prevent improper payments. We are actively researching current programs, working with internal stakeholders to identify data exchange needs, and pursuing new data exchanges with potential partners. Some of these efforts include seeking entry and exit data from the Department of Homeland Security on SSI recipients who have left the United States for 30 days or more to determine ongoing eligibility and to reduce improper payments, although we have only examined this data for non-citizens. We are also negotiating with the Department of Labor to obtain *Federal Employees' Compensation Act* workers' compensation data to increase OASDI payment accuracy.
- A new strategic initiative that focuses on improper payments caused by the Windfall Elimination Provision (WEP) (a definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html), and Government Pension Offset (GPO) (a definition of GPO is available at: www.socialsecurity.gov/pubs/EN-05-10007.pdf). We formed a cross-agency work group to compile a comprehensive list of identified changes in WEP and GPO implementation; assess the root causes of improper payments based on these changes; and develop policy, data, systems, or training solutions in line with each of the root causes of improper payments.
- We are also developing corrective action plans to address a host of other areas where we have an opportunity to significantly improve quality and payment accuracy. Recently, our Acting Commissioner announced that improving quality and payment accuracy for our customers was one of seven critical agency priorities. We will address these areas through training, automation, and business process improvements, including streamlining the work continuing disability review process, addressing uneffectuated medical cessations, and improving the documentation of capability determinations in our representative payee program.

EXAMPLES OF OASDI IMPROPER PAYMENT INITIATIVES

- To address errors because of substantial gainful activity (SGA) (a definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html), we will implement a new policy that will no longer require us to contact employers when doing an SGA determination. Instead, we will use other readily available evidence, thus reducing processing times for work continuing disability reviews and reducing overpayments. We expect to implement the new policy by the end of FY 2017.
- To improve post-entitlement accuracy, we have developed the Work Smart process. Work Smart identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. This process helps us to learn of unreported work more quickly and reduce work-related overpayments.

EXAMPLES OF SSI IMPROPER PAYMENT INITIATIVES

- Access to Financial Institutions (AFI) is an automated process that verifies alleged bank account balances with financial institutions to identify excess resources. In FY 2013, we further lowered the AFI threshold to verify liquid financial resources and increased undisclosed bank account searches. In FY 2016, we added functionality to search for financial institutions by routing transit number when initiating AFI requests.
- We rely on individuals to self-report wages to us on time, but from experience, we know that they may fail to report or not report wages in time to prevent an improper payment. We will request that applicants,

recipients, and deemors provide their consent for us to obtain wage information from payroll data providers as part of the SSI application and redetermination processes.

- In FY 2013, we developed a pilot in 100 of our field offices to identify undisclosed real property owned by SSI recipients. The pilot provided information on cost savings and the feasibility of expansion to other field offices. The pilot results found that using this process was a cost effective method to reduce and prevent improper payments. In FY 2016, we decided to move forward with nation-wide expansion of non-home real property data integration with SSI systems for use during initial claims and high error redetermination interviews. The current focus is on management information planning and requirements, as well as systems development. By the end of FY 2017, we will complete the integration.
- Our studies show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2015, we issued notices to over 25,000 individuals entitled as spouses who may be eligible for higher benefits on their own records. In FY 2016, we made changes that enable us to notify these individuals again at full retirement age.

SYSTEMS AND CONTROLS

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT
FISCAL YEAR 2016

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, that are effective for fiscal year 2016. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016.

We also performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2016.

Carolyn W. Colvin
Acting Commissioner
November 9, 2016

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established, agency-wide management control and financial management systems program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Acting Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control Committee determines if the weakness is a material weakness that they would need to forward to our agency head for a final determination on whether to report a material weakness.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. We incorporate the necessary controls into the user requirements, certify the controls are in place by having management review the new or changed processes and systems, and test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observations of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance that our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report for more information.

MANAGEMENT CONTROL REVIEW PROGRAM

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes, such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State disability determination services. These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2016, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

GOVERNMENT ACCOUNTABILITY OFFICE'S, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT

In FY 2016, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO's standards.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2016. In making this determination, she considered all the information available, including the auditors' opinion on our FY 2016 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 our management control reviews and financial management systems reviews conducted by our independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report for more information.

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with KPMG LLP (KPMG) for the audit of our FY 2016 financial statements. KPMG found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities.

KPMG also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2016, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2015 to January 1, 2016, are presented fairly, in all material respects, in accordance with United States generally accepted accounting principles.

In this year's financial statement audit, KPMG cited a significant deficiency in our information technology systems controls in its opinion on internal control over financial reporting. KPMG provided recommendations to remediate the deficiencies. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

KPMG also found deficiencies in the processes and controls related to accounts receivable and overpayments that, when aggregated, it considered it to be a significant deficiency. KPMG provided recommendations to remediate the deficiencies. We will continue to improve our processes and controls over accounts receivable and overpayments.

Please refer to the *Auditors' Report* section of this report for more information on the auditors' findings and our plans to correct the findings.

FEDERAL INFORMATION SECURITY MODERNIZATION ACT

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year's report was due by November 10, 2016. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

During FY 2016, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. We made significant progress in automating our access management process, ensuring the security of distributed systems, and automating the detection and mitigation of vulnerabilities.

For the FY 2016 FISMA audit, KPMG determined that we established an information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The auditors did cite weaknesses in some areas, to include Risk Management, Contractor Systems, Configuration Management, Identity and Access Management, Security and Privacy Training, Information Security Continuous Monitoring, Incident Response, and Contingency Planning.

As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve government-wide and internal financial management milestones established for improvement.

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of nine financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

For our Debt Management category, in FY 2016, we began planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently. Due to demands on current resources, we do not have information technology resources to continue planning and analysis for FY 2017.

In December 2014, we completed the nationwide rollout of the Social Security Electronic Remittance System (SERS) to collect administrative fees in all field offices. SERS fits our agency's vision to upgrade our receipt processes to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are compliant with Payment Card Industry security standards. We continued the rollout of SERS functionality across the agency in FY 2016 to include the collection of fees for services, such as wage reports and itemized earnings statements. We also completed the planning and analysis to have SERS collect programmatic overpayments in both the field offices and the processing centers. SERS programmatic overpayment collection is funded for development in FY 2017.

Beginning in FY 2017, the Remittance Modernization Project will implement various mechanisms for submitting programmatic debt payments electronically. We will include SERS development in this overall effort. This initiative is a multi-year, multi-phase project.

For the Financial/Administrative systems category, OMB Memorandum M-10-26 provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

We successfully replaced the SSOARS infrastructure with state-of-the-art servers that consolidated our footprint, consume less energy, and provide performance improvement across the SSOARS environment. This hardware refresh coincided with the move to the National Support Center (NSC) as well. SSOARS is running on modern servers in the NSC with enhanced performance, disaster recovery, and life cycle configuration as a result of this successful hardware refresh in 2016.

The agency also completed planning and analysis and began implementing the *Digital Accountability and Transparency Act of 2014* (DATA Act) reporting requirements. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

NATIONAL ANTI-FRAUD COMMITTEE

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). In FY 2014, we reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Serving as an advisory board for the Office of Anti-Fraud Programs (OAFP);
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency's commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

On November 24, 2014, the Acting Commissioner approved the establishment of OAFP. An Associate Commissioner-level office, OAFP's mission is to more efficiently and effectively detect, deter, and mitigate fraud, waste, and abuse of our programs. OAFP provides oversight and accountability for the agency's anti-fraud activities, working closely with the NAFC.

While the reinstitution of the NAFC provided strategic governance over our anti-fraud efforts, we also established OAFP to provide centralized oversight and accountability for our anti-fraud program. OAFP leads our anti-fraud activities and works across organizational lines to ensure that employees throughout the agency have the tools to combat fraud.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention.
On September 27, 2016, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2017 priorities and initiatives.

Financial Section

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A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

For over 80 years, Social Security has provided critical services and financial security to millions. Our core mission is to deliver Social Security services that meet the changing needs of the public, and we strive to deliver those services at every step of life's journey, when and where they need us. We continue our commitment to the public through our *Vision 2025*, by investing in our service delivery, employees, and information technology systems, without sacrificing the personalized service for which we are known. With sustained, adequate funding, we will continue the progress we have made, and implement the principles outlined in *Vision 2025* as efficiently and effectively as possible.

In fulfilling our mission, we are committed to being good stewards of taxpayer dollars and transparent with our financial reporting. Our outstanding financial management team has an unyielding dedication to transparency and accountability.

I am proud to report that fiscal year (FY) 2016 marks our 23rd consecutive unmodified audit opinion on our financial statements, and I am honored to join Acting Commissioner Colvin in presenting our FY 2016 *Agency Financial Report*. This report highlights our accomplishments in delivering Social Security services to promote the economic security of the public, and demonstrates our commitment to service improvement and effective management of the financial resources entrusted to us.

Our unmodified audit opinion confirms that our statements present fairly the financial position of our agency and are free of material misstatement. We also received an unqualified opinion from our independent auditors on our assertion that our internal control over financial reporting was operating effectively during FY 2016. The independent auditors determined that we had no material weaknesses, but continued to cite two significant deficiencies identified in prior years. The first significant deficiency concerns our information systems controls, and the second relates to our calculation and recording of overpayments. We are committed to resolving these deficiencies as quickly as possible. We will continue to make significant strides to strengthen our control environment and mitigate risks by implementing our risk-based corrective action plans. Because of our enhanced attention in FY 2016, we successfully remediated the significant deficiency previously identified in FY 2015 concerning our Supplemental Security Income redetermination process (periodic reviews of non-medical factors of program eligibility). We provide additional information on the auditors' findings and our corrective actions in the *Systems and Controls* and *Auditors' Report* sections of this report.

In FY 2016, we improved the technology we use to ensure relevant, reliable, and timely accounting and management information. We installed new hardware at our new National Service Center to replace our aging financial system infrastructure. This state-of-the-art hardware consolidates our servers, improves performance of applications and databases, provides better back-up and storage capabilities, improves environment consistency, and consumes less energy.

We also completed planning and analysis and began implementing the *Digital Accountability and Transparency Act of 2014* (DATA Act) reporting requirements. The DATA Act effort will further enhance the agency's transparency through improved consistency and more detailed data we provide to the USA Spending public website, and provide additional data to the Department of the Treasury.

We have also expanded the functionality of our field office administrative fee collection system to include the electronic collection of fees for services, such as wage reports and itemized earnings statements. We accept payment for these services by check, money order, or credit card. We also completed planning and analysis to enhance this system to include the collection of program debt payments in the future.

As we expand our service options for those who prefer to conduct business with us online, we remain fully committed to sustaining a field and hearing office structure for customers who prefer face-to-face services.

As good stewards of taxpayer dollars, we are achieving real property efficiencies by reducing office and warehouse space throughout the agency and will pursue office collocation opportunities where it makes business sense to do so, and does not adversely affect customer service. These efforts allow us to continue to maximize the use of our resources and reduce operating costs.

Finally, for the 18th consecutive year, the Association of Government Accountants awarded us the Certificate of Excellence in Accountability Reporting. The award recognizes our commitment to financial reporting excellence in our FY 2015 *Agency Financial Report*.

The accomplishments in this report are a reflection of our employees' hard work and dedication to setting a high standard in financial management. We will continue to implement and support the agency's mission and vision for the future, while maintaining strong stewardship of the funds entrusted to us by the American people. We have said many times that our employees are our greatest asset. Over time, we have evolved to meet the changing needs of the public. However, our employees' passion and dedication has remained constant, and we are truly grateful for their public service.

Michelle A. King
Chief Financial Officer
November 9, 2016

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Our agency's financial statements and additional information for fiscal years (FY) 2016 and 2015 consist of the following:

- The **Consolidated Balance Sheets** present, as of September 30, 2016 and 2015, amounts of economic benefits we owned or managed (assets), amounts we owed (liabilities), and residual amounts we retained, comprising the difference (net position). We provide a Balance Sheet by major program as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the years ended September 30, 2016 and 2015. Our net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by our major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. We provide a Schedule of Net Cost to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2016 and 2015. Changes to the two components of net position, Cumulative Results of Operations and Unexpended Appropriations, affect its balance. The Statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. We provide a Schedule of Changes in Net Position to present the change in net position by major program as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to us, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2016 and 2015. We provide an additional Schedule of Budgetary Resources as Required Supplementary Information to present budgetary resources by major program.
- The **Statements of Social Insurance** presents the present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) estimated future noninterest income and cost expected to arise from the formulas specified in current law for current and future program participants. We present the difference between these values on both an open group and a closed group basis, both including and excluding the value of the combined OASI and DI Trust Fund asset reserves at the beginning of the period. This information is presented for the current year and for each of the four preceding years.
- The **Statements of Changes in Social Insurance Amounts** reconcile the changes, from one 75-year valuation period to the next, in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure). The Statements show two reconciliations: (1) change from the period beginning on January 1, 2015 to the period beginning on January 1, 2016; and (2) change from the period beginning on January 1, 2014 to the period beginning on January 1, 2015. The Statements identify several changes that are significant and provide reasons for the changes.
- The **Required Supplementary Information: Social Insurance** presents required long-range cash flow projections, the long-range projections of the ratio of contributors to beneficiaries, and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures include a narrative describing the program, including how the program is financed and how benefits are calculated, as well as an interpretive analysis of trends revealed by the data.

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2016 AND 2015
(DOLLARS IN MILLIONS)

Assets	2016	2015
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	**$ 8,985**	$ 7,069
Investments (Note 5)	**2,842,592**	2,808,287
Interest Receivable (Note 5)	**21,583**	22,688
Accounts Receivable, Net (Note 6)	**208**	280
Other (Note 8)	**23**	18
Total Intragovernmental	**2,873,391**	2,838,342
Accounts Receivable, Net (Notes 3 and 6)	**11,546**	14,170
Property, Plant, and Equipment, Net (Note 7)	**3,419**	4,145
Other (Note 8)	**2**	4
Total Assets	**$ 2,888,358**	$ 2,856,661
Liabilities (Note 9)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	**$ 4,550**	$ 4,483
Accounts Payable	**4,937**	7,539
Other	**167**	147
Total Intragovernmental	**9,654**	12,169
Benefits Due and Payable	**102,651**	98,554
Accounts Payable	**385**	461
Federal Employee and Veteran Benefits	**327**	329
Other	**716**	884
Total Liabilities	**113,733**	112,397
Contingencies (Note 9)		
Net Position		
Unexpended Appropriations - All Other Funds	**6,006**	3,779
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	**2,767,204**	2,738,390
Cumulative Results of Operations - All Other Funds	**1,415**	2,095
Total Net Position - Funds from Dedicated Collections (Note 10)	**2,767,204**	2,738,390
Total Net Position - All Other Funds	**7,421**	5,874
Total Net Position	**2,774,625**	2,744,264
Total Liabilities and Net Position	**$ 2,888,358**	$ 2,856,661

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

CONSOLIDATED STATEMENTS OF NET COST FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(DOLLARS IN MILLIONS)

	2016	2015
OASI Program		
Benefit Payment Expense	$ 765,024	$ 736,752
Operating Expenses (Note 11)	3,790	3,500
Total Cost of OASI Program	768,814	740,252
Less: Exchange Revenues (Notes 12 and 13)	(13)	(15)
Net Cost of OASI Program	768,801	740,237
DI Program		
Benefit Payment Expense	144,018	144,102
Operating Expenses (Note 11)	3,330	3,044
Total Cost of DI Program	147,348	147,146
Less: Exchange Revenues (Notes 12 and 13)	(36)	(39)
Net Cost of DI Program	147,312	147,107
SSI Program		
Benefit Payment Expense	58,976	51,520
Operating Expenses (Note 11)	4,910	4,336
Total Cost of SSI Program	63,886	55,856
Less: Exchange Revenues (Notes 12 and 13)	(257)	(243)
Net Cost of SSI Program	63,629	55,613
Other		
Benefit Payment Expense	3	3
Operating Expenses (Note 11)	2,440	2,077
Total Cost of Other Program	2,443	2,080
Less: Exchange Revenues (Notes 12 and 13)	(8)	(9)
Net Cost of Other Program	2,435	2,071
Total Net Cost		
Benefit Payment Expense	968,021	932,377
Operating Expenses (Note 11)	14,470	12,957
Total Cost	982,491	945,334
Less: Exchange Revenues (Notes 12 and 13)	(314)	(306)
Total Net Cost	$ 982,177	$ 945,028

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(DOLLARS IN MILLIONS)

	2016			2015		
	Funds from Dedicated Collections	**All Other Funds**	**Total**	Funds from Dedicated Collections	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	**$ 2,738,390**	**$ 2,095**	**$ 2,740,485**	$ 2,718,230	$ 1,650	$ 2,719,880
Budgetary Financing Sources						
Appropriations Used	**32,302**	**63,463**	**95,765**	30,663	59,392	90,055
Tax Revenues (Note 14)	**827,159**	**0**	**827,159**	786,402	0	786,402
Interest Revenues	**89,470**	**0**	**89,470**	94,601	0	94,601
Transfers-In/Out - Without Reimbursement	**(5,890)**	**8,006**	**2,116**	(5,437)	7,354	1,917
Railroad Retirement Interchange	**(4,730)**	**0**	**(4,730)**	(4,669)	0	(4,669)
Other Budgetary Financing Sources	**46**	**0**	**46**	55	0	55
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 15)	**0**	**550**	**550**	0	524	524
Other	**0**	**(65)**	**(65)**	0	(3,252)	(3,252)
Total Financing Sources	**938,357**	**71,954**	**1,010,311**	901,615	64,018	965,633
Net Cost of Operations	**909,543**	**72,634**	**982,177**	881,455	63,573	945,028
Net Change	**28,814**	**(680)**	**28,134**	20,160	445	20,605
Cumulative Results of Operations	**$ 2,767,204**	**$ 1,415**	**$ 2,768,619**	$ 2,738,390	$ 2,095	$ 2,740,485
Unexpended Appropriations:						
Beginning Balances	**$ 0**	**$ 3,779**	**$ 3,779**	$ 0	$ 1,946	$ 1,946
Budgetary Financing Sources						
Appropriations Received	**32,302**	**65,703**	**98,005**	30,663	61,242	91,905
Other Adjustments	**0**	**(13)**	**(13)**	0	(17)	(17)
Appropriations Used	**(32,302)**	**(63,463)**	**(95,765)**	(30,663)	(59,392)	(90,055)
Total Budgetary Financing Sources	**0**	**2,227**	**2,227**	0	1,833	1,833
Total Unexpended Appropriations	**0**	**6,006**	**6,006**	0	3,779	3,779
Net Position	**$ 2,767,204**	**$ 7,421**	**$ 2,774,625**	$ 2,738,390	$ 5,874	$ 2,744,264

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

COMBINED STATEMENTS OF BUDGETARY RESOURCES FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(DOLLARS IN MILLIONS)

	2016	2015
Budgetary Resources (Note 16)		
Unobligated Balance, Brought Forward, October 1	**$ 4,369**	$ 2,740
Recoveries of Prior Year Unpaid Obligations	**920**	849
Other Changes in Unobligated Balance	**340**	200
Unobligated Balance From Prior Year Budget Authority, Net	**5,629**	3,789
Appropriations (Discretionary and Mandatory)	**1,018,283**	984,099
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	**14,911**	14,567
Total Budgetary Resources	**$ 1,038,823**	$ 1,002,455
Status of Budgetary Resources		
New obligations and upward adjustments (Note 16)		
Direct	**$ 1,029,637**	$ 995,382
Reimbursable	**2,908**	2,704
New obligations and upward adjustments (total)	**1,032,545**	998,086
Unobligated Balance, End of Year		
Apportioned, unexpired accounts	**5,462**	3,804
Unapportioned, unexpired accounts	**592**	323
Unexpired unobligated balance, end of year	**6,054**	4,127
Expired unobligated balance, end of year	**224**	242
Unobligated balance, end of year (total)	**6,278**	4,369
Total Budgetary Resources	**$ 1,038,823**	$ 1,002,455
Change in Obligated Balance		
Unpaid obligations:		
Unpaid Obligations, Brought Forward, October 1	**$ 104,863**	$ 100,329
New obligations and upward adjustments	**1,032,545**	998,086
Outlays, Gross	**(1,027,104)**	(992,703)
Recoveries of Prior Year Unpaid Obligations	**(920)**	(849)
Unpaid Obligations, End of Year	**$ 109,384**	$ 104,863
Uncollected payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	**$ (2,905)**	$ (3,163)
Change in Uncollected Payments, Federal Sources	**(38)**	258
Uncollected Payments Federal Sources, End of Year	**(2,943)**	(2,905)
Memorandum (non-add) Entries:		
Obligated balance, Start of Year	**$ 101,958**	$ 97,166
Obligated balance, End of Year	**$ 106,441**	$ 101,958
Budgetary Authority and Outlays, Net		
Budget Authority, Gross (Discretionary and Mandatory)	**$ 1,033,194**	$ 998,666
Actual Offsetting Collections (Discretionary and Mandatory)	**(14,987)**	(14,889)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	**(38)**	258
Recoveries of Prior Year Paid Obligations	**114**	64
Budget Authority, Net (Discretionary and Mandatory)	**1,018,283**	984,099
Outlays, Gross (Discretionary and Mandatory)	**1,027,104**	992,703
Actual Offsetting Collections (Discretionary and Mandatory)	**(14,987)**	(14,889)
Outlays, Net (Discretionary and Mandatory)	**1,012,117**	977,814
Distributed Offsetting Receipts	**(35,331)**	(33,694)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 976,786**	$ 944,120

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

STATEMENTS OF SOCIAL INSURANCE
OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE
AS OF JANUARY 1, 2016
(DOLLARS IN BILLIONS)

		Estimates Reported in Prior Years			
	2016	**2015**	**2014**	**2013**	**2012**
Present value for the 75-year projection period from or on behalf of: (Note 18)					
Participants who, in the starting year of the projection period, have attained eligibility age (age 62 and over):					
Noninterest income	$ 1,272	$ 1,166	$ 984	$ 908	$ 847
Cost for scheduled future benefits	13,602	12,833	11,852	11,021	9,834
Future noninterest income less future cost	-12,330	-11,667	-10,868	-10,112	-8,988
Participants who have not yet attained retirement eligibility age (ages 15-61):					
Noninterest income	29,273	27,791	25,391	24,591	22,703
Cost for scheduled future benefits	48,412	45,276	42,419	40,591	37,753
Future noninterest income less future cost	-19,138	-17,486	-17,028	-16,000	-15,050
Present value of future noninterest income less future cost for current participants (closed group measure)	-31,468	-29,152	-27,896	-26,113	-24,038
Combined OASI and DI Trust Fund asset reserves at start of period	2,813	2,789	2,764	2,732	2,678
Closed group - Present value of future noninterest income less future cost for current participants *plus* combined OASI and DI Trust Fund asset reserves at start of period	-$ 28,656	-$ 26,363	-$ 25,131	-$ 23,381	-$ 21,360
Present value for the 75-year projection period from or on behalf of: (Note 18)					
Future participants (those under age 15, and to be born and to immigrate during period):					
Noninterest income	29,687	26,580	24,594	23,419	21,649
Cost for scheduled future benefits	12,388	10,867	10,028	9,600	8,890
Future noninterest income less future cost	17,299	15,713	14,566	13,819	12,759
Present value of future noninterest income less future cost for current and future participants (open group measure)	-14,169	-13,440	-13,330	-12,294	-11,278
Combined OASI and DI Trust Fund asset reserves at start of period	2,813	2,789	2,764	2,732	2,678
Open group - Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period	-$ 11,357	-$ 10,650	-$ 10,565	-$ 9,562	-$ 8,601

Notes:

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

Future noninterest income and future cost are estimated over the appropriate 75-year period.

STATEMENTS OF CHANGES IN SOCIAL INSURANCE AMOUNTS
OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE
FOR CHANGE FROM THE 75-YEAR VALUATION PERIOD

January 1, 2015 to January 1, 2016
(Dollars in Billions)

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Asset Reserves	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period
As of January 1, 2015	-$ 13,440	$ 2,789	-$ 10,650
Reasons for changes between January 1, 2015 and January 1, 2016 (Note 18)			
Change in the valuation period	-534	9	-525
Changes in demographic data, assumptions, and methods	565	0	565
Changes in economic data, assumptions, and methods	-911	0	-911
Changes in programmatic data and methods	12	14	26
Changes in law or policy	139	0	139
Net change between January 1, 2015 and January 1, 2016	-$ 730	$ 23	-$ 707
As of January 1, 2016	-$ 14,169	$ 2,813	-$ 11,357

January 1, 2014 to January 1, 2015
(Dollars in Billions)

	Present value of future noninterest income less future cost for current and future participants (open group measure) over the next 75 years	Combined OASI and DI Trust Fund Asset Reserves	Present value of future noninterest income less future cost for current and future participants *plus* combined OASI and DI Trust Fund asset reserves at start of period
As of January 1, 2014	-$ 13,330	$ 2,764	-$ 10,565
Reasons for changes between January 1, 2014 and January 1, 2015 (Note 18)			
Change in the valuation period	-560	19	-541
Changes in demographic data, assumptions, and methods	-103	0	-103
Changes in economic data, assumptions, and methods	-146	0	-146
Changes in programmatic data and methods	671	6	676
Changes in law or policy	29	0	29
Net change between January 1, 2014 and January 1, 2015	-$ 110	$ 25	-$ 85
As of January 1, 2015	-$ 13,440	$ 2,789	-$ 10,650

Notes:

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

Future noninterest income and future cost are estimated over the appropriate 75-year period.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Social Security Administration (SSA), as an independent agency in the executive branch of the U.S. Government, is responsible for administering the Nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, the present value for the 75-year projection period for social insurance, and the changes in the present value between the current valuation period and prior valuation period, as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America for Federal entities and the form and content for entity financial statements specified by OMB in Circular No. A-136. The Combined Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available as well as the status at the end of the period. It is the only Statement predominately derived from an entity's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the OASI and DI Trust Funds, SSA's Limitation on Administrative Expenses (LAE), four general fund appropriations, three receipt accounts, and one special fund.

LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The four general funds are the Payments to Social Security Trust Funds (PTF), SSI Program, Office of the Inspector General (OIG), and Special Veterans Benefits (Title VIII) Program. The three receipt accounts are SSI Overpayment Collections, the General Fund's portion of the SSI State Supplementation fees, and SSI Attorney fees. The one special fund is SSA's portion of the SSI State Supplementation fees. SSA's financial statements also include OASI and DI investment activities performed by the Department of the Treasury (Treasury) and activity related to the *American Recovery and Reinvestment Act of 2009* (ARRA). SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE, and Other. Other consists primarily of PTF appropriations and ARRA activity, but also contains SSI Overpayment Collections and other non-material activities.

FUND BALANCE WITH TREASURY

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 3, Non-Entity Assets, and Note 4, Fund Balance with Treasury.

INVESTMENTS

Daily deposits received by the OASI and DI Trust Funds that are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201 (d) of the *Social Security Act*. These investments consist of Treasury special-issue securities. Special-issue securities are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets. Refer to Note 5, Investments and Interest Receivable.

PROPERTY, PLANT, AND EQUIPMENT

SSA records its property, plant, and equipment (PP&E) in the LAE program, but the PP&E represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, requires the capitalization of internally developed, contractor-developed, and commercial off-the-shelf software. The capitalization threshold for most PP&E categories is $100 thousand. Deferred Charges, which includes fixtures and bulk computer purchases, are capitalized with no threshold and $10 million, respectively. Site preparation for Automated Data Processing (ADP) and Telecommunications, and Buildings and Other Structures, are capitalized with no threshold. Refer to Note 7, Property, Plant, and Equipment, Net.

SSA presents the change in our PP&E from one reporting period to the next on the chart in Note 17, Reconciliation of Net Cost of Operations to Budget, on the Change in Resources that Finance Assets line. This line item represents the capital assets that affect budgetary obligations.

In FY 2016, SSA implemented a new policy for amortizing internal use software. Prior to FY 2016, SSA began amortization at the time of capitalization instead of upon testing completion as required by SFFAS No. 10, which resulted in accelerated amortization of internal use software. SSA's new policy uses an estimated average implementation timeframe for development projects, and defers amortization until the timeframe is reached, which results in our amortization being recorded in the proper period, bringing our methodology in line with SFFAS No. 10.

BENEFITS DUE AND PAYABLE

SSA accrues liabilities for OASI and DI benefits due for the current month, which by statute, are not paid until the following month. In addition, SSA accrues liabilities on benefits for past periods that have not completed processing by the close of the period, such as adjudicated and unadjudicated hearings and appeals and civil litigation cases. Refer to Note 9, Liabilities.

BENEFIT PAYMENTS

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a federally recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day. For FY 2016, October 1, 2016 falls on a Saturday, which required payment of the October benefits in September. This resulted in increased SSI benefit payment expense and outlays in FY 2016, as there were thirteen months of benefit payments versus twelve months in FY 2015.

ADMINISTRATIVE EXPENSES AND OBLIGATIONS

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the *Social Security Act* requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, SSA subsequently distributes administrative expenses during each month to the appropriate OASI, DI, HI, and SMI Trust Fund and general fund accounts. SSA initially makes all such distributions on an estimated basis and adjusts to actual each year, as provided for in Section 1534 of Title 31, United States Code (U.S.C.).

SSA incurs obligations in the LAE accounts as activity is processed. SSA incurs obligations in each of the financing sources once we record LAE's authority. The Centers for Medicare and Medicaid Services reports obligations that SSA incurred in the HI and SMI Trust Funds. Because SSA reports LAE with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources and this Statement does not allow eliminations, we record LAE's obligations twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

RECOGNITION OF FINANCING SOURCES

Tax revenue, which consists of funds transferred from the Treasury to the OASI and DI Trust Funds for employment taxes (*Federal Insurance Contributions Act* (FICA) and *Self Employment Contributions Act* (SECA)), represents SSA's largest financing source. Additional financing sources consist of interest revenue from the Trust Fund investments, taxation on benefits, drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts, and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the activities that are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 14, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those States choosing to have SSA administer their State Supplementation of Federal SSI benefits. Refer to Note 12, Exchange Revenues. SSA may use exchange revenue financing sources to pay for current operating expenses as specified by law.

FUNDS FROM DEDICATED COLLECTIONS

SFFAS No. 43, *Funds from Dedicated Collections*, requires separate presentation and disclosure of funds from dedicated collections balances in the financial statements. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources, which remain available over time. Funds from dedicated collections must meet the following criteria:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

SSA's funds from dedicated collections are the OASI and DI Trust Funds, funds collected through the taxation of Social Security benefits, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 10, Funds from Dedicated Collections, for additional information.

USE OF ESTIMATES

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Statements of Social Insurance and Statements of Changes in Social Insurance Amounts are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions and expectations of future conditions. Actual results could differ materially from the estimated amounts. Each Statement includes information to assist in understanding the effect of changes in assumptions to the related information. Refer to Note 18, Social Insurance Disclosures.

BIPARTISAN BUDGET ACT OF 2015

Public Law 114-74, *Bipartisan Budget Act of 2015*, authorizes a temporary reallocation of the DI Trust Fund's portion of the FICA payroll tax, paid on both wages and self-employment income by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.4 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in decreased growth in tax revenue for the OASI Trust Fund, and increased tax revenue for the DI Trust Fund. Refer to Note 14, Tax Revenues, and Note 16, Budgetary Resources, for additional information.

ACCOUNTS RECEIVABLE, NET

During FY 2016, SSA implemented a new methodology for calculating the allowance for doubtful accounts on non-federal accounts receivable. SSA previously used a five-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. This method was limited by the timeliness of write-offs and waivers, and assumed a one-year debt turnover rate. SSA's new methodology calculates an estimated collectable ratio by dividing collections by new debt, while taking into consideration the turnover rates for each group of receivables. By subtracting this collectable ratio from 100 percent, we obtain an estimated uncollectable ratio. We apply a five-year average of uncollectable ratios against outstanding receivables, by group, to compute the amount of allowance for doubtful accounts. In comparing our new methodology to our previous methodology, using FY 2016's total gross non-federal accounts receivable, the new methodology increased our allowance for doubtful accounts by $4,160 million. In addition to increasing our allowance for doubtful accounts, the change in methodology has decreased our Non-Federal Accounts Receivable, Net on the Consolidated Balance Sheets and increased our Benefit Payment Expense on the Consolidated Statements of Net Cost. Refer to Note 6, Accounts Receivable, Net.

RECLASSIFICATIONS

Certain amounts in the 2015 Combined Statements of Budgetary Resources have been reclassified to conform with the 2016 presentation.

2. CENTRALIZED FEDERAL FINANCING ACTIVITIES

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

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

SSA occupies buildings that have been leased by the General Services Administration (GSA) or have been constructed using Public Building Funds. These financial statements reflect SSA's payments to GSA for their lease, operations maintenance, and depreciation expenses associated with these buildings.

SSA's employees participate in the Office of Personnel Management (OPM) administered contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). SSA makes matching contributions to FERS. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983, are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS. Refer to Note 15, Imputed Financing, for additional information.

SSA contributions to CSRS were $38 and $45 million for the years ended September 30, 2016 and 2015.
SSA contributions to the basic FERS plan were $584 and $536 million for the years ended September 30, 2016 and 2015. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute one percent of pay and match employee contributions up to an additional four percent of basic pay. SSA contributions to the FERS savings plan were $180 and $171 million for the years ended September 30, 2016 and 2015. These Statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by OPM.

3. NON-ENTITY ASSETS

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA displays its Non-Entity Assets in Chart 3A. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments and underpayments classified as SSI Accounts Receivable, Net; and (2) General Fund's portion of fees collected to administer Title VIII State Supplementation.

CHART 3A - NON-ENTITY ASSETS AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016			2015		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
Intragovernmental:						
Title VIII State Supp Fees	$ 2	$ 0	$ 2	$ 2	$ 0	$ 2
SSI Fed/State Accounts Receivable, Net	5,255	(493)	4,762	7,964	(492)	7,472
Total	$ 5,257	$ (493)	$ 4,764	$ 7,966	$ (492)	$ 7,474

SSA has reduced the SSI Accounts Receivable, Net, by intra-agency eliminations (see discussion in Note 6, Accounts Receivable, Net). SSI accounts receivable is recognized as a non-entity asset. Public Law 101-517 requires that collections from repayment of SSI Federal benefit overpayments be deposited in Treasury's General Fund. These funds, upon deposit, are assets of Treasury's General Fund, and will not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. When a beneficiary does not receive their full SSI State Supplemental benefit, SSA establishes an underpayment receivable. This receivable reflects the reimbursement due to SSA from the States to cover the unpaid benefit. SSA recognizes this receivable due from the States as a non-entity asset since the amount owed is due to the beneficiary.

Title VIII State Supplementation fee collections are classified as exchange revenue. These fees are included in the Fund Balance with Treasury as of September 30, 2016 and 2015.

Chart 3B provides a breakout between Non-Entity and Entity assets.

CHART 3B - NON-ENTITY/ENTITY ASSET BREAKDOWN AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
Non-Entity Assets	$ 4,764	$ 7,474
Entity Assets	2,883,594	2,849,187
Total Assets	$ 2,888,358	$ 2,856,661

4. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with Treasury. Chart 4A, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other primarily includes PTF, ARRA, and deposit funds. Chart 4B, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in Chart 4B since OASI and DI Trust Fund cash balances are held in investments until needed and do not directly correspond with the budgetary lines shown in the chart. Therefore, amounts in Chart 4B will not match corresponding activity on the Combined Statements of Budgetary Resources.

CHART 4A - FUND BALANCES AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
Trust Funds*		
OASI	$ (92)	$ (95)
DI	(140)	18
LAE	(23)	(30)
General Funds		
SSI	9,091	6,936
Other	123	199
Other Funds		
SSI	23	37
Other	3	4
Total	$ 8,985	$ 7,069

Note:

*The phrase "Trust Funds" is being used as the fund type as defined by OMB.

CHART 4B - STATUS OF FUND BALANCES AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
Unobligated Balance		
Available	$ 5,255	$ 3,566
Unavailable	626	369
Obligated Balance Not Yet Disbursed	3,333	3,200
OASI, DI, and LAE	(255)	(107)
Non-Budgetary Fund Balance with Treasury	26	41
Total	$ 8,985	$ 7,069

The negative fund balances reported for the OASI, DI, and LAE Trust Funds as of September 30, 2016, and OASI and LAE as of September 30, 2015 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, SSA does not reclassify the negative balances as liabilities on the Consolidated Balance Sheets.

5. INVESTMENTS AND INTEREST RECEIVABLE

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest-bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Secretary of the Treasury to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. Therefore, there are no premiums or discounts associated with the redemption of these securities.

SSA displays its investments in Special-Issue U.S. Treasury Securities, as reported on the Consolidated Balance Sheets, in Chart 5A.

CHART 5A - INVESTMENTS AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
OASI	$ 2,796,712	$ 2,766,649
DI	45,880	41,638
Total	$ 2,842,592	$ 2,808,287

The interest rates on these investments range from 1.375 to 5.250 percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the year 2017 to the year 2031. Accrued interest receivable on the OASI and DI Trust Fund investments with the Treasury is an Intragovernmental Interest Receivable, reported on the Consolidated Balance Sheets. Interest Receivable, as reported on the Consolidated Balance Sheets is shown by program in Chart 5B.

CHART 5B – INTEREST RECEIVABLE AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
OASI	$ 21,236	$ 22,244
DI	347	444
Total	$ 21,583	$ 22,688

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the Treasury. Because the OASI and DI Trust Funds and the Treasury are both part of the Government, these assets and liabilities offset each other for consolidation purposes in the U.S. government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. government-wide financial statements.

The Treasury does not set aside financial assets to cover its liabilities associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

6. ACCOUNTS RECEIVABLE, NET

INTRAGOVERNMENTAL

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of $208 and $280 million as of September 30, 2016 and 2015 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. SSA reduced the gross accounts receivable by $2,747 and $2,630 million as of September 30, 2016 and 2015 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

SSA does not apply an allowance for doubtful accounts to determine the net value of Intragovernmental Accounts Receivable. According to SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

WITH THE PUBLIC

Accounts Receivable, Net, reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6. Amounts in the OASI and DI programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents Federal and State activity. The SSI Federal and State portions consists of overpayments due from SSI recipients who are no longer eligible to receive benefit payments or received benefits in excess of their eligibility. Additionally, the SSI State portion consists of amounts due from the States to cover underpayments due to the SSI recipients. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments and underpayments.

CHART 6 - ACCOUNTS RECEIVABLE WITH THE PUBLIC BY MAJOR PROGRAM AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016			2015		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	$ 2,785	$ (341)	$ 2,444	$ 2,602	$ (264)	$ 2,338
DI	7,050	(2,710)	4,340	6,478	(2,115)	4,363
SSI*	11,177	(5,922)	5,255	10,279	(2,315)	7,964
LAE	2	0	2	2	0	2
Subtotal	21,014	(8,973)	12,041	19,361	(4,694)	14,667
Less: Eliminations**	(495)	0	(495)	(497)	0	(497)
Total	$ 20,519	$ (8,973)	$ 11,546	$ 18,864	$ (4,694)	$ 14,170

Notes:

*See Discussion in Note 3, Non-Entity Assets

**Intra-Agency Eliminations

Chart 6 shows that in FY 2016 and FY 2015, SSA reduced gross accounts receivable by $495 and $497 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Windfall Offset is the amount of SSI that would not have been paid if retroactive OASI and DI benefits had been paid timely to eligible beneficiaries. The KZ Diary process identifies SSI recipients eligible for prior entitlement of OASI and DI benefits, and determines SSA's liability for retroactive benefits owed to beneficiaries. For each activity, SSA recognizes a receivable in the SSI program with offsetting payables for both the OASI and DI programs.

SSA annually recalculates a ratio of allowance for doubtful accounts on accounts receivable with the public. In FY 2015, SSA used a five-year average of write-offs divided by clearances comprised of write-offs, waivers, and collection to calculate the estimated allowance for doubtful accounts. During FY 2016, SSA evaluated and implemented a new allowance for doubtful accounts methodology. SSA's new methodology no longer focuses on write-offs, and instead focuses on collections compared to new receivables. SSA calculates an estimated collectable ratio by dividing collections by new debt, while taking into consideration the turnover rates for each group of receivables. We subtract this collectable ratio from 100 percent to provide us with an estimated uncollectable ratio. We apply a five-year average of uncollectable ratios against outstanding receivables, by group, to compute the amount of allowance for doubtful accounts. SSA's Allowance for Doubtful Accounts increased and Net Receivables decreased $4,160 million as of September 30, 2016 as a result of the application of the new allowance ratios.

7. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, Plant, and Equipment, Net, as reported on the Consolidated Balance Sheets, is reflected by major class in Chart 7.

CHART 7 - PROPERTY, PLANT AND EQUIPMENT AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

	2016			2015		
Major Classes:	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings and Other Structures	$ 59	$ (21)	$ 38	$ 59	$ (20)	$ 39
Equipment (incl. ADP Hardware)	722	(423)	299	664	(330)	334
Internal Use Software	6,798	(4,262)	2,536	8,407	(5,054)	3,353
Leasehold Improvements	855	(458)	397	739	(408)	331
Deferred Charges	945	(796)	149	838	(750)	88
Total	$ 9,379	$ (5,960)	$ 3,419	$ 10,707	$ (6,562)	$ 4,145

Major Classes:	Estimated Useful Life	Method of Depreciation
Buildings and Other Structures	50 years	Straight Line
Equipment (incl. ADP Hardware)	7-10 years	Composite
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6-33 years	Straight Line
Deferred Charges	3-12 years	Straight Line

Deferred Charges represent fixtures and bulk computer purchases.

8. OTHER ASSETS

INTRAGOVERNMENTAL OTHER ASSETS

Intragovernmental Other Assets amounts include advances provided to Federal agencies for goods and services that will be furnished to SSA. Intragovernmental Other Assets are $23 and $18 million as of September 30, 2016 and 2015.

OTHER ASSETS

Other Assets is comprised of advances provided to agency employees for travel and payroll, as well as advances provided to grantee organizations performing work on behalf of the agency. Other Assets are $2 million and $4 million as of September 30, 2016 and 2015.

9. LIABILITIES

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when incurred. Chart 9A discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources. Liabilities Covered by budgetary resources use available budget authority when SSA incurs the liabilities. Liabilities Not Covered by budgetary resources do not use available budget authority in the current period. For SSA, these liabilities represent two main activities: (1) liabilities that will be funded in future periods; and (2) liabilities representing cash or SSA receivables due to the General Fund and States, which do not require budgetary authority.

CHART 9A - LIABILITIES AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016			2015		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI*	$ 4,550	$ 0	$ 4,550	$ 4,483	$ 0	$ 4,483
Accounts Payable	15	4,922	4,937	13	7,526	7,539
Other	107	60	167	88	59	147
Total Intragovernmental	4,672	4,982	9,654	4,584	7,585	12,169
Benefits Due and Payable	98,905	3,746	102,651	94,721	3,833	98,554
Accounts Payable	52	333	385	22	439	461
Federal Employee and Veteran Benefits	0	327	327	0	329	329
Other	363	353	716	529	355	884
Total	$ 103,992	$ 9,741	$ 113,733	$ 99,856	$ 12,541	$ 112,397

Note:

*Railroad Retirement Interchange

INTRAGOVERNMENTAL ACCRUED RAILROAD RETIREMENT INTERCHANGE

The Intragovernmental Accrued Railroad Retirement Interchange represents an accrued liability due to the Railroad Retirement Board for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if SSA had covered railroad employment. The *Railroad Retirement Act of 1974* requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

INTRAGOVERNMENTAL ACCOUNTS PAYABLE

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to Treasury's General Fund. SSA records a payable equal to the SSI Federal benefit overpayments receivable when the agency identifies overpayments. Refer to Note 3, Non-Entity Assets, for additional information on the SSI receivables established for the repayment of SSI benefit overpayments.

INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Other Liabilities include amounts Covered by budgetary resources for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts Not Covered by budgetary resources for *Federal Employees' Compensation Act* (FECA), administered by the Department of Labor. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to the Department of Labor's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portions of FECA liability is $57 million as of September 30, 2016 and 2015.

BENEFITS DUE AND PAYABLE

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 9B shows the amounts for SSA's major programs as of September 30, 2016 and 2015. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, budgetary resources cover the unadjudicated cases.

CHART 9B - BENEFITS DUE AND PAYABLE AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
OASI	$ 69,230	$ 66,222
DI	28,520	27,487
SSI	5,396	5,342
Subtotal	103,146	99,051
Less: Intra-agency eliminations	(495)	(497)
Total	$ 102,651	$ 98,554

Chart 9B also shows that as of FY 2016 and FY 2015, SSA reduced gross Benefits Due and Payable by $495 and $497 million as an intra-agency elimination. This intra-agency activity results primarily from the Windfall Offset and KZ Diary activity. Refer to Note 6, Accounts Receivable, Net.

ACCOUNTS PAYABLE

Accounts Payable Not Covered by budgetary resources consists of SSI State Supplemental overpayments due to States. States are entitled to any overpayment that SSA expects to collect because the States fund the actual payments made to the beneficiaries. SSI State Supplemental underpayments due to the SSI recipients are also included. These amounts are set up as an accounts payable until payment is made.

FEDERAL EMPLOYEE AND VETERAN BENEFITS

Federal Employee and Veteran Benefits Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of $327 and $329 million as of September 30, 2016 and 2015 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs.

OTHER LIABILITIES

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll and SSI State Supplemental amounts collected in advance. Other Liabilities Not Covered by budgetary resources consists of leave earned but not taken and unapplied deposit funds.

LEASES

SSA has Occupancy Agreements (OA) with GSA for each space that we occupy. The OA is a complete, concise statement of the business terms governing the tenancy relationship between SSA and GSA. The OA is not a lease, but rather a formal agreement between the signing parties. For accounting purposes, these OAs are treated as lease activity. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of the OAs vary according to whether the Federal Government directly owns the underlying assets or if GSA rents the underlying asset from third party commercial property owners, though each OA may have slightly different terms. SSA executes cancellable and non-cancellable OAs with GSA. Periods of occupancy on OAs vary, and can generally be cancelled with four months' notice following the first year of occupancy. OAs must be coterminous with the underlying lease term. For non-cancellable OAs, SSA is financially responsible for rental payments on vacated space until the expiration of the OA, the termination of the OA permitted under the lease terms, or the occupancy by a replacement tenant covers the total rent obligation. OAs do not include renewal options that may be in the lease, as GSA makes a determination as to whether such options are fair and reasonable relative to the market when the option matures. Chart 9C shows the future estimated rental payments required under OAs that have initial or remaining non-cancellable terms in excess of one year. SSA does not include the amounts reported in our financial statements. SSA expenses OAs as incurred, and does not record liabilities for future years' costs.

CHART 9C – FUTURE OPERATING LEASE/OCCUPANCY AGREEMENT COMMITMENTS AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

Fiscal Year		GSA OAs
2017	$	98
2018		93
2019		88
2020		80
2021		78
2022 and Thereafter (In total)*		529
Total Future Lease Payments	$	966

Note:

*OAs go through the year 2034.

CONTINGENT LIABILITIES

Putative class action lawsuits challenging the agency's collection of debt using the Treasury Offset Program were filed in Federal district court in Maryland and in the District of Columbia in April 2014 and February 2015, respectively. The cases were dismissed by the district courts and are currently on appeal. We cannot estimate the possible dollar amount at this time.

In addition to the matter identified above, there is one other pending matter involving a class action lawsuit in Federal district court in California stemming from the denial of disability benefits under Title II and Title XVI of the *Social Security Act*, challenging the use of medical reports from a doctor. We cannot estimate the possible dollar amount at this time.

10. FUNDS FROM DEDICATED COLLECTIONS

The OASI and DI Trust Funds, Taxation on Social Security benefits, and SSI State Administrative Fees are classified as funds from dedicated collections. These funds obtain revenues primarily through non-Federal receipts, such as Social Security payroll taxes and, to a lesser extent, offsetting collections.

OASI AND DI TRUST FUNDS

The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families, and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

Payroll and self-employment taxes primarily fund the OASI and DI Trust Funds. Interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security benefits provide additional income to the OASI and DI Trust Funds. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 14, Tax Revenues, for a discussion on employment taxes credited to the OASI and DI Trust Funds, and Note 5, Investments and Interest Receivable, for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments and Interest Receivable, for a discussion on Treasury securities.

TAXATION ON SOCIAL SECURITY BENEFITS

Taxation on Social Security Benefits is also classified as funds from dedicated collections. The *Social Security Amendments of 1983* (Public Law 98-21) provides that the OASI and DI Trust Funds receive income related to Federal income taxation of benefits. The taxes are collected as Federal income taxes, and a subsequent payment is then made to the OASI and DI Trust Funds from the General Fund of the Treasury. These collections are warranted from the General Fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, Taxation on Social Security Benefits is considered dedicated collections.

SSI STATE ADMINISTRATIVE FEES

Administrative Fees collected from States are also classified as funds from dedicated collections. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each State an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the State for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 12, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 10 for balances of funds from dedicated collections as reported in the Consolidated Financial Statements for the years ended September 30, 2016 and 2015. The Other Dedicated Funds column in Chart 10 consists of Taxation on Social Security Benefits and SSI State Administrative Fees activity.

CHART 10 - FUNDS FROM DEDICATED COLLECTIONS AS OF SEPTEMBER 30: CONSOLIDATING SCHEDULE
(DOLLARS IN MILLIONS)

	2016				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (92)	$ (140)	$ 0	$ 0	$ (232)
Investments	2,796,712	45,880	0	0	2,842,592
Interest Receivable	21,236	347	0	0	21,583
Accounts Receivables - Non-Federal	2,444	4,340	0	(2)	6,782
Total Assets	$ 2,820,300	$ 50,427	$ 0	$ (2)	$ 2,870,725
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 4,307	$ 243	$ 0	$ 0	$ 4,550
Accounts Payable, Federal	374	837	0	0	1,211
Benefits Due and Payable	69,230	28,520	0	(2)	97,748
Accounts Payable, Non-Federal	0	12	0	0	12
Total Liabilities	73,911	29,612	0	(2)	103,521
Cumulative Results of Operations	2,746,389	20,815	0	0	2,767,204
Total Liabilities and Net Position	$ 2,820,300	$ 50,427	$ 0	$ (2)	$ 2,870,725
Statement of Net Cost					
Program Costs	$ 765,024	$ 144,018	$ 0	$ 0	$ 909,042
Operating Expenses	405	254	0	0	659
Less Earned Revenue	(1)	(25)	(132)	0	(158)
Net Cost of Operations	$ 765,428	$ 144,247	$ (132)	$ 0	$ 909,543
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,720,423	$ 17,964	$ 3	$ 0	$ 2,738,390
Tax Revenue	679,580	147,579	0	0	827,159
Interest Revenue	88,061	1,409	0	0	89,470
Net Transfers In/Out	23,748	(1,931)	(32,437)	0	(10,620)
Other	5	41	32,302	0	32,348
Total Financing Sources	791,394	147,098	(135)	0	938,357
Net Cost of Operations	765,428	144,247	(132)	0	909,543
Net Change	25,966	2,851	(3)	0	28,814
Net Position End of Period	$ 2,746,389	$ 20,815	$ 0	$ 0	$ 2,767,204

The above Chart 10 for FY 2016 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $1,691 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2016 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

CHART 10 - FUNDS FROM DEDICATED COLLECTIONS AS OF SEPTEMBER 30: CONSOLIDATING SCHEDULE
(DOLLARS IN MILLIONS)

	2015				
	OASI Trust Fund	DI Trust Fund	Other Dedicated Funds	Eliminations	Total Dedicated Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	$ (95)	$ 18	$ 3	$ 0	$ (74)
Investments	2,766,649	41,638	0	0	2,808,287
Interest Receivable	22,244	444	0	0	22,688
Accounts Receivables - Federal	1	1	0	0	2
Accounts Receivables - Non-Federal	2,338	4,363	0	(5)	6,696
Total Assets	$ 2,791,137	$ 46,464	$ 3	$ (5)	$ 2,837,599
LIABILITIES and NET POSITION					
Accrued Railroad Retirement	$ 4,173	$ 310	$ 0	$ 0	$ 4,483
Accounts Payable, Federal	319	694	0	0	1,013
Benefits Due and Payable	66,222	27,487	0	(5)	93,704
Accounts Payable, Non-Federal	0	9	0	0	9
Total Liabilities	70,714	28,500	0	(5)	99,209
Cumulative Results of Operations	2,720,423	17,964	3	0	2,738,390
Total Liabilities and Net Position	$ 2,791,137	$ 46,464	$ 3	$ (5)	$ 2,837,599
Statement of Net Cost					
Program Costs	$ 736,752	$ 144,102	$ 0	$ 0	$ 880,854
Operating Expenses	503	248	0	0	751
Less Earned Revenue	(1)	(26)	(123)	0	(150)
Net Cost of Operations	$ 737,254	$ 144,324	$ (123)	$ 0	$ 881,455
Statement of Changes in Net Position					
Net Position Beginning of Period	$ 2,670,570	$ 47,656	$ 4	$ 0	$ 2,718,230
Tax Revenue	672,246	114,156	0	0	786,402
Interest Revenue	92,200	2,401	0	0	94,601
Net Transfers In/Out	22,651	(1,970)	(30,787)	0	(10,106)
Other	10	45	30,663	0	30,718
Total Financing Sources	787,107	114,632	(124)	0	901,615
Net Cost of Operations	737,254	144,324	(123)	0	881,455
Net Change	49,853	(29,692)	(1)	0	20,160
Net Position End of Period	$ 2,720,423	$ 17,964	$ 3	$ 0	$ 2,738,390

Chart 10 for FY 2015 includes eliminations between SSA's funds from dedicated collections, which primarily represent eliminations for activity between the OASI and DI Trust Funds. However, $1,500 million of receivables and liabilities in the funds from dedicated collections for the year ended September 30, 2015 need to be eliminated against LAE (Accounts Payable, Federal), SSI (Benefits Due and Payable), and PTF, excluding Taxation on Benefits (Accounts Receivable, Federal), which are not classified as funds from dedicated collections. Therefore, due to the separate presentation of funds from dedicated collections only in this note, SSA does not include eliminations between funds from dedicated collections and LAE, SSI, and PTF, excluding Taxation on Benefits in Chart 10.

11. OPERATING EXPENSES

CLASSIFICATION OF OPERATING EXPENSES BY MAJOR PROGRAM

Chart 11A displays SSA's operating expenses for each major program. LAE SSA operating expenses recorded in Other primarily represent the HI/SMI Trust Funds' shares of SSA's operating expenses, including the Medicare Prescription Drug Program. LAE ARRA operating expenses recorded in the Other program primarily represent expenses associated with the National Support Center. OASI and DI Trust Fund Operations include expenses of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of OASI, DI, and SSI beneficiaries.

CHART 11A - SSA'S OPERATING EXPENSES BY MAJOR PROGRAM AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

	2016					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 3,345	$ 40	$ 0	$ 400	$ 5	$ 3,790
DI	3,040	36	0	83	171	3,330
SSI	4,716	0	0	0	194	4,910
Other	2,372	29	39	0	0	2,440
	$ 13,473	$ 105	$ 39	$ 483	$ 370	$ 14,470

CHART 11A - SSA'S OPERATING EXPENSES BY MAJOR PROGRAM AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

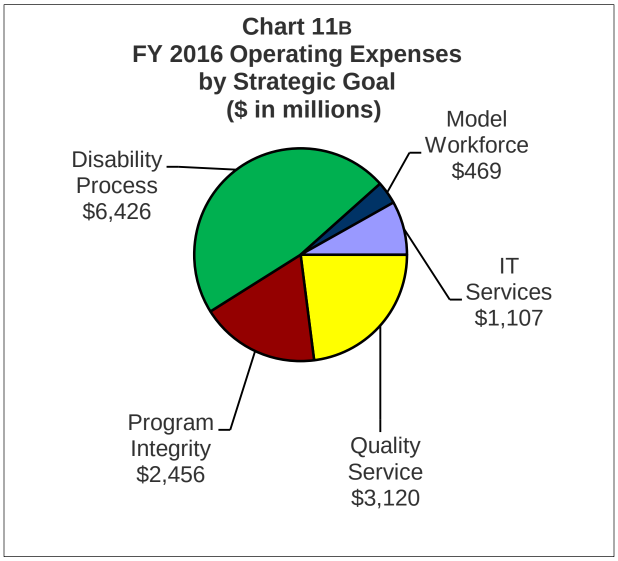
	2015					
	LAE					
	SSA	OIG	ARRA	OASI and DI Trust Fund Operations	Vocational Rehabilitation & Other	Total
OASI	$ 2,959	$ 38	$ 0	$ 500	$ 3	$ 3,500
DI	2,760	36	0	87	161	3,044
SSI	4,162	0	0	0	174	4,336
Other	1,989	29	59	0	0	2,077
	$ 11,870	$ 103	$ 59	$ 587	$ 338	$ 12,957

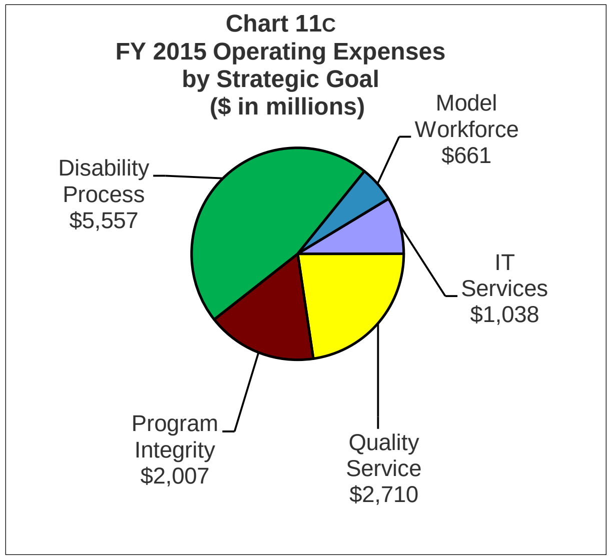
CLASSIFICATION OF OPERATING EXPENSES BY STRATEGIC GOAL

SSA's *Annual Performance Plan* (APP) sets forth expected levels of performance the agency is committed to achieving, and includes proposed levels of performance for future fiscal years. Our APP is characterized by broad-based Strategic Goals that the entire agency supports. The five goals are:

- Deliver Innovative, Quality Services (Quality Service);
- Strengthen the Integrity of Our Programs (Program Integrity);
- Serve the Public Through a Stronger, More Responsive Disability Program (Disability Process);
- Build a Model Workforce to Deliver Quality Service (Model Workforce); and
- Ensure Reliable, Secure, and Efficient Information Technology Services (IT Services).

Charts 11B and 11C exhibit the distribution of FY 2016 and FY 2015 SSA and OIG LAE operating expenses to the five APP Strategic Goals, which agree to the agency's LAE budget appropriation.





For Charts 11B and 11C, we subtracted LAE ARRA expenses from total SSA LAE operating expenses before distributing the operating expenses to the agency's APP Strategic Goals. SSA does not include OASI and DI Trust Fund Operations and Vocational Rehabilitation expenses (see Chart 11A) in LAE by Strategic Goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.

12. EXCHANGE REVENUES

SSA recognizes revenue from exchange transactions when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenues are $314 and $306 million for the years ended September 30, 2016 and 2015. SSA's exchange revenue primarily consists of fees collected to administer SSI State Supplementation. The fees charged to the States are $11.56 and $11.55, per payment, for the years ended September 30, 2016 and 2015. SSA has agreements with 20 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. Additional fees are collected for handling OASI and DI Trust Fund and SSI attorney fees. Other exchange revenue consists of reimbursement for performing non-mission work for Federal and non-Federal entities. Chart 12 discloses SSA's exchange revenue by activity.

CHART 12 - EXCHANGE REVENUE AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
SSI State Supplementation Fees	$ 232	$ 216
SSI Attorney Fees	8	8
DI Attorney Fees	25	26
OASI Attorney Fees	1	1
Other Exchange Revenue	48	55
Total	$ 314	$ 306

SSI administrative fees are split between fees that SSA can use and fees that are entitled to Treasury's General Fund. The General Fund's portion of these administrative fees are $108 and $102 million for the years ended September 30, 2016 and 2015. Of these amounts, $100 and $94 million were collected to administer SSI State Supplementation for the years ended September 30, 2016 and 2015. The remainder of the SSI administrative fees, which meet the criteria of a fund from dedicated collections, in the amount of $132 and $122 million for the years ended September 30, 2016 and 2015, are maintained by SSA to defray expenses in carrying out the SSI program.

13. COSTS AND EXCHANGE REVENUE CLASSIFICATIONS

Chart 13 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks; employee benefits; and imputed financing costs. Refer to Note 15, Imputed Financing, for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments; SSI payments; payroll; and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided, which includes reimbursements from the Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided, which includes fees for administering the States' portion of SSI payments. Other Program primarily reports the costs and revenues that SSA incurs in administering: (1) a portion of the Medicare program; (2) the Medicare Savings Program and the Low Income Subsidy Program; and (3) ARRA activities.

CHART 13 - COSTS AND EXCHANGE REVENUE CLASSIFICATIONS AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

	2016			2015		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	$ 1,282	$ (9)	$ 1,273	$ 1,365	$ (9)	$ 1,356
Public	767,532	(4)	767,528	738,887	(6)	738,881
OASI Subtotal	768,814	(13)	768,801	740,252	(15)	740,237
DI Program						
Intragovernmental	884	(8)	876	894	(8)	886
Public	146,464	(28)	146,436	146,252	(31)	146,221
DI Subtotal	147,348	(36)	147,312	147,146	(39)	147,107
SSI Program						
Intragovernmental	1,277	(12)	1,265	1,249	(12)	1,237
Public	62,609	(245)	62,364	54,607	(231)	54,376
SSI Subtotal	63,886	(257)	63,629	55,856	(243)	55,613
Other Program						
Intragovernmental	625	(6)	619	584	(6)	578
Public	1,818	(2)	1,816	1,496	(3)	1,493
Other Subtotal	2,443	(8)	2,435	2,080	(9)	2,071
Total	$ 982,491	$ (314)	$ 982,177	$ 945,334	$ (306)	$ 945,028

14. TAX REVENUES

Treasury estimates monthly employment tax revenues based on SSA's quarterly estimate of taxable earnings. Treasury uses these estimates to credit the Social Security OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes.

Chart 14 displays SSA's Tax Revenue, as reported on the Consolidated Statements of Changes in Net Position, by major program.

CHART 14 - TAX REVENUE AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
OASI	$ 679,580	$ 672,246
DI	147,579	114,156
Total	$ 827,159	$ 786,402

The passage of Public Law 114-74, *Bipartisan Budget Act of 2015* authorizes a temporary reallocation of the DI Trust Fund's portion of the FICA payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.4 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in decreased growth in tax revenue for the OASI Trust Fund, and increased tax revenue for the DI Trust Fund.

15. IMPUTED FINANCING

SSA is required to incorporate the full cost of goods and services that it receives from other entities on its Consolidated Statements of Net Cost. In some instances, goods or services provided by one Federal entity to another may not be fully reimbursed by the receiving entity. The unreimbursed portion of these costs is considered an imputed cost, and must be recognized on the receiving entity's Statement of Net Cost. The funding for these imputed costs is recognized as an imputed financing source on the receiving entity's Statement of Changes in Net Position. SSA has activities with OPM, Treasury, and the Department of Homeland Security (DHS) that require imputed costs and financing sources to be recognized. While the imputed financing sources are shown on the face of the Consolidated Statements of Changes in Net Position, the imputed costs are included in the operating expense amounts reported on the Consolidated Statements of Net Cost.

OPM administers three earned benefit programs for civilian Federal employees: (1) the Retirement Program, comprised of the CSRS and the FERS; (2) the Federal Employees Health Benefits Program (FEHBP); and (3) the Federal Employee Group Life Insurance Program (FEGLI). The Consolidated Statements of Net Cost recognize post-employment benefit expenses of $1,152 and $1,089 million for the years ended September 30, 2016 and 2015, as a portion of operating expenses. The expense represents the current and estimated future outlays for SSA employee pensions, life, and health insurance. SSA is responsible for a portion of the contributions made to each benefit program during the fiscal year, while the remaining costs are covered by OPM. SSA recognizes these costs on its financial statements as an imputed cost, with a corresponding imputed financing source.

Treasury, on SSA's behalf, processes the payments for SSI benefits. While the majority of the administrative costs associated with processing these payments are recorded as imputed costs with an associated imputed financing source, SSA is responsible for the costs related to postage. In addition, when funds are not legally available to pay monetary awards from SSA's own appropriations, Treasury issues payments from the Judgment Fund on behalf of SSA for court judgments and Department of Justice compromise settlements of actual or imminent lawsuits against SSA. These costs are also recorded as imputed costs with a corresponding imputed financing source.

DHS provides SSA with capabilities and tools that identify cybersecurity risks as part of their Continuous Diagnostics and Mitigation (CDM) program. Specifically, DHS has provided SSA with hardware and internal use software associated with this program.

Chart 15 discloses SSA's imputed financing sources by activity.

CHART 15 - IMPUTED FINANCING SOURCES AS OF SEPTEMBER 30:
(DOLLARS IN MILLIONS)

	2016	2015
Employee Benefits (OPM)		
CSRS	$ 107	$ 125
FERS	14	25
FEHBP	408	358
FEGLI	1	1
Total Employee Benefits	530	509
SSI Benefit Payments (Treasury)	17	14
Judgement Fund (Treasury)	1	1
CDM (DHS)	2	0
Total	$ 550	$ 524

16. BUDGETARY RESOURCES

APPROPRIATIONS RECEIVED

The Combined Statements of Budgetary Resources discloses Appropriations Received of $1,018,283 and $984,099 million for the years ended September 30, 2016 and 2015. Appropriations Received on the Consolidated Statements of Changes in Net Position are $98,005 and $91,905 million for the same periods. The differences of $920,278 and $892,194 million primarily represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the General Fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Fiscal Service where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Because OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's Circular No. A-136 to have the Combined Statements of Budgetary Resources in agreement with the required SF-133. These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Agency accounts or funds can receive budgetary resources from OMB through an apportionment or they can receive funds based on statutes, laws, legislation, etc. Apportionments issued for specific activities, projects, objects, or a combination of these categories are classified as Category B. If an account or fund receives its budgetary resources based on law or statute and does not receive an apportionment from OMB, it is classified as Exempt from

Apportionment. Chart 16A reflects the amounts of direct and reimbursable new obligations and upward adjustments against Category B Apportionment and Exempt from Apportionment accounts.

CHART 16A - APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

	2016			2015		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	$ 76,661	$ 2,907	$ 79,568	$ 71,973	$ 2,703	$ 74,676
Exempt	952,976	1	952,977	923,409	1	923,410
Total	$1,029,637	$ 2,908	$1,032,545	$ 995,382	$ 2,704	$ 998,086

PERMANENT INDEFINITE APPROPRIATION

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides retirement and survivors benefits to qualified workers and their families. The DI Trust Fund provides disability benefits to individuals who cannot work because they have a medical condition expected to last one year or result in death. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, *Foster Care Independence Act of 1999*. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of Public Law 106-169, the veterans' SSI benefits would terminate the month after leaving the United States. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

During the year, the OASI and DI Trust Funds collect receipts and incur obligations. The receipts are primarily made up of tax and interest revenues. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated against the OASI and DI Trust Funds. During a given year, when receipts collected exceed the amount needed to pay benefits and other valid obligations, the excess authority becomes precluded by law from being available for obligations, as of September 30. While this amount is precluded from obligation at the end of one fiscal year, the excess receipts remain assets of the OASI and DI Trust Funds and can become available in future periods as needed.

Chart 16B provides an overview of fiscal year budgetary receipt and obligation information for the OASI and DI Trust Funds. SSA compares the current year receipts to the current year obligations incurred to determine the excess or shortfall for a fiscal year.

CHART 16B - OASI AND DI TRUST FUND ACTIVITIES AS OF SEPTEMBER 30: (DOLLARS IN MILLIONS)

	2016			2015		
	OASI	DI	Total	OASI	DI	Total
Receipts	$ 799,905	$ 150,362	$ 950,267	$ 795,334	$ 118,039	$ 913,373
Less: Obligations	773,039	147,517	920,556	744,798	147,722	892,520
Excess of Receipts Over Obligations	$ 26,866	$ 2,845	$ 29,711	$ 50,536	$ (29,683)	$ 20,853

The FY 2015 negative Excess of Receipts Over Obligations for DI presented in Chart 16B reflects the shrinking of the DI Trust Fund authority reserves. The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorizes a temporary reallocation of the DI Trust Fund's portion of the FICA payroll tax by 0.57 percentage point. A total of

2.37 percentage points of the total combined 12.4 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes has resulted in the DI Trust Fund having positive Excess Receipts Over Obligations for FY 2016. This Act also results in decreased Excess of Receipts Over Obligations for the OASI Trust Fund for FY 2016. The overall Net Position of the OASI and DI Trust Funds, on the Consolidated Statements of Changes in Net Position, are $2,746,389 and $20,815 million for the year ended September 30, 2016, compared to $2,720,423 and $17,964 million for the year ended September 30, 2015.

Undelivered Orders at the End of the Period

Undelivered orders consist of orders of goods and services that SSA has not actually or constructively received. SSA's total undelivered orders are $2,182 and $2,129 million for the years ended September 30, 2016 and 2015. The total undelivered orders contain unpaid undelivered orders and advances, with unpaid orders making up the majority of the total. SSA’s total unpaid undelivered orders are $2,156 and $2,106 million for the years ended September 30, 2016 and 2015.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

SSA conducted a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2015. All differences shown in the chart below are recognized as accepted differences. Expired activity is not included in the Budget of the U.S. Government, and distributed offsetting receipts are not included in the net outlay calculation within the Budget of the U.S. Government.

Chart 16c presents a reconciliation of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays as presented in the Combined Statements of Budgetary Resources, to amounts included in the Budget of the U.S. Government for the year ended September 30, 2015.

Chart 16c - Explanation of Differences Between Statement of Budgetary Resources and the Budget of the U.S. Government for FY 2015:
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 1,002,455	$ 998,086	$ 33,694	$ 944,120
Expired activity not in President's Budget	(321)	(80)	0	0
Offsetting Receipts activity not in President's Budget	0	0	0	33,694
Other	1	2	(2)	0
Budget of the U.S. Government	$ 1,002,135	$ 998,008	$ 33,692	$ 977,814

A reconciliation has not been conducted for the year ended September 30, 2016 since the actual budget data for FY 2016 will not be available until the President’s Budget is published.

17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

CHART 17 - RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(DOLLARS IN MILLIONS)

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	**$ 1,032,545**	$ 998,086
Offsetting Collections and Recoveries	**(15,947)**	(15,480)
Obligations Net of Offsetting Collections and Recoveries	**1,016,598**	982,606
Offsetting Receipts	**(35,331)**	(33,694)
Net Obligations	**981,267**	948,912
Other Resources		
Imputed Financing	**550**	524
Other	**(240)**	(224)
Net Other Resources Used to Finance Activities	**310**	300
Total Resources Used to Finance Activities	**981,577**	949,212
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**(273)**	48
Resources that Fund Expenses Recognized in Prior Periods	**(90)**	(30)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**35,343**	33,690
Change in Resources that Finance Assets	**1,328**	(2,095)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(37,633)**	(36,142)
Total Resources Not Part of the Net Cost of Operations	**(1,325)**	(4,529)
Total Resources Used to Finance the Net Cost of Operations	**980,252**	944,683
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	**9**	2
Components Not Requiring or Generating Resources		
Change in Depreciation and Amortization	**(602)**	1,426
Other	**2,518**	(1,083)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**1,916**	343
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**1,925**	345
Net Cost of Operations	**$ 982,177**	$ 945,028

Chart 17 presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Costs by identifying and explaining key items that affect one Statement, but not the other.

18. SOCIAL INSURANCE DISCLOSURES

STATEMENTS OF SOCIAL INSURANCE

The Statements of Social Insurance present the present value for the 75-year projection period of the estimated future noninterest income, estimated future cost, and the excess of income over cost for both the "open group" and "closed group" of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASDI social insurance program. The closed group of participants includes only current participants (i.e., those who attain age 15 or older in the first year of the projection period). The closed group disclosure is not relevant to the financial status because the program is financed largely on a pay-as-you-go basis.

Present values are computed based on the intermediate economic and demographic assumptions described in the *2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (the Trustees Report) for the 75-year projection period beginning January 1, 2016. These assumptions represent the Trustees' reasonable estimate of likely future economic and demographic conditions. Similar present values are shown in the Statements of Social Insurance based on the prior four Trustees Reports reflecting present values at January 1 of the applicable year.

Estimated future noninterest income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on asset reserves held in the combined OASI and DI Trust Fund. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, and net transfers with the Railroad Retirement program.

The present value of the estimated future excess of noninterest income over cost is shown in the Statements of Social Insurance, not only for the open group of participants, but also for the "closed group" of participants. The closed group of participants consists of those who, in the starting year of the projection period, have attained age 15 or older. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. The Statements of Social Insurance also present the present value of estimated future noninterest income less estimated future cost *plus* the combined OASI and DI Trust Fund asset reserves at the start of the period on both an open and closed group basis.

Combined OASI and DI Trust Fund asset reserves represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund asset reserves, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund asset reserves as of January 1, 2016 totaled $2,813 billion and were comprised entirely of investment securities that are backed by the full faith and credit of the Federal Government.

The present value for a 75-year projection period of estimated future excess of noninterest income over cost, plus the combined OASI and DI Trust Fund asset reserves at the start of the period, is shown as a negative value. Its magnitude is commonly referred to as the "open group unfunded obligation" of the program over the 75-year projection period. This value is included in the applicable Trustees Report and is shown in the Report as a percentage of taxable payroll and as a percentage of gross domestic product (GDP) over the period.

Because the OASDI program lacks borrowing authority, the open group unfunded obligation represents the amount of benefits scheduled in the law that would not be payable in the years after the asset reserves in the combined OASI and DI Trust Fund become depleted. Thus, if the asset reserves in the combined OASI and DI Trust Fund become depleted, the amount of money available to pay benefits and other expenses would be limited to continuing noninterest income. Therefore, barring legislative action, this unfunded obligation represents a financial shortfall that would be accommodated by either paying benefits that are less than the amount scheduled or by delaying the payment of scheduled benefits.

ASSUMPTIONS USED FOR THE STATEMENTS OF SOCIAL INSURANCE

The present values used in this presentation for the current year (2016) are based on the full amounts of estimated noninterest income and the cost of providing benefits at the levels scheduled under current law, even after the OASI and DI Trust Fund asset reserves are depleted. Estimates are also based on various economic and demographic assumptions, including those in the following table:

TABLE 1: SIGNIFICANT ASSUMPTIONS AND SUMMARY MEASURES USED FOR THE STATEMENT OF SOCIAL INSURANCE 2016

			Period Life Expectancy At Birth[3]				Annual Percentage Change In:				
	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000)	Male	Female	Net Annual Immigration (persons per year)[4]	Real-Wage Differential[5] (percentage points)	Average Annual Wage in Covered Employment[6]	CPI[7]	Total Employment[8]	Real GDP[9]	Average Annual Interest Rate[10]
2016	1.90	773.0	77.0	81.6	1,579,000	2.08	2.94	0.86	1.1	2.8	2.4%
2020	2.00	742.8	77.5	82.0	1,508,000	1.68	4.28	2.60	1.1	2.8	4.7%
2030	2.00	679.1	78.8	83.0	1,332,000	1.30	3.90	2.60	0.5	2.1	5.3%
2040	2.00	624.5	79.8	83.9	1,284,000	1.22	3.82	2.60	0.6	2.2	5.3%
2050	2.00	576.8	80.9	84.7	1,259,000	1.25	3.85	2.60	0.5	2.2	5.3%
2060	2.00	534.8	81.8	85.5	1,244,000	1.21	3.81	2.60	0.4	2.1	5.3%
2070	2.00	497.6	82.7	86.2	1,235,000	1.15	3.75	2.60	0.5	2.1	5.3%
2080	2.00	464.6	83.5	86.9	1,230,000	1.14	3.74	2.60	0.5	2.1	5.3%
2090	2.00	435.1	84.2	87.5	1,228,000	1.15	3.75	2.60	0.4	2.0	5.3%

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy at a given age for a given year is the average remaining number of years expected prior to death for a person at that exact age, born on January 1, using the mortality rates for that year over the course of his or her remaining life. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Values are rounded after all computations.
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is CPI-W.
8. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real GDP is the value of the total output of goods and services in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which compound semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

The present values used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, is available on our *Agency Financial Report* website (www.socialsecurity.gov/finance) for the prior four years.

TABLE 2: SIGNIFICANT ULTIMATE ASSUMPTIONS AND SUMMARY MEASURES USED FOR THE STATEMENTS OF SOCIAL INSURANCE FOR CURRENT AND PRIOR YEARS

Year of Statement	Total Fertility Rate[1]	Average Annual Percentage Reduction in the Age-Sex-Adjusted Death Rates[2]	Average Annual Net Immigration (persons per year)[3]	Average Annual Real-Wage Differential[4] (percentage points)	Average Annual Percentage Change In: Average Annual Wage in Covered Employment[5]	Average Annual Percentage Change In: CPI[6]	Average Annual Percentage Change In: Total Employment[7]	Average Annual Real Interest Rate[8]
FY 2016	2.0	0.78	1,291,000	1.20	3.80	2.60	0.5	2.7
FY 2015	2.0	0.78	1,155,000	1.17	3.87	2.70	0.5	2.9
FY 2014	2.0	0.79	1,125,000	1.13	3.83	2.70	0.5	2.9
FY 2013	2.0	0.80	1,095,000	1.12	3.92	2.80	0.6	2.9
FY 2012	2.0	0.77	1,080,000	1.12	3.92	2.80	0.6	2.9

1. The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 12th year of the projection period.
2. The age-sex-adjusted death rate is based on the enumerated total population as of a standard date if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. For the FY 2014-2016 Statements, the standard date was April 1, 2010. For the 2012 and 2013 Statements, the standard date was April 1, 2000. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction for each 75-year projection period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2016 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value shown is the average net immigration level projected for the 75-year projection period. For the 2016 Statement, the value shown is consistent with the annual levels shown in Table 1.
4. The annual real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The value presented is the average of annual real-wage differentials for the last 65 years of the 75-year projection period. For the 2016 Statement, the average real-wage differential is consistent with the annual differentials shown in Table 1.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage change from the 10th year of the 75-year projection period to the 75th year. For the 2016 Statement, the average annual percentage change decreased from 3.87 to 3.80 percentage points and is consistent with the annual percentages shown in Table 1.
6. The CPI is the CPI-W. The ultimate assumption is reached within the first 10 years of the projection period. For the 2016 Statement, the average annual rate of CPI decreased from 2.7 to 2.6 percentage points and is consistent with the annual differentials shown in Table 1.
7. Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2016 Statement, the average annual rate of change is consistent with the annual percentages shown in Table 1.
8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is reached within the first 10 years of the projection period. For the 2016 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2012-2016 Trustees Reports. Estimates made prior to this year differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on social insurance is contained in the *Required Supplementary Information: Social Insurance* section of this report.

STATEMENTS OF CHANGES IN SOCIAL INSURANCE AMOUNTS

The Statements of Changes in Social Insurance Amounts reconcile changes, from the beginning of one 75-year valuation period to the next, in the: (1) present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years; (2) starting asset reserves of the combined OASI and DI Trust Funds; and (3) present value of estimated future noninterest income less estimated future cost for current and future participants over the next 75 years plus the asset reserves of the combined OASI and DI Trust Funds. These values are included in the Statements of Social Insurance. The Statements of Changes in Social Insurance Amounts show two reconciliations: (1) change from the period beginning on January 1, 2015 to the period beginning on January 1, 2016; and (2) change from the period beginning on January 1, 2014 to the period beginning on January 1, 2015. The reconciliation identifies several changes that are significant and provides reasons for the changes.

The five changes considered in the Statements of Changes in Social Insurance Amounts are, in order:

- change in the valuation period;
- changes in demographic data, assumptions, and methods;
- changes in economic data, assumptions, and methods;
- changes in programmatic data and methods; and
- changes in law or policy.

All estimates in the Statements of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. In general, an increase in the present value of net cash flows represents a positive change (improving financing), while a decrease in the present value of net cash flows represents a negative change (worsening financing).

CHANGE IN THE VALUATION PERIOD

From the period beginning on January 1, 2015 to the period beginning on January 1, 2016

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2015-2089) to the current valuation period (2016-2090) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2015, replaces it with a much larger negative net cash flow for 2090, and measures the present values as of January 1, 2016, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2015-2089 to 2016-2090. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2015 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2014-2088) to the current valuation period (2015-2089) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2014, replaces it with a much larger negative net cash flow for 2089, and measures the present values as of January 1, 2015, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2014-2088 to 2015-2089. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2014 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

CHANGES IN DEMOGRAPHIC DATA, ASSUMPTIONS, AND METHODS

From the period beginning on January 1, 2015 to the period beginning on January 1, 2016

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2016), with the exception of a small change in marriage rates, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2013 and 2014 indicated lower birth rates than were expected in the prior valuation. The data also show an increase in birth rates starting in 2014, one year later than assumed in the prior valuation.
- Incorporating mortality data obtained from the National Center for Health Statistics at ages under 65 for 2012 and 2013 and from Medicare experience at ages 65 and older for 2013 resulted in slightly higher death rates than were projected in the prior valuation.
- Assumed ultimate marriage rates were decreased somewhat to reflect a continuation of recent trends.
- More recent legal and other-than-legal immigration data and historical population data were included.

Inclusion of the new birth rate data and immigration data decreased the present value of estimated future net cash flows, while the inclusion of the mortality data and the marriage rate changes increased the present value of estimated future net cash flows.

There were two changes in demographic methodology:

- The transition from recent mortality rates to the ultimate rates starts sooner, immediately after the year of final data. The approach used for the prior valuation extended the trend of the last 10 years through the valuation year for the report and only thereafter started the transition to assumed ultimate rates of decline.
- Historical non-immigrant population counts were revised to match recent totals provided by the DHS. In addition, emigration rates for the never-authorized and visa-overstayer populations were recalibrated to reflect a longer historical period and to be less influenced by the high emigration rates experienced during the recent recession. Finally, the method for projecting emigration of the never-authorized population was altered to reflect lower rates of emigration for those who have resided here longer.

These methodological improvements increased the present value of estimated future net cash flows.

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2015), with the exception of changes made due to the executive actions on immigration, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2012 and preliminary data for 2013 indicated lower birth rates than were expected in the prior valuation. In this year's report, the total fertility rate reaches the ultimate in 2027, which is 11 years earlier than in last year's report.
- Incorporating mortality data obtained from Medicare experience at ages 65 and older for 2012 resulted in slightly higher death rates for 2012 and a slightly slower rate of decline in mortality over the next 25 years than were projected in last year's report. Incorporating mortality data obtained from the National Centers for Health Statistics at ages under 65 for 2011 resulted in slightly lower death rates for 2011 and a slightly faster rate of decline in mortality over the next 25 years than were projected in last year's report.
- Historical legal immigration was revised to include single age data (rather than 5-year age groups); including more recent marriage, legal immigration, and other-than-legal immigration data; historical data since 2001 was revised to be more consistent with the most recent estimates from the Census Bureau.

Inclusion of the new birth rate data and immigration data decreased the present value of estimated future net cash flows, while the inclusion of the remaining data increased the present value of estimated future net cash flows.

CHANGES IN ECONOMIC DATA, ASSUMPTIONS, AND METHODS

From the period beginning on January 1, 2015 to the period beginning on January 1, 2016

For the current valuation (beginning on January 1, 2016), there were three changes to the ultimate economic assumptions.

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent from 2.7 percent for the previous valuation.
- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period.
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent from 2.9 percent for the previous valuation period.

While very low inflation in recent years is reflective of U.S. and international supply and demand factors that have been affected by the global recession, the average rate of change in the CPI-W over the last two complete business cycles (from 1989 to 2007) is 2.63 percent. The lower ultimate CPI decreases the present value of estimated future net cash flows.

The higher real-wage differential assumption is based on new projections by the Centers for Medicare and Medicaid Services of slower growth in employer sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax. The higher real-wage differential increased the present value of estimated future net cash flows.

Real interest rates have been low since 2000, and particularly low since the start of the recent recession. An ongoing and much-debated question among experts is how much of this change is cyclic or a temporary response to extraordinary events, versus a fundamental permanent change. The Trustees believe that lowering the long-term ultimate real interest rate somewhat is appropriate at this time. The lower real interest rate decreased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- A reduction in the ultimate level of actual and potential GDP of about 1.0 percent is assumed. Thus, by the end of the short-range period (2025) and for all years thereafter, projected GDP in 2009 dollars is about 1.8 percent below the level in last year's report.

The change to GDP decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near term growth assumptions combined to increase the present value of estimated future net cash flows.

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

For the current valuation (beginning on January 1, 2015), there was one change to the ultimate economic assumptions.

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period.

The higher real-wage differential assumption is more consistent with recent experience and expectations of slower growth in employer sponsored group health insurance premiums from the Centers for Medicare and Medicaid Services. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax. This change to the real-wage assumption increased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period.
- The projected suspense file contains fewer wage items, which is consistent with having fewer workers (many of whom are undocumented immigrants) with wages on the suspense file and more of these workers with earnings in the underground economy, compared to the previous valuation.

The change to the ratio of average taxable earnings to the average wage index increased the present value of estimated future net cash flows while the change to the suspense file decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near term growth assumptions combined to increase the present value of estimated future net cash flows.

CHANGES IN PROGRAMMATIC DATA AND METHODS

From the period beginning on January 1, 2015 to the period beginning on January 1, 2016

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2016). The most significant are identified below.

- The sample used in the prior valuation for projecting average benefit levels of retired worker and disabled-worker beneficiaries newly entitled for benefits was for worker beneficiaries newly entitled in 2008. The current valuation uses the results from worker beneficiaries newly entitled in 2013. In addition, the method used to determine initial entitlements was improved, primarily to take into account the recent increase of “file and suspend” cases, which were not fully included under the previous methodology.
- Recent data and estimates provided by the Office of Tax Analysis at Treasury indicated higher levels of revenue from taxation of OASDI benefits than projected in the prior valuation.

Both of these methodological improvements increased the present value of estimated future net cash flows.

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2015). The most significant are identified below.

- The earnings histories of worker beneficiaries were changed to be more consistent with: (1) the projected employment and earnings by single year of age and gender used in estimating payroll tax revenue; and (2) the projected distribution by single year of age and gender of newly entitled worker beneficiaries for each projection year.
- The projected relative earnings levels for those over age 65 were changed to those age 65 and younger. The projected insured rate for some immigrants was lowered. The affected group of immigrants includes those working in covered employment with a temporary visa that allows them to work and those working in covered employment without current legal work authorization.
- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period. There were also updates to programmatic data, changes in projections of beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

All of these methodological improvements increased the present value of estimated future net cash flows.

CHANGES IN LAW OR POLICY

From the period beginning on January 1, 2015 to the period beginning on January 1, 2016

In the current valuation period (beginning on January 1, 2016), one law was enacted that is expected to have a significant effect on the long-range cost of the OASDI program. On November 2, 2015, the President signed into law Public Law 114-74, *Bipartisan Budget Act of 2015*. Several sections of the law had significant effects on long-range actuarial status, including:

- Section 831. Closure of unintended loopholes. This provision eliminates: (1) the ability to receive only a retired-worker benefit or an aged-spouse benefit when eligible for both, for those attaining age 62 in 2016 and later; and (2) the ability of a family member other than a divorced spouse to receive a benefit based on the earnings of a worker with a voluntarily suspended benefit, for voluntary suspensions requested after April 29, 2016.
- Section 832. Requirement for medical review. This section requires that the medical portion of the case review and any applicable residual functional capacity assessment for an initial disability determination be completed by an appropriate physician, psychiatrist, or psychologist.
- Section 833. Reallocation of payroll tax rates. For earnings in calendar years 2016 through 2018, this section temporarily reallocates from 1.80 percent to 2.37 percent the portion of the total 12.40 percent OASDI payroll tax that is directed to the DI Trust Fund. This reallocation of the payroll tax rates had no cost effect on the combined OASDI program.

Inclusion of this law increased the present value of estimated future net cash flows.

From the period beginning on January 1, 2014 to the period beginning on January 1, 2015

In the current valuation period (beginning on January 1, 2015), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, on November 20, 2014, the President announced a series of executive actions on immigration, which are expected to have a significant effect on the long-range income and cost of the OASDI program. Due to a Federal court order, implementation of the actions affecting undocumented children and parents is on hold at the time of this report. However, the estimates in this report assume this court order will be temporary and that the executive actions will proceed by the end of 2015.

Inclusion of these executive actions increased the present value of estimated future net cash flows.

ASSUMPTIONS USED FOR THE STATEMENTS OF CHANGES IN SOCIAL INSURANCE AMOUNTS

The present values included in the Statements of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Trustees Reports for those years. Table 1 summarizes these assumptions for the current year. Our *Agency Financial Report* website (www.socialsecurity.gov/finance) provides tabulated assumptions for the prior year in a similar manner.

PERIOD BEGINNING ON JANUARY 1, 2015 AND ENDING JANUARY 1, 2016

Present values as of January 1, 2015 are calculated using interest rates from the intermediate assumptions of the 2015 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2016. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2015 Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2016 Trustees Report.

PERIOD BEGINNING ON JANUARY 1, 2014 AND ENDING JANUARY 1, 2015

Present values as of January 1, 2014 are calculated using interest rates from the intermediate assumptions of the 2014 Trustees Report. All other present values in this part of the Statement are calculated as a present value as of January 1, 2015. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2014 Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement are calculated using the interest rates under the intermediate assumptions of the 2015 Trustees Report.

POTENTIAL IMPACT ON THE SOCIAL INSURANCE STATEMENTS OF THE JUNE 23, 2016 SUPREME COURT JUDGMENT ON THE 2014 DACA AND DAPA EXECUTIVE ACTIONS

In November 2014, Presidential executive actions expanded the Deferred Action for Childhood Arrivals program (DACA) and established the Deferred Action for Parents of Americans program (DAPA). On June 23, 2016, the Supreme Court was divided (tied 4-4) on the ruling of the legality of the expanded DACA and DAPA programs, so the lower court's ruling, temporarily blocking these programs from being implemented, was upheld. As a result, the expanded DACA and DAPA programs will be either delayed or never implemented. The SSA Office of the Chief Actuary has concluded that the Supreme Court's judgment has an effect on the actuarial methods and assumptions used in developing the estimates presented in the Statements of Social Insurance and the Statements of Changes in Social Insurance Amounts. Whether the expanded DACA and DAPA programs are delayed or never implemented, we expect that the judgment will have an impact of less than $25 billion on the present value of future noninterest income less future cost for current and future participants (open group measure) presented in the Statements of Social Insurance and Statements of Changes in Social Insurance Amounts. We do not consider these effects to be material.

OTHER INFORMATION: BALANCE SHEET BY MAJOR PROGRAM AS OF SEPTEMBER 30, 2016 (DOLLARS IN MILLIONS)

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	$ (92)	$ (140)	$ 9,114	$ 126	$ (23)	$ 0	$ 8,985
Investments	2,796,712	45,880	0	0	0	0	2,842,592
Interest Receivable	21,236	347	0	0	0	0	21,583
Accounts Receivable, Net	0	0	0	0	2,955	(2,747)	208
Other	0	0	2	0	21	0	23
Total Intragovernmental	2,817,856	46,087	9,116	126	2,953	(2,747)	2,873,391
Accounts Receivable, Net	2,444	4,340	5,255	0	2	(495)	11,546
Property, Plant, and Equipment, Net	0	0	0	0	3,419	0	3,419
Other	0	0	0	0	2	0	2
Total Assets	$2,820,300	$ 50,427	$ 14,371	$ 126	$ 6,376	$ (3,242)	$ 2,888,358
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	$ 4,307	$ 243	$ 0	$ 0	$ 0	$ 0	$ 4,550
Accounts Payable	374	837	6,436	35	2	(2,747)	4,937
Other	0	0	1	3	163	0	167
Total Intragovernmental	4,681	1,080	6,437	38	165	(2,747)	9,654
Benefits Due and Payable	69,230	28,520	5,396	0	0	(495)	102,651
Accounts Payable	0	12	333	0	40	0	385
Federal Employee and Veteran Benefits	0	0	0	0	327	0	327
Other	0	0	33	2	681	0	716
Total Liabilities	73,911	29,612	12,199	40	1,213	(3,242)	113,733
Contingencies (Note 9)							
Net Position							
Unexpended Appropriations - All Other Funds	0	0	5,918	86	2	0	6,006
Cumulative Results of Operations - Funds from Dedicated Collections	2,746,389	20,815	0	0	0	0	2,767,204
Cumulative Results of Operations - All Other Funds	0	0	(3,746)	0	5,161	0	1,415
Total Net Position - Funds from Dedicated Collections	2,746,389	20,815	0	0	0	0	2,767,204
Total Net Position - All Other Funds	0	0	2,172	86	5,163	0	7,421
Total Net Position	2,746,389	20,815	2,172	86	5,163	0	2,774,625
Total Liabilities and Net Position	$2,820,300	$ 50,427	$ 14,371	$ 126	$ 6,376	$ (3,242)	$ 2,888,358

OTHER INFORMATION: SCHEDULE OF NET COST FOR THE YEAR ENDED SEPTEMBER 30, 2016
(DOLLARS IN MILLIONS)

	Program	LAE	Total
OASI Program			
Benefit Payment Expense	$ 765,024	$ 0	$ 765,024
Operating Expenses	405	3,385	3,790
Total Cost of OASI Program	765,429	3,385	768,814
Less: Exchange Revenues	(1)	(12)	(13)
Net Cost of OASI Program	765,428	3,373	768,801
DI Program			
Benefit Payment Expense	144,018	0	144,018
Operating Expenses	254	3,076	3,330
Total Cost of DI Program	144,272	3,076	147,348
Less: Exchange Revenues	(25)	(11)	(36)
Net Cost of DI Program	144,247	3,065	147,312
SSI Program			
Benefit Payment Expense	58,976	0	58,976
Operating Expenses	194	4,716	4,910
Total Cost of SSI Program	59,170	4,716	63,886
Less: Exchange Revenues	(240)	(17)	(257)
Net Cost of SSI Program	58,930	4,699	63,629
Other			
Benefit Payment Expense	3	0	3
Operating Expenses	0	2,440	2,440
Total Cost of Other	3	2,440	2,443
Less: Exchange Revenues	0	(8)	(8)
Net Cost of Other Program	3	2,432	2,435
Total Net Cost			
Benefit Payment Expense	968,021	0	968,021
Operating Expenses	853	13,617	14,470
Total Cost	968,874	13,617	982,491
Less: Exchange Revenues	(266)	(48)	(314)
Total Net Cost	$ 968,608	$ 13,569	$ 982,177

OTHER INFORMATION: SCHEDULE OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2016

(DOLLARS IN MILLIONS)

	OASI	DI	SSI		Other	
	Funds from Dedicated Collections	Funds from Dedicated Collections	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
Cumulative Results of Operations:						
Beginning Balances	$ 2,720,423	$ 17,964	$ 3	$ (3,833)	$ 0	$ 0
Budgetary Financing Sources						
Appropriations Used	0	0	0	63,273	32,302	160
Tax Revenues	679,580	147,579	0	0	0	0
Interest Revenues	88,061	1,409	0	0	0	0
Transfers In/Out - Without Reimbursement	28,169	(1,622)	(135)	(4,076)	(32,302)	(157)
Railroad Retirement Interchange	(4,421)	(309)	0	0	0	0
Other Budgetary Financing Sources	5	41	0	0	0	0
Other Financing Sources (Non-Exchange)						
Transfers-In/Out - Without Reimbursement	0	0	0	(2,561)	0	2,561
Imputed Financing Sources	0	0	0	17	0	0
Other	0	0	0	2,496	0	(2,561)
Total Financing Sources	791,394	147,098	(135)	59,149	0	3
Net Cost of Operations	765,428	144,247	(132)	59,062	0	3
Net Change	25,966	2,851	(3)	87	0	0
Cumulative Results of Operations	$ 2,746,389	$ 20,815	$ 0	$ (3,746)	$ 0	$ 0
Unexpended Appropriations:						
Beginning Balances	$ 0	$ 0	$ 0	$ 3,686	$ 0	$ 90
Budgetary Financing Sources						
Appropriations Received	0	0	0	65,505	32,302	169
Other Adjustments	0	0	0	0	0	(13)
Appropriations Used	0	0	0	(63,273)	(32,302)	(160)
Total Budgetary Financing Sources	0	0	0	2,232	0	(4)
Total Unexpended Appropriations	0	0	0	5,918	0	86
Net Position	$ 2,746,389	$ 20,815	$ 0	$ 2,172	$ 0	$ 86

OTHER INFORMATION: SCHEDULE OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2016 (CONTINUED)
(DOLLARS IN MILLIONS)

	LAE	CONSOLIDATED		CONSOLIDATED TOTAL
	All Other Funds	Funds from Dedicated Collections	All Other Funds	
Cumulative Results of Operations:				
Beginning Balances	$ 5,928	$ 2,738,390	$ 2,095	$ 2,740,485
Budgetary Financing Sources				
Appropriations Used	30	32,302	63,463	95,765
Tax Revenues	0	827,159	0	827,159
Interest Revenues	0	89,470	0	89,470
Transfers In/Out Without Reimbursement	12,239	(5,890)	8,006	2,116
Railroad Retirement Interchange	0	(4,730)	0	(4,730)
Other Budgetary Financing Sources	0	46	0	46
Other Financing Sources (Non-Exchange)				
Transfers-In/Out	0	0	0	0
Imputed Financing Sources	533	0	550	550
Other	0	0	(65)	(65)
Total Financing Sources	12,802	938,357	71,954	1,010,311
Net Cost of Operations	13,569	909,543	72,634	982,177
Net Change	(767)	28,814	(680)	28,134
Cumulative Results of Operations	$ 5,161	$ 2,767,204	$ 1,415	$ 2,768,619
Unexpended Appropriations:				
Beginning Balances	$ 3	$ 0	$ 3,779	$ 3,779
Budgetary Financing Sources				
Appropriations Received	29	32,302	65,703	98,005
Other Adjustments	0	0	(13)	(13)
Appropriations Used	(30)	(32,302)	(63,463)	(95,765)
Total Budgetary Financing Sources	(1)	0	2,227	2,227
Total Unexpended Appropriations	2	0	6,006	6,006
Net Position	$ 5,163	$ 2,767,204	$ 7,421	$ 2,774,625

OTHER INFORMATION: COMBINED SCHEDULE OF SPENDING FOR THE YEAR ENDED SEPTEMBER 30, 2016
(DOLLARS IN MILLIONS)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 773,039	$ 147,517	$ 72,679	$ 32,553	$ 13,035	$ 1,038,823
Less Amount Available but Not Agreed to be Spent	0	0	(5,217)	(38)	(207)	(5,462)
Less Amount Not Available to be Spent	0	0	(577)	(49)	(190)	(816)
Total Amounts Agreed to be Spent	$ 773,039	$ 147,517	$ 66,885	$ 32,466	$ 12,638	$ 1,032,545
How was the Money Spent/Issued?						
Financial Assistance Direct Payments	$ 765,287	$ 144,001	$ 61,893	$ 4	$ 46	$ 971,231
Payroll	0	0	0	0	6,807	6,807
Contracts						
Travel	0	0	0	0	44	44
Rent, Utilities, and Communications	0	0	1	0	1,232	1,233
Acquisition of Capital Assets	0	0	0	0	454	454
Other Contractual Services	405	253	208	0	4,018	4,884
Inter-Fund Transfers	3,084	2,960	4,783	32,462	0	43,289
Railroad Board Transfers	4,421	309	0	0	0	4,730
Other	(158)	(6)	0	0	37	(127)
Total Amounts Agreed to be Spent	$ 773,039	$ 147,517	$ 66,885	$ 32,466	$ 12,638	$ 1,032,545

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 53. The Total Resources, Amount Available but Not Agreed to be Spent, Amount Not Available to be Spent, and Amount Agreed to be Spent balances reported above tie to the Total Budgetary Resources, Unobligated Balance – Apportioned, Unobligated Balance – Unapportioned and Expired Unobligated Balance, and Total New Obligations and Upward Adjustments lines, respectively, on the Statements of Budgetary Resources. The detailed line items presented under the How was the Money Spent/Issued section are not reported on the Statements of Budgetary Resources; however, the total of these amounts ties to the Total New Obligations and Upward Adjustments line reported.

The detailed line items reported above will not tie to amounts reported in USASpending.Gov. USASpending.Gov is a website that provides information on how tax dollars are spent. The website focuses specifically on spending related to contracts, grants, loans, and other types of spending. Included in the other types of spending are Federal benefit payments. While some of these categories are broken out in the above Schedule of Spending, the two reports will not tie as amounts reported in the schedule above include transactions with both Federal and non-Federal entities.

OTHER INFORMATION: COMBINED SCHEDULE OF SPENDING FOR THE YEAR ENDED SEPTEMBER 30, 2015
(DOLLARS IN MILLIONS)

	OASI	DI	SSI	Other	LAE	Consolidated
What Money is Available to Spend?						
Total Resources	$ 744,798	$ 147,722	$ 66,024	$ 31,021	$ 12,890	$ 1,002,455
Less Amount Available but Not Agreed to be Spent	0	0	(3,524)	(42)	(238)	(3,804)
Less Amount Not Available to be Spent	0	0	(321)	(48)	(196)	(565)
Total Amounts Agreed to be Spent	$ 744,798	$ 147,722	$ 62,179	$ 30,931	$ 12,456	$ 998,086
How was the Money Spent/Issued?						
Financial Assistance Direct Payments	$ 737,144	$ 144,320	$ 57,250	$ 4	$ 40	$ 938,758
Payroll	0	0	0	0	6,700	6,700
Contracts						
Travel	0	0	0	0	18	18
Rent, Utilities, and Communications	0	0	1	0	1,149	1,150
Acquisition of Capital Assets	0	0	0	0	325	325
Other Contractual Services	506	246	(350)	0	4,115	4,517
Inter-Fund Transfers	3,025	2,823	5,084	30,927	0	41,859
Railroad Board Transfers	4,328	341	0	0	0	4,669
Other	(205)	(8)	194	0	109	90
Total Amounts Agreed to be Spent	$ 744,798	$ 147,722	$ 62,179	$ 30,931	$ 12,456	$ 998,086

Certain amounts reported in the schedule above can be tied to specific line items on the Statements of Budgetary Resources presented on page 53. The Total Resources, Amount Available but Not Agreed to be Spent, Amount Not Available to be Spent, and Amount Agreed to be Spent balances reported above tie to the Total Budgetary Resources, Unobligated Balance – Apportioned, Unobligated Balance – Unapportioned and Expired Unobligated Balance, and Total New Obligations and Upward Adjustments lines, respectively, on the Statements of Budgetary Resources. The detailed line items presented under the How was the Money Spent/Issued section are not reported on the Statements of Budgetary Resources; however, the total of these amounts ties to the Total New Obligations and Upward Adjustments line reported.

The detailed line items reported above will not tie to amounts reported in USASpending.Gov. USASpending.Gov is a website that provides information on how tax dollars are spent. The website focuses specifically on spending related to contracts, grants, loans, and other types of spending. Included in the other types of spending are Federal benefit payments. While some of these categories are broken out in the above Schedule of Spending, the two reports will not tie as amounts reported in the schedule above include transactions with both Federal and non-Federal entities.

REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES FOR THE YEAR ENDED SEPTEMBER 30, 2016

(DOLLARS IN MILLIONS)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	$ 0	$ 0	$ 3,845	$ 90	$ 434	$ 4,369
Recoveries of Prior Year Unpaid Obligations	4	128	577	2	209	920
Other Changes in Unobligated Balance	403	(121)	0	(12)	70	340
Unobligated Balance From Prior Year Budget Authority, Net	407	7	4,422	80	713	5,629
Appropriations (Discretionary and Mandatory)	772,632	147,510	65,640	32,472	29	1,018,283
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	0	2,617	1	12,293	14,911
Total Budgetary Resources	$ 773,039	$ 147,517	$ 72,679	$ 32,553	$ 13,035	$1,038,823
Status of Budgetary Resources						
New obligations and upward adjustments (Note 16)						
Direct	$ 773,039	$ 147,517	$ 64,047	$ 32,465	$ 12,569	$1,029,637
Reimbursable	0	0	2,838	1	69	2,908
New obligations and upward adjustments (total)	773,039	147,517	66,885	32,466	12,638	1,032,545
Unobligated Balance , End of Year						
Apportioned, unexpired accounts	0	0	5,217	38	207	5,462
Unapportioned, unexpired accounts	0	0	575	0	17	592
Unexpired unobligated balance, end of year	0	0	5,792	38	224	6,054
Expired unobligated balance, end of year	0	0	2	49	173	224
Unobligated balance, end of year (total)	0	0	5,794	87	397	6,278
Total Budgetary Resources	$ 773,039	$ 147,517	$ 72,679	$ 32,553	$ 13,035	$1,038,823
Change in Obligated Balance						
Unpaid obligations:						
Unpaid Obligations, Brought Forward, October 1	$ 70,714	$ 28,511	$ 3,091	$ 109	$ 2,438	$ 104,863
New obligations and upward adjustments	773,039	147,517	66,885	32,466	12,638	1,032,545
Outlays, Gross	(769,839)	(146,278)	(66,102)	(32,537)	(12,348)	(1,027,104)
Recoveries of Prior Year Unpaid Obligations	(4)	(128)	(577)	(2)	(209)	(920)
Unpaid Obligations, End of Year	73,910	29,622	3,297	36	2,519	109,384
Uncollected payments:						
Uncollected Payments, Federal Sources, Brought Forward, October 1	0	0	0	0	(2,905)	(2,905)
Change in Uncollected Payments, Federal Sources	0	0	0	0	(38)	(38)
Uncollected Payments Federal Sources, End of Year	0	0	0	0	(2,943)	(2,943)
Memorandum (non-add) Entries:						
Obligated balance, Start of Year	$ 70,714	$ 28,511	$ 3,091	$ 109	$ (467)	$ 101,958
Obligated balance, End of Year	$ 73,910	$ 29,622	$ 3,297	$ 36	$ (424)	$ 106,441
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 772,632	$ 147,510	$ 68,257	$ 32,473	$ 12,322	$1,033,194
Actual Offsetting Collections (Discretionary and Mandatory)	(37)	(7)	(2,617)	(1)	(12,325)	(14,987)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	0	0	0	0	(38)	(38)
Recoveries of Prior Year Paid Obligations	37	7	0	0	70	114
Budget Authority, Net (Discretionary and Mandatory)	$ 772,632	$ 147,510	$ 65,640	$ 32,472	$ 29	$1,018,283
Outlays, Gross (Discretionary and Mandatory)	769,839	146,278	66,102	32,537	12,348	1,027,104
Actual Offsetting Collections (Discretionary and Mandatory)	(37)	(7)	(2,617)	(1)	(12,325)	(14,987)
Outlays, Net (Discretionary and Mandatory)	769,802	146,271	63,485	32,536	23	1,012,117
Distributed Offsetting Receipts	(31,254)	(1,276)	(240)	(2,561)	0	(35,331)
Agency Outlays, Net (Discretionary and Mandatory)	$ 738,548	$ 144,995	$ 63,245	$ 29,975	$ 23	$ 976,786

REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

PROGRAM DESCRIPTION

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as "Social Security," provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2015, SSA paid OASDI benefits to about 60 million beneficiaries. The laws applicable for the period determine eligibility and benefit amounts. Current law provides that the amount of the monthly benefit payments for workers and their eligible dependents or survivors is based on the workers' lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. Changes in laws governing the program may alter the amount of OASDI income (e.g., payroll taxes) and benefits.

PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 9 to the Consolidated Financial Statements, a liability of $97 billion as of September 30, 2016 ($93 billion as of September 30, 2015) is included in "Benefits Due and Payable" on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2016. Also, an asset of $2,843 billion as of September 30, 2016 ($2,808 billion as of September 30, 2015) is recognized for the "investments in Treasury securities." These investments are referred to as the combined OASI and DI Trust Fund asset reserves throughout the remainder of this required supplementary information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2016 because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid or are due to be paid because benefit payments are nonexchange transactions and are not considered deferred compensation as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

Required Supplementary Information - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial status of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **Income**: payroll taxes from employers, employees, and self-employed persons; revenue from Federal income tax on scheduled OASDI benefits; interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **Income excluding interest (Noninterest Income)**: income, as defined above, excluding the interest income from Treasury securities held as asset reserves of the OASI and DI Trust Funds;

- **Cost**: scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cash flow**: depending on the context, either income, noninterest income, or cost;
- **Net cash flow**: either income less cost or noninterest income less cost; however, net cash flow in this section refers to noninterest income less cost; and
- **Present value**: the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2016 Trustees Report) (see Note 18 to the Statements of Social Insurance). The Statements of Social Insurance, the Statements of Changes in Social Insurance Amounts, and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act,* including future changes previously enacted. This information includes:

(1) present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;

(2) estimated annual income, income (excluding interest), and cost as percentages of taxable payroll and gross domestic product (GDP);

(3) the ratio of estimated covered workers to estimated beneficiaries; and

(4) an analysis of the sensitivity of the projections to changes in selected assumptions.

Sustainable Solvency - Based on the estimates of income and cost presented in the Statements of Social Insurance, the OASDI program does not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits in full on a timely basis and maintain asset reserves in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the asset reserves in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

Cash Flow Projections - Charts 1 through 4 show annual cash flow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2016 through 2090. However, income including interest is only estimated through 2034, the year that the asset reserves in the combined OASI and DI Trust Funds are projected to deplete. After the point of such depletion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income (noninterest income). Therefore, displaying annual income levels beyond the point of combined OASI and DI Trust Fund depletion would be inappropriate unless the cost of scheduled benefits was replaced by the amount of benefits that would be payable.

Estimates are for the open-group population (i.e., all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both during that period). Therefore, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost for such workers and their dependents during that period.

Amounts as a Percentage of Taxable Payroll - Chart 1 shows estimated annual income, noninterest income, and cost through 2034 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2090 expressed as percentages of taxable payroll.

Chart 1 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2016-2034

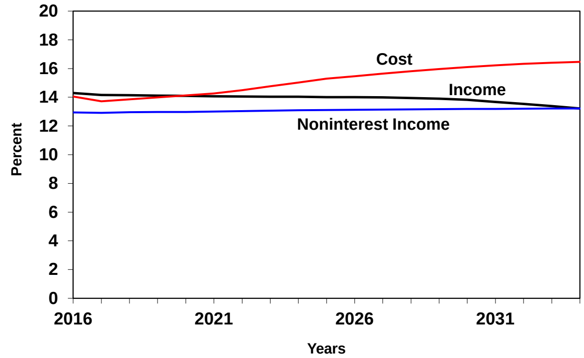
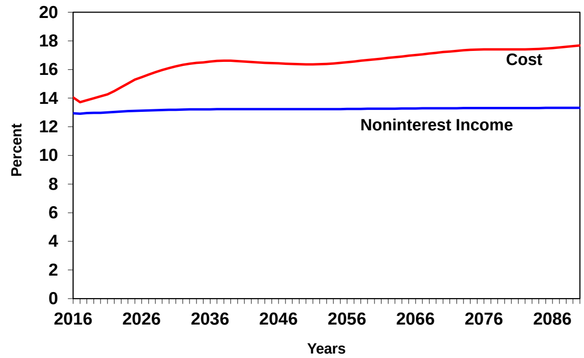


Chart 2 – Estimated OASDI Noninterest Income, and Cost, as a Percent of Taxable Payroll, 2016-2090



As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent) and the 12.4 percent that is paid on taxable self-employment income. In all years of the projection period, estimated annual cost is more than estimated annual income excluding interest. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 74 percent of the estimated cost.

As Chart 1 shows, estimated cost starts to exceed income including interest in 2020. This occurs because of a variety of factors including the retirement of the baby boom generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption differs from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. The Government could finance this redemption by increasing its borrowing from the public, raising taxes (other than OASDI payroll taxes), and/or reducing expenditures (other than OASDI cost). Alternatively, the Government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

Actuarial Balance - The Statements of Social Insurance show that the present value of the excess of income (excluding interest) over cost for the 75-year period is -$14,169 billion. If augmented by the combined OASI and

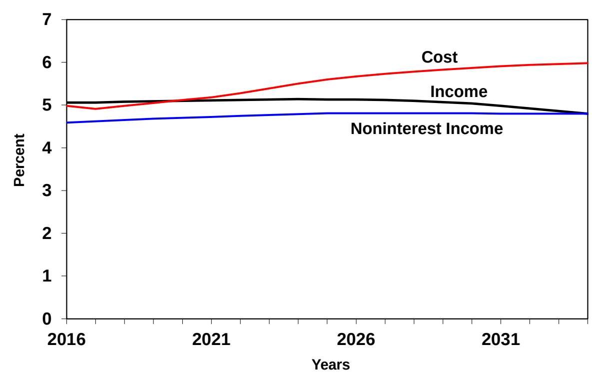
DI Trust Fund asset reserves at the start of the period (January 1, 2016), it is -$11,357 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.66 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

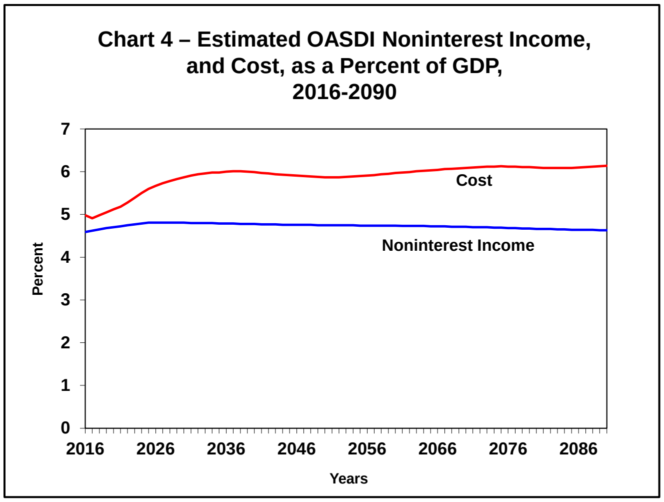
For the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, revenues would have to increase by an amount equivalent to an immediate and permanent payroll tax increase of 2.58 percentage points (from its current level of 12.40 percent to 14.98 percent). One interpretation of the actuarial balance is that its magnitude, 2.66 percent, should equal the necessary increase. However, the increase is different for two reasons. First, the necessary tax rate is the rate required to maintain solvency throughout the period that results in no asset reserves in the OASI and DI Trust Funds at the end of the period, whereas the actuarial balance incorporates an ending asset reserve in the OASI and DI Trust Funds equal to one year's cost. Second, the necessary tax rate reflects a behavioral response to tax rate changes, whereas the actuarial balance does not. In particular, the calculation of the necessary tax rate assumes that an increase in payroll taxes results in a small shift of wages and salaries to forms of employee compensation that are not subject to the payroll tax.

Alternatively, solvency could be achieved by reducing scheduled benefits by an amount equivalent to an immediate and permanent reduction of about 16 percent applied to all current and future beneficiaries, or about 19 percent if the reductions were applied only to newly entitled beneficiaries. Finally, some combination of both tax increases and benefit reductions could be adopted.

Amounts as a Percentage of Gross Domestic Product - Chart 3 shows estimated annual income, noninterest income, and cost through 2034 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2090 expressed as percentages of GDP. Analyzing these cash flows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.

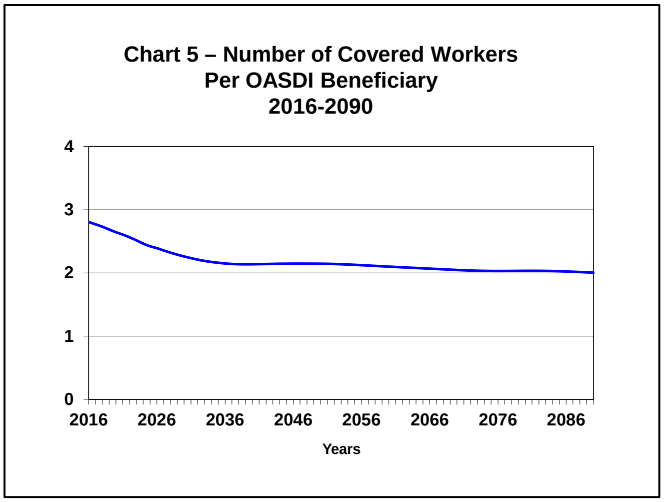
Chart 3 – Estimated OASDI Income, Noninterest Income, and Cost, as a Percent of GDP, 2016-2034





In calendar year 2015, OASDI cost was about $897 billion, which was about 5.0 percent of GDP. The cost of the program (based on current law) rises rapidly to 5.9 percent of GDP in 2030, hits a peak of 6.0 percent of GDP in 2037, declines to 5.9 percent by 2050, and generally increases to 6.1 percent of GDP by 2090. The rapid increase from 2017 to 2030 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

Ratio of Workers to Beneficiaries - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.8 in 2015 to 2.0 in 2090.



SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible and actual experience is likely to differ from the estimated or assumed values of these factors, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, Consumer Price Index (CPI), and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2016 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2016 and are based on estimates of income and cost during the 75-year projection period 2016-2090. In this section, for brevity, “income” means “noninterest income.”

For each assumption analyzed, one table and one chart are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The chart shows the present value of each annual net cash flow.

Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees, in their annual report, also include estimates using a stochastic model developed by the Office of the Chief Actuary. These estimates provide an additional way of analyzing variability in assumptions, income, and cost.

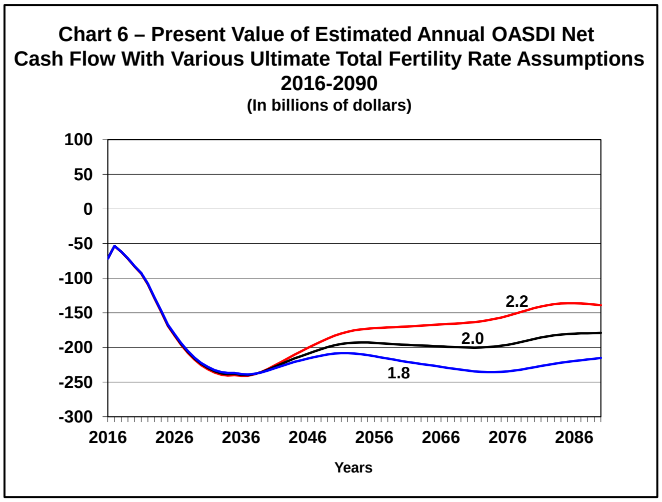
Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.8, 2.0, and 2.2 children per woman, where 2.0 is the intermediate assumption in the 2016 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2032, 2027, and 2024 under the total fertility rate assumptions of 1.8, 2.0, and 2.2, respectively.

Table 1 demonstrates that if the ultimate total fertility rate were changed from 2.0 children per woman, the Trustees’ intermediate assumption, to 1.8, the shortfall for the period of estimated OASDI income relative to cost would increase to $15,466 billion from $14,169 billion; if the ultimate rate were changed to 2.2, the shortfall would decrease to $12,754 billion.

TABLE 1: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS ULTIMATE TOTAL FERTILITY RATE ASSUMPTIONS VALUATION PERIOD: 2016-2090

Ultimate Total Fertility Rate	1.8	2.0	2.2
Present Value of Estimated Excess (In billions)	-$15,466	-$14,169	-$12,754

Using the same total fertility rates used for the estimates in Table 1, Chart 6 shows the present value of the estimated annual OASDI net cash flow.



The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cash flow estimates corresponding to all three ultimate fertility rates increase (become less negative) in 2017, generally decrease in years 2018-2037, and mostly increase thereafter. Net cash flow estimates corresponding to a 1.8 and a 2.0 total fertility rate have one more period of decreasing present values in years 2052-2074 and 2055-2071, respectively. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2090 than it would to cover the annual deficit in 2035.

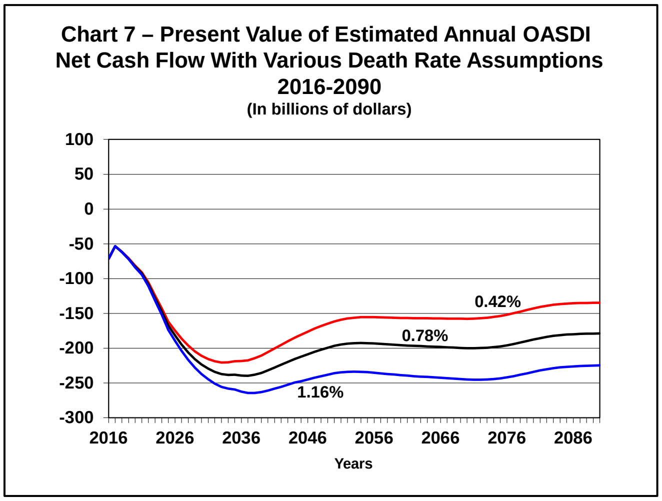
Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2015-2090 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.42, 0.78, and 1.16 percent per year, where 0.78 percent is the intermediate assumption in the 2016 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 27, 44, and 58 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 79.1 in 2015 to 82.7, 85.8, and 88.9 in 2090 for average annual reductions in the age-sex-adjusted death rate of 0.42, 0.78, and 1.16 percent, respectively.

Table 2 demonstrates that if the annual reduction in death rates were changed from 0.78 percent, the Trustees' intermediate assumption, to 0.42 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to $11,915 billion from $14,169 billion; if the annual reduction were changed to 1.16 percent, meaning that people live longer, the shortfall would increase to $16,601 billion.

TABLE 2: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS DEATH RATE ASSUMPTIONS VALUATION PERIOD: 2016-2090

Average Annual Reduction in Death Rates (from 2015 to 2090)	0.42 Percent	0.78 Percent	1.16 Percent
Present Value of Estimated Excess (In billions)	-$11,915	-$14,169	-$16,601

Using the same assumptions about future reductions in death rates used for the estimates in Table 2, Chart 7 shows the present value of the estimated annual OASDI net cash flow.



The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cash flow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in 2017, the present values are expected to decrease rapidly into the 2030s. Present values based on all three sets of assumptions begin to increase (become less negative) by 2039. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase (become less negative) at that time, and generally continues to increase through 2090. Under all three sets of assumptions net cash flows have one more period of decreasing present values each from around 2055-2070.

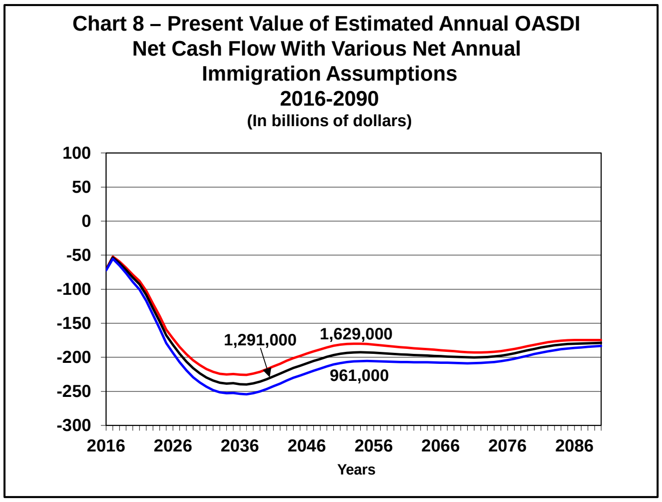
Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 961,000 persons, 1,291,000 persons, and 1,629,000 persons over the 75-year valuation period, where 1,291,000 persons is the average value based on the intermediate assumptions in the 2016 Trustees Report.

Table 3 demonstrates that if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,291,000 persons to 961,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to $14,946 billion from $14,169 billion. If, instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,629,000 persons, the present value of the shortfall would decrease to $13,461 billion.

TABLE 3: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS 75-YEAR AVERAGE NET ANNUAL IMMIGRATION ASSUMPTIONS VALUATION PERIOD: 2016-2090

75-Year Average Net Annual Immigration	961,000 Persons	1,291,000 Persons	1,629,000 Persons
Present Value of Estimated Excess (In billions)	-$14,946	-$14,169	-$13,461

Using the same assumptions about net annual immigration used for the estimates in Table 3, Chart 8 shows the present value of the estimated annual OASDI net cash flow.



The three patterns of the present values shown in Chart 8 are similar. Under all three sets of assumptions, the net cash flow estimates are negative in all years of the 75-year projection period. The net cash flow estimates corresponding to all three net annual immigration assumptions increase (become less negative) in 2017, generally decrease in years 2018-2037, and mostly increase thereafter. Under all three sets of assumptions net cash flows have one more period of decreasing present values each from around 2055-2070.

Very little difference is discernible in the first few years among the estimates of present values of net annual cash flow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Therefore, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Therefore, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

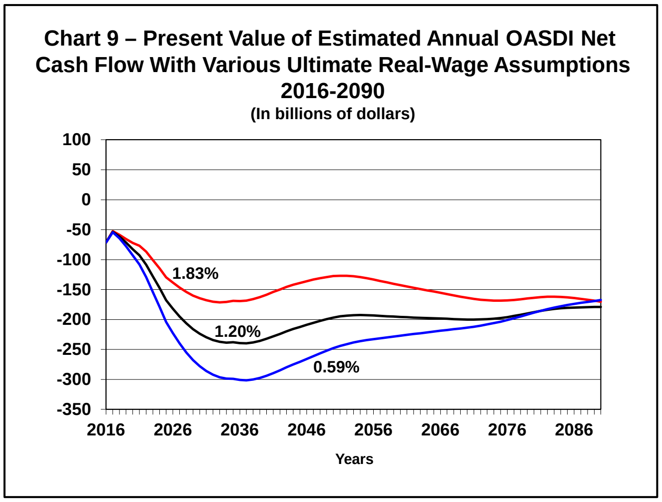
Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in: (1) the average annual wage in OASDI covered employment; and (2) the average annual CPI. The ultimate real-wage differential is the average of the annual real-wage differential for the last 65 years of the 75-year projection period. Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.59, 1.20, and 1.83 percentage points, where 1.20 percentage points is the intermediate assumption in the 2016 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.60 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.19, 3.80, and 4.43 percent, respectively.

Table 4 demonstrates that if the ultimate real-wage differential were changed from 1.20 percentage point, the Trustees' intermediate assumption, to 0.59 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to $16,357 billion from $14,169 billion; if the ultimate real-wage differential were changed from 1.20 to 1.83 percentage points, the shortfall would decrease to $10,846 billion.

TABLE 4: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS ULTIMATE REAL-WAGE ASSUMPTIONS VALUATION PERIOD: 2016-2090

Ultimate Annual Increase in Wages, CPI; **Real-Wage Differential**	3.19%, 2.60%; **0.59%**	3.80%, 2.60%; **1.20%**	4.43%, 2.60%; **1.83%**
Present Value of Estimated Excess (In billions)	-$16,357	-$14,169	-$10,846

Using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4, Chart 9 shows the present value of the estimated annual OASDI net cash flow.



The net cash flow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. After increasing (becoming less negative) in 2017, the present values are expected to decrease into the 2030s. Present values based on all three assumptions begin to increase (become less negative) by 2038. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.83 percentage points, the present values continue to increase until 2052 when decreases begin again and generally continue throughout the remainder of the projection period. The present values for the other two assumptions generally continue increasing throughout the remaining projection period. Under the assumed real-wage differential of 1.20 percentage points, net cash flows have one more period of decreasing present values from 2055-2071.

Differences among the estimates of annual net cash flow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cash flow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cash flow based on the three assumptions diverge fairly rapidly. However, toward the end of the projection period, annual net cash flow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

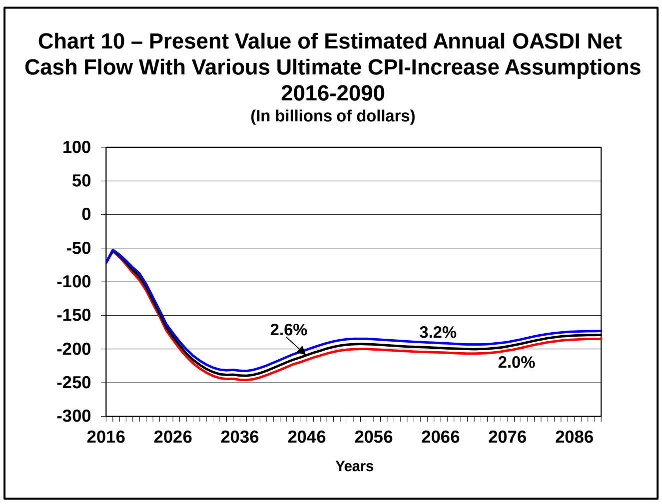
Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.00, 2.60, and 3.20 percent, where 2.60 percent is the intermediate assumption in the 2016 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.20 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.20, 3.80, and 4.40 percent, respectively.

Table 5 demonstrates that if the ultimate annual increase in the CPI were changed from 2.60 percent, the Trustees' intermediate assumption, to 2.00 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to $14,620 billion from $14,169 billion; if the ultimate annual increase in the CPI were changed to 3.20 percent, the shortfall would decrease to $13,676 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about one year. For this reason, larger increases in the CPI cause earnings and income to increase sooner and, therefore, by more each year, than benefits and cost.

TABLE 5: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS ULTIMATE CPI-INCREASE ASSUMPTIONS VALUATION PERIOD: 2016-2090

Ultimate Annual Increase in Wages, **CPI**; Real-Wage Differential	3.20%, **2.00%**; 1.20%	3.80%, **2.60%**; 1.20%	4.40%, **3.20%**; 1.20%
Present Value of Estimated Excess (In billions)	-$14,620	-$14,169	-$13,676

Using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5, Chart 10 shows the present value of the estimated annual OASDI net cash flow.



The net cash flow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The net cash flow estimates corresponding to all three ultimate CPI-increase assumptions increase (become less negative) in 2017, generally decrease in years 2018-2037, and mostly increase thereafter. Under all three sets of assumptions net cash flows have one more period of decreasing present values each from 2055-2070.

Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.2, 2.7, and 3.2 percent, where 2.7 percent is the intermediate assumption in the 2016 Trustees Report. Changes in real interest rates change the present value of cash flow, even though the cash flow itself does not change.

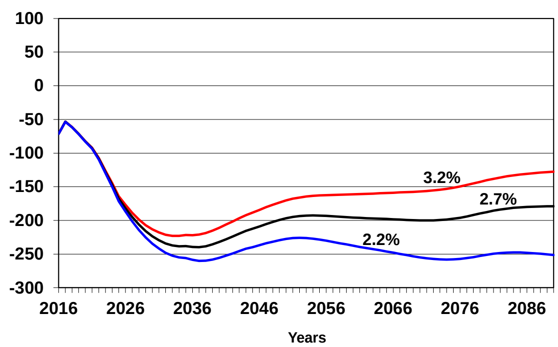
Table 6 demonstrates that if the ultimate real interest rate were changed from 2.7 percent, the Trustees' intermediate assumption, to 2.2 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms would increase to $16,814 billion from $14,169 billion; if the ultimate annual real interest rate were changed to 3.2 percent, the present-value shortfall would decrease to $12,064 billion.

TABLE 6: PRESENT VALUE OF ESTIMATED EXCESS OF OASDI INCOME OVER COST WITH VARIOUS ULTIMATE REAL INTEREST ASSUMPTIONS VALUATION PERIOD: 2016-2090

Ultimate Annual Real Interest Rate	2.2 Percent	2.7 Percent	3.2 Percent
Present Value of Estimated Excess (In billions)	-$16,814	-$14,169	-$12,064

Using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6, Chart 11 shows the present value of the estimated annual OASDI net cash flow.

Chart 11 – Present Value of Estimated Annual OASDI Net Cash Flow With Various Ultimate Real Interest Rate Assumptions 2016-2090
(In billions of dollars)



The net cash flow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After increasing (becoming less negative) in 2017, the present values are expected to decrease rapidly into the 2030s. Present values based on all three sets of assumptions begin to increase (become less negative) by 2038. Therefore, in terms of today's investment dollar, annual OASDI net cash flow, although still negative, begins to increase (become less negative) at that time. For ultimate real interest rates of 2.7 percent and 3.2 percent the increasing present values mostly continue through 2090, with one more period of decreasing present values for an ultimate real interest rate of 2.7 percent from 2055-2070. For an ultimate real interest rate of 2.2 percent, the present values increase in years 2038-2052, decrease in years 2053-2074, and mostly increase thereafter.

AUDITORS' REPORT

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 9, 2016

The Honorable Carolyn W. Colvin
Acting Commissioner

The *Chief Financial Officers Act of 1990* (Pub. L. No. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General or an independent external auditor, as determined by the Inspector General, audit SSA's consolidated financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), KPMG LLP (KPMG), an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2016 consolidated financial statements. This letter transmits the KPMG *Independent Auditors' Report* on the audit of SSA's FY 2016 consolidated financial statements. KPMG's report includes the following:

- Report on the Financial Statements, including the Opinions on the Consolidated Financial Statements and Sustainability Financial Statements;
- Report on Internal Control over Financial Reporting, including the Opinion on Management's Assertion About the Effectiveness of Internal Control; and
- Other Reporting Requirements Required by *Government Auditing Standards*.

OBJECTIVE OF A FINANCIAL STATEMENT AUDIT

KPMG conducted its audit of the consolidated financial statements and sustainability financial statements in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. The objective of a financial statement audit is to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The sustainability financial statements are based on management's assumptions, and are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The sustainability financial statements are not forecasts or predictions, and are not intended to imply that current policy or law is sustainable. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results.

In addition, KPMG examined management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2016, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. KPMG conducted their examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control audit requirements included in OMB Bulletin No. 15-02. Those standards and OMB Bulletin No. 15-02 require that KPMG plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Their examination included assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements.

AUDIT OF FINANCIAL STATEMENTS, EFFECTIVENESS OF INTERNAL CONTROL, AND COMPLIANCE WITH LAWS AND REGULATIONS

Grant Thornton, LLP audited SSA's FY 2015 consolidated financial statements and the statements of social insurance as of January 1, 2011 through January 1, 2015, and issued an unmodified opinion on those statements. Grant Thornton, LLP also reported that SSA was maintaining effective internal control over financial reporting as of September 30, 2015 based on criteria under OMB Circular A-123, *Management's Responsibility for Internal Controls*, and the *Federal Manager's Financial Integrity Act of 1982*. However, Grant Thornton, LLP identified three significant deficiencies in internal controls: (1) Information Systems Controls, (2) Calculation, Recording, and Prevention of Overpayments, and (3) Redeterminations.

KPMG issued unmodified opinions on SSA's FY 2016 consolidated financial statements, and the sustainability financial statements as of January 1, 2016, and the changes in its social insurance amounts for the period January 1, 2015 to January 1, 2016. In addition, KPMG issued an unqualified opinion on management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2016 based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller of the United States. However, KPMG did identify two significant deficiencies in internal controls: (1) Information Technology Systems Controls, and (2) Accounts Receivable/Overpayments. KPMG did not identify a significant deficiency in redeterminations.

SIGNIFICANT DEFICIENCY – INFORMATION TECHNOLOGY SYSTEMS CONTROLS

KPMG identified four systems control deficiencies that, when aggregated, are considered to be a significant deficiency in the area of Information Technology (IT) Systems Controls. Specifically, KPMG's testing disclosed the following deficiencies.

1. **Threat and Vulnerability Management:** Weaknesses with cyber/network security controls during testing of threat and vulnerability management processes.
2. **IT Oversight and Governance:** Lack of an organizational information security risk assessment and strategy that considers risk framing, assumptions, tolerance, and constraints, as well as, agency priorities and tradeoffs. Further, it noted areas where sites had not implemented effective IT internal controls locally that adhered to SSA requirements, policies, and procedures. During site visits to one program service center, and five disability determination services, KPMG also noted a lack of oversight for decentralized information systems and locations, inconsistent implementation of SSA IT control requirements associated

with access controls, segregation of duties, change management, and a lack of risk management activities, including security assessment and authorization processes.

3. **Change and Configuration Management:** In the areas of change and configuration management, the program service center did not consistently implement SSA's change management directives, policies, and procedures. In addition, security baselines for the platforms supporting Old-Age, Survivors, and Disability Insurance (OASDI), Supplemental Security Income (SSI), financial reporting, and limitation on administrative expenses transactions did not follow applicable federal guidance and were not tailored to SSA's risk profile. KPMG also noted instances where security settings did not comply with SSA's risk models and security policies.

4. **Access Controls:** Control failures related to appropriate completion of logical access authorization forms, review and recertification of privileged and non-privileged access, and timely removal of logical access for applications processing OASDI, SSI, financial reporting, and limitation on administrative expenses transactions, as well as the case processing systems at the disability determination services. Additionally, KPMG noted deficiencies related to physical access to the computer rooms that housed the program service center and disability determination services servers and hardware.

SIGNIFICANT DEFICIENCY – ACCOUNTS RECEIVABLE/OVERPAYMENTS

In addition to the IT Systems Control significant deficiency, KPMG identified four deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal controls related to accounts receivable/overpayments. Specifically, KPMG's testing disclosed the following deficiencies.

1. **Financial Accounting Process and IT Systems Related to Overpayments:** Subsidiary ledgers used to account for OASDI and SSI overpayments did not agree with the general ledger, and SSA lacked an internal control requiring routine reconciliation of subsidiary ledgers to the general ledger. In addition, KPMG identified control deficiencies related to the periodic testing of IT system programs to ensure accounts receivable information is accurate and complete.

2. **Documentation Supporting Accounts Receivable/Overpayment Claims and Calculations:** In approximately 30 percent of samples tested, KPMG identified errors that affected the accuracy of the overpayment. In addition, in approximately 25 percent of samples tested, KPMG identified some or none of the documentation to support the existence of a claim could be located.

3. **Compliance with SSA Policies and Procedures Affecting Effectiveness of Internal Controls:** Instances where SSA and Disability Determination Services employees did not fully comply with SSA policies, including retaining sufficient evidence to support a claim for overpayment.

4. **IT System Limitations Affecting Accuracy and Presentation of Accounts Receivable:** SSA identified an IT system limitation where receivable installment payments extending past the year 2049 were not tracked.

KPMG identified no reportable instances of noncompliance with the laws, regulations, contracts, grant agreements, or other matters tested.

OIG EVALUATION OF KPMG AUDIT PERFORMANCE

To fulfill our responsibilities under the *Chief Financial Officers Act of 1990* and related legislation for ensuring the quality of the audit work performed, we monitored KPMG's audit of SSA's FY 2016 consolidated financial statements by

- reviewing KPMG's audit approach and planning;
- evaluating its auditors' qualifications and independence;
- monitoring the audit's progress at key points;

- examining KPMG's documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing KPMG's audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 15-02;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report, dated November 9, 2016, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding KPMG's performance under the contract terms. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and, accordingly, we do not express, an opinion on SSA's consolidated financial statements, sustainability financial statements, management's assertions about the effectiveness of its internal control over financial reporting or SSA's compliance with certain laws, regulations, contracts and grant agreements. However, our monitoring review, as qualified above, disclosed no instances where KPMG did not comply with applicable auditing and attestation standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to congressional committees with oversight and appropriation responsibilities over SSA. In addition, we will post a copy of the report on our public Website.

Gale Stallworth Stone

Gale Stallworth Stone
Acting Inspector General

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

INDEPENDENT AUDITORS' REPORT

The Honorable Carolyn W. Colvin
Acting Commissioner
Social Security Administration:

In our audit of the Social Security Administration (SSA) we found:

- The consolidated balance sheet as of September 30, 2016, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. generally accepted accounting principles);
- The sustainability financial statements which comprise the statement of social insurance as of January 1, 2016, and the statement of changes in social insurance amounts for the period January 1, 2015 to January 1, 2016, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- Management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States;
- No instances of substantial noncompliance with the requirements of Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA); and
- No instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements, or other matters identified in our testing that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States or Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss these conclusions in more detail.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the SSA, which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the consolidated balance sheet as of September 30, 2016, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (herein referred to as financial statements). The sustainability financial statements comprise the statement of social insurance as of January 1, 2016, and the statement of changes in social insurance amounts for the period January 1, 2015 to January 1, 2016, and the related notes to the sustainability financial statements.

KPMG

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SSA as of September 30, 2016, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Also, in our opinion, the sustainability financial statements referred to above present fairly, in all material respects, SSA's social insurance information as of January 1, 2016, and the changes in its social insurance amounts for the period January 1, 2015 to January 1, 2016, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 18 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of SSA's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability of the social insurance program. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The sustainability financial statements are not forecasts or predictions, and are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying this sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

Other Matters

Accompanying Prior Period Financial Statements

The accompanying consolidated financial statements of SSA as of September 30, 2015 and for the year then ended, and the statements of social insurance as of January 1, 2015, January 1, 2014, January 1, 2013, and January 1, 2012, and the statement of changes in social insurance amounts for the period January 1, 2014 to January 1, 2015, and the related notes to the financial statements, were audited by other auditors whose report, dated November 9, 2015, on those financial statements was unmodified and included an emphasis of matter paragraph that described that because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material, as discussed in Note 18 to the 2015 financial statements.

Interactive Data

Management has elected to reference information on websites or other forms of interactive data outside the *Agency Financial Report* (AFR) to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 5 through 44 of the AFR, and Required Supplementary Information on pages 94 through 106 of the AFR be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Acting Commissioner's Message on page 1 and the other information included on pages 2 through 4, 45 through 48, 88 through 93, and 123 through the end of the AFR is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have examined management's assertion, included on page 40 of the AFR that SSA maintained effective internal control over financial reporting as of September 30, 2016, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. SSA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion about the effectiveness of internal control over financial reporting, included on page 40 of the AFR. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control audit requirements included in OMB Bulletin No. 15-02. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA maintained effective internal control over financial reporting as of September 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit I, Findings A – Information Technology Systems Controls, and B – Accounts Receivable/Overpayments to be significant deficiencies.

SSA's response to the findings identified in our examination is presented on page 122 of the AFR. We did not examine SSA's response and, accordingly, we express no opinion on the response.

We do not express an opinion, or any form of assurance, on management's assertion, included on page 40 of the AFR, referring to operations or compliance with laws and regulations.

This Report on Internal Control over Financial Reporting is intended solely for the information and use of SSA management, the SSA Office of the Inspector General, the OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SSA financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which SSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington DC
November 9, 2016

Independent Auditors' Report
Exhibit I – Significant Deficiencies

A. Information Technology Systems Controls

Background

Social Security Administration (SSA) management relies on an automated information technology (IT) systems environment for administering and processing the Old-Age and Survivors Insurance (OASI), and Disability Insurance (DI) (collectively known as OASDI) programs as well as the Supplemental Security Income (SSI) program and for financial statement reporting. Our internal control testing covered the General Information Technology Controls (GITC) of SSA's financially relevant applications and associated operating systems, databases, and infrastructure applications. As part of our testing, we performed IT security testing, penetration testing, and vulnerability assessments over the platforms that support relevant applications that process OASDI and SSI, financial reporting, and Limitation on Administrative Expenses transactions. GITCs provide the foundation for the integrity of systems including applications and the system software that comprise the general support systems for the major applications. GITCs, combined with application-level controls, are critical to ensure accurate and complete processing of transactions and integrity of stored data. We also performed application control testing on IT systems and processes that were significant to the financial statements and the organization as a whole. Information Technology Application Controls (ITAC) include controls over input, processing of data, and output of data, as well as interface, master file, and other user controls. These controls provide assurance over the data completeness, accuracy, and validity. We performed our audit at SSA Headquarters, as well as one program service center (PSC) and five disability determination services (DDS).

Criteria

The Government Accountability Office's *Federal Information System Controls Audit Manual* defines the objectives used to evaluate GITCs in five key control areas: the security management program, physical and logical access controls, configuration and change management, segregation of duties, and service continuity/contingency planning. Additionally, Federal Information Processing Standards 200, *Minimum Security Requirements for Federal Information and Information Systems*, and National Institute of Standards and Technology Special Publication 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, in combination, provide a framework to help ensure Federal agencies apply appropriate security requirements and controls to all IT systems. This framework includes agencies' organizational assessment of risk that validates the initial security control selection and determines whether any additional controls are needed to protect organizational operations. The resulting set of security controls establishes a level of security due diligence for the organization.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 11, *Design Activities for the Information System*, provides internal control requirements for IT systems the Government uses. Principle No. 11 states, in part, that management designs control activities over the IT infrastructure to support the completeness, accuracy, and validity of information processing by information technology. Management designs control activities for security management of the entity's information system for appropriate access by internal and external sources to protect the entity's information system. Security management includes access rights across various levels of data, operating system (system software), network, application, and physical layers. Management also designs control activities over access to protect an entity from inappropriate access and unauthorized use of the system.

Conditions

During our Fiscal Year (FY) 2016 testing of the significant SSA financial IT systems, we noted control deficiencies that, in aggregate, are a significant deficiency in the areas of threat and vulnerability management, IT oversight and governance, change and configuration management, and access controls.

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Threat and Vulnerability Management:

Configuration, vulnerability, and patch management processes are critical components of an effective cyber security strategy because they prevent or detect weaknesses, such as misconfigurations, weak credentials, and vulnerabilities, are essential in combating internal and external cyber threats, exploitations, and unauthorized access. Our penetration testing, IT security testing, and vulnerability assessments identified control deficiencies with cyber/network security controls. Detailed information about these deficiencies or results of IT security testing have been reported in a separate, limited-distribution management letter.

IT Oversight and Governance:

Appropriate IT governance and oversight ensures risks are identified and assessed and controls are appropriately designed, implemented, and are operating effectively across the Agency's information systems and locations. Through the Agency's security management program, SSA's risk management framework should include continuous risk assessments, developing and implementing effective security procedures, and monitoring the effectiveness of those procedures. SSA did not complete an organizational information security risk assessment and strategy that considers risk framing, assumptions, tolerance, and constraints as well as, Agency priorities and tradeoffs. An information security risk management assessment and strategy is critical in making risk-based decisions because without it SSA may not develop an effective risk management program. During our testing, we noted that five DDSs and one PSC had not implemented effective IT internal controls locally that adhered to SSA's Program Operations Manual System (POMS) and enterprise-wide policies and procedures. Specifically, we identified issues associated with security management, logical and physical access controls, segregation of duties, change and configuration management, and platform security. Furthermore, we noted that SSA's requirements and guidance were not sufficiently documented, which resulted in inconsistent implementation and noncompliance with SSA policy. We also noted a lack of oversight for decentralized information systems and locations; inconsistent implementation of SSA IT control requirements associated with access controls, segregation of duties, change management; and a lack of risk management activities, including security assessment and authorization processes at five DDSs and one PSC.

Change and Configuration Management:

Change management processes provide assurance that software, data, and other changes associated with information systems are approved and tested to prevent the introduction of functional or security risks. Configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. A disciplined process for testing, approving, and migrating changes between environments, including into production, is essential to ensure systems operate as intended and there are no unauthorized changes to source code, data, and configuration settings. SSA's change management directives, and policies and procedures, were not consistently implemented at the PSC where we performed test procedures. SSA's security baselines for the platforms supporting relevant OASDI and SSI, financial reporting, and Limitation on Administration Expenses transactions did not follow applicable Federal guidance, and were not tailored to SSA's risk profile when specifying security option settings. In addition, we identified instances where security settings in financially relevant applications and DDS case processing system platforms did not comply with SSA's risk models and security policies.

Access Controls:

Access controls provide assurance that critical IT systems are physically safeguarded and logical access to sensitive applications, system utilities, and data is provided only when authorized. Weaknesses in such controls can compromise the integrity of data and increase the risk that data may be inappropriately accessed, or modified by unauthorized persons, affecting the accuracy of the financial statements. We noted that SSA had identified mechanisms and processes to strengthen the controls to address deficiencies identified in prior years. However, our testing identified control failures related to appropriate completion of logical access authorization forms, review and recertification of privileged and non-privileged access, and timely removal of logical access for applications processing OASDI and SSI, financial reporting, and Limitation on Administration Expenses transactions, as well as the case processing systems at the DDS locations. Additionally, we noted deficiencies related to physical access to the computer rooms that housed the PSC and DDS servers and hardware.

Cause

While SSA continued executing its risk-based approach to strengthen controls over its IT systems and databases, and addressing deficiencies identified in prior years, our FY 2016 testing identified control issues in both design and operation of key GITCs and ITACs. We believe that, in many cases, these deficiencies continued to exist because of one, or a combination, of the following.

- Risk mitigation strategies, and related control enhancements, require additional time for full implementation across SSA's network of key IT systems and databases.
- SSA focused its resources on higher risk weaknesses, and therefore, could not implement corrective actions for all aspects of the prior year deficiencies.
- The design and implementation of enhanced controls did not completely address risks and recommendations provided over past audits.
- Oversight and governance were not sufficient to address deficiencies.

Effect

The aforementioned IT control deficiencies pose a risk to the completeness, accuracy, and integrity of SSA's financial information. This could affect the reliability of key application controls and SSA's ability to produce accurate and timely financial statements.

Recommendations

We recommend that SSA management:

1. Address specific deficiencies noted in the IT security testing, penetration testing, and vulnerability assessments. As part of the Agency's threat and vulnerability management process, management should prioritize and implement risk mitigation strategies and plans of actions and milestones.
2. Design and implement effective IT internal controls that adhere to SSA's POMS and enterprise policies and procedures. Reassess and improve the existing technology oversight and governance processes to ensure guidance is completely documented, and SSA IT risk management control requirements are implemented effectively and consistently across the Agency, including DDSs and PSC locations, and compliance with policy is monitored.
3. Reassess and improve security configuration baselines and hardening guides against National Institute of Standards and Technology and applicable industry guidance, tailor them to SSA's risk profile, and specify how security options are to be set. Management should periodically develop and implement controls and processes to assess SSA's compliance with the improved security configuration baselines and hardening guides for production platforms across the Agency, including platforms processing OASDI, SSI, financial reporting, and Limitation on Administration Expenses transactions, as well as the platforms that support PSC and DDS applications.
4. Analyze account management controls, including logical and physical access authorization and review recertification and removal processes, to determine whether current controls mitigate the risk of unauthorized access to and modification of financial, personally identifiable information, and production data and computing resources. As part of these processes, management should improve controls over privileged accounts.
5. Complete user profile content reviews and profile improvement initiatives.

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B. Accounts Receivable/Overpayments

Background

Accounts receivable with the public consists primarily of overpayments made to beneficiaries beyond their entitled benefit. Public law and SSA policies require that beneficiaries notify SSA when there is a change in status that may affect their entitlement. However, proper, lawful, and timely notification to SSA does not always occur, resulting in the majority of overpayments. SSA depends on its processes and controls to detect overpayments, calculate, record, and monitor the overpayments as an account receivable, and to facilitate timely collection. This process can be complex for some overpayments, and relies heavily on manual input and follow-up as well as, adherence to SSA policies and procedures by a large number of people in SSA field offices and processing centers.

Criteria

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No.10, *Design Control Activities*, provides the requirements for the design of internal controls over transactions and balances. Principle No. 10 states, in part, that management should document internal control, all transactions, and other significant events, in a manner that allows the documentation to be readily available for examination.

Office of Management and Budget (OMB) Circular A-123, *Managements Responsibility for Enterprise Risk Management and Internal Control*, Appendix D, which incorporates by reference Circular A-127, *Financial Management Systems*, as revised, states that, financial events shall be recorded applying the requirements of the *U.S. Government Standard General Ledger* (USSGL). Application of the USSGL at the transaction level requires that approved transactions be recorded using appropriate general ledger accounts as defined in the USSGL guidance. Circular A-123, Appendix D also states that the agency financial management system shall be able to provide financial information in a timely and useful fashion to allow compliance with Federal accounting standards, and support fiscal management of program delivery and program decision making, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB.

Statement of Federal Financial Accounting Standard No. 7, *Accounting for Revenue and Other Financing Sources,* as revised, states that nonexchange revenues should be recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount can be reasonably estimated

Conditions

Financial Accounting Process and IT Systems Related to Overpayments:

We noted the following control deficiencies related to the financial accounting process and IT systems used to account for overpayments.

- Subsidiary ledgers used to account for OASDI and SSI overpayments did not agree with the general ledger, and SSA lacked an internal control requiring routine reconciliation of subsidiary ledgers to the general ledger. In some cases, the data in multiple systems used to maintain information on overpayments did not agree and could not be reconciled.
- SSA relies on IT system programs to produce the summary level information where program parameters are not periodically tested to ensure resulting reports are accurate and complete for their intended purpose of supporting the quarterly accounts receivable adjustment made to the financial statements. In addition, the quarterly financial statement adjustments to account for overpayments are based on summary-level information that is not reconciled to a detailed list of individual debtor receivables at the transaction level.

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Documentation Supporting Accounts Receivable/Overpayment Claims and Calculations:

We noted the following control deficiencies related to the documentation maintained to support overpayments, affecting the accuracy of accounts receivable reported in the financial statements:

- In approximately 30 percent of samples tested, we identified errors that affected the accuracy of the overpayment, including instances where we were unable to recalculate the overpayment based on the documentation maintained. A statistical projection of actual errors to the entire population of overpayment receivables was not material to the financial statements.
- In approximately 25 percent of samples tested, some or all of the documentation to support the existence of a claim could not be located. In a subset of exceptions identified, SSA agreed that the overpayment was uncollectible and should have been reported as a receivable in the financial statements. We were unable to determine whether the uncollectible balances were included in SSA's allowance for doubtful accounts receivable, because SSA's method for assessing collectability is based on receivable type and not at the individual account level.

Compliance with SSA Policies and Procedures Affecting Effectiveness of Internal Controls:

SSA had extensive policies and procedures as documented in the POMS, designed and implemented to account for overpayments, including the timely detection, pursuit, and collection of overpayments. POMS provides effective guidance for use throughout SSA, including field offices, PSCs, DDSs, and elsewhere in SSA where accounting, quality review, and monitoring of overpayments is performed. We noted several instances where SSA and DDS employees did not fully comply the POMS, including maintaining sufficient evidence to support a claim for overpayment. Collectively, these instances of non-compliance with SSA policies limit the effectiveness of internal controls over accounts receivable with the public, and SSA's ability to collect outstanding debts.

IT System Limitations Affecting Accuracy and Presentation of Accounts Receivable:

Overpayment balances can be large and are often repaid to SSA in monthly installments as deductions from monthly benefits. Payments of these installments can go beyond the year 2049. SSA has identified an IT system limitation where receivable installments extending past 2049 are not tracked, resulting in an understatement of accounts receivable in the financial statements for all receivables extending beyond 2049. SSA management has determined that the IT systems limitation, and resulting understatement of accounts receivable are not material to the financial statements or accounts receivable. However, the IT systems limitation does affect SSA's ability to accurately account for long-term accounts receivable and develop a true aging of amounts due for use in its allowance for doubtful accounts analysis.

Cause

SSA has experienced a steady growth in accounts receivable in the past 10 years, in part due to a policy to maintain a record of overpayments for long periods. SSA intends to pursue collection of overpayments years or even decades later when beneficiaries apply for OASDI or additional SSI payments. The accounts receivable subsidiary ledger databases were designed to support operations and the management of the OASDI and SSI programs, but not necessarily for financial reporting. In addition, the IT systems used to track overpayment activity, such as new debt and collections, do not support full compliance with USSGL at the transaction level. Because of the IT systems limitations, and the structure of the databases, financial management has not been able to implement certain controls over accounts receivable.

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Effect

Although the impact of these control deficiencies, lack of supporting documentation, and IT system limitations, are not considered material to the financial statements by management, these deficiencies could lead to misstatements in the financial statements, and affects management's ability to properly record, track, and collect outstanding overpayments.

Recommendations

We recommend that SSA perform the following to address the control deficiencies described above:

1. Implement a periodic control to reconcile the accounts receivable subsidiary ledgers to the general ledger, and ensure the financial statement balances are supported by a detailed listing of accounts receivable. Establish procedures to ensure the summary level information used to record accounts receivable is reconciled to a detailed list of individual debtor receivables at the transaction level. Investigate and resolve differences between the subsidiary ledgers and the general ledger timely.
2. Periodically test IT system programs that produce the summary level information used to support the quarterly adjustment to receivables, to ensure that resulting reports are accurate and complete for its intended purpose.
3. Consider developing updated training for field and regional office personnel, related to obtaining and maintaining documentation necessary to support claims for overpayment, to improve compliance with existing policies and procedures.
4. Continue efforts to address the IT system limitations and improve functionality so that overpayment receivables, including those extending beyond year 2049, are accounted for and accurately presented in the financial statements, and better information related to overpayments is available for financial analysis.
5. Consider including a review of the overpayment process, IT systems used, and further evaluation of design and effectiveness of controls (addressing the deficiencies cited above), in the OMB Circular A-123 assessment plan for FY 2017.

SOCIAL SECURITY
The Commissioner

November 9, 2016

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Ladies and Gentlemen:

We have reviewed the Independent Auditors' Report concerning your audit of our fiscal year (FY) 2016 financial statements. We are extremely pleased that we received our 23rd consecutive unmodified opinion on our financial statements, an unqualified opinion on management's assertion that our internal controls over financial reporting were operating effectively, and that we had no reportable instances of noncompliance with laws, regulations, or other matters tested.

Your report identified two significant deficiencies in your Report on Internal Control. We concur with the findings.

While we made significant progress to strengthen controls over our systems and to address the previously identified weaknesses, you identified control deficiencies that, in the aggregate, resulted in a significant deficiency in information technology (IT) systems controls. We remain committed to the continuous enhancement of our internal controls over IT systems. We will continue to pursue a risk-based corrective action plan to address the areas of threat and vulnerability management, IT oversight and governance, change and configuration management, and access controls.

Your report also identified certain deficiencies related to accounts receivable and overpayments that, when aggregated, you considered a significant deficiency. We will implement appropriate risk-based corrective actions to address your control deficiencies.

If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,

Carolyn W. Colvin

Carolyn W. Colvin
Acting Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Other Information

The *Other Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.

In accordance with the *Reports Consolidation Act of 2000*, the *IG Statement on SSA's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). OIG also describes the steps we have taken to address each of the challenges.

Next, in *Other Reporting Requirements*, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews and OIG's anti-fraud activities, civil monetary penalties, biennial review of user fee charges, actions to comply with the Freeze the Footprint initiative, and debt collection and management activities.

Finally, the *Other Information* section concludes with the *Improper Payments Information Detailed Report*, where we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.

IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 9, 2016

The Honorable Carolyn W. Colvin
Acting Commissioner

Dear Ms. Colvin:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

Management and Performance Challenges

For Fiscal Year (FY) 2016, we identified the following seven management and performance challenges.

- Reduce Disability Backlogs and Improve Decisional Quality
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Modernize Information Technology Infrastructure
- Secure Information Systems and Protect Sensitive Data
- Strengthen the Integrity and Protection of the Social Security Number
- Strengthen Planning, Transparency, and Accountability

When we initially planned our audit work for FY 2016, we had two separate challenges to address our concerns with the disability and hearings processes - *Improve the Timeliness and Quality of the Disability Process* and *Improve the Responsiveness and Oversight of the Hearings Process*. To better reflect SSA's challenges with the overall management of the disability process, we recently decided to combine the challenges into one challenge titled *Reduce Disability Backlogs and Improve Decisional Quality*.

We further discuss the management and performance challenges in the attached document. In the description of each challenge, we define the challenge, outline steps the Agency has taken to address it, and detail actions SSA still needs to take to fully mitigate the issue. We used multiple sources to determine the status of each identified challenge. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2016 independent auditor's report, which contained the results of SSA's financial statement audit. That audit concluded that SSA had two significant deficiencies in internal control.

The Office of Audit will continue focusing on these issues in FY 2017 and assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Gale Stallworth Stone

Gale Stallworth Stone
Acting Inspector General

Enclosure

Fiscal Year 2016 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges

SOCIAL SECURITY ADMINISTRATION

OIG

November 2016

REDUCE DISABILITY BACKLOGS AND IMPROVE DECISIONAL QUALITY

CHALLENGE

While the number of pending initial disability claims has decreased, the Agency still faces challenges with pending hearings and appeals. Continued focus on decisional quality is essential to ensure the integrity of the process.

The Social Security Administration's (SSA) Fiscal Year (FY) 2014-2018 *Agency Strategic Plan* has a goal to "Serve the public through a stronger, more responsive disability program," which includes the objective of improving the quality, consistency, and timeliness of disability decisions while leveraging technology to improve the disability process. SSA's field offices, regional operations, hearing offices, and Appeals Council as well as State disability determination services (DDS) process these disability workloads.

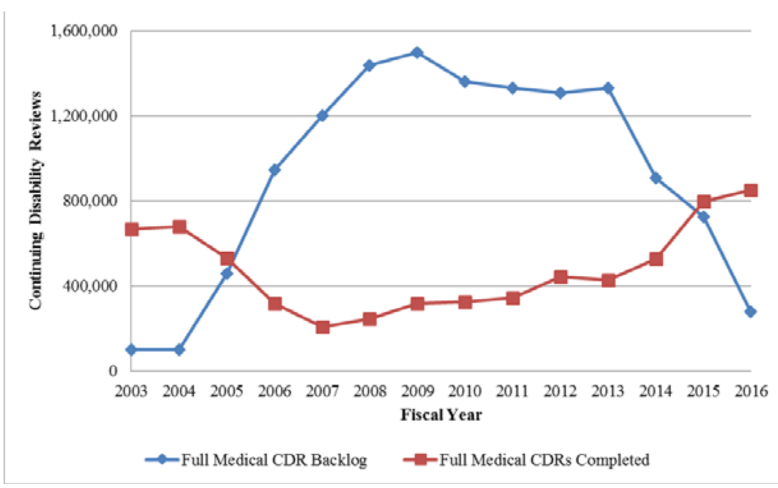
PENDING DISABILITY CLAIMS

While the number of pending claims has declined in recent years, SSA expects to have approximately 740,000 initial disability claims pending at the end of FY 2017. In FY 2016, SSA received over 2.6 million initial and approximately 648,000 reconsideration claims. Further, at the end of FY 2016, there were almost 568,000 initial disability claims pending.

CONTINUING DISABILITY REVIEW BACKLOG

The high number of initial disability applications in prior years has forced SSA to dedicate DDS resources to processing initial applications rather than conducting medical continuing disability reviews (CDR). As a result, SSA has had a backlog of full medical CDRs since FY 2002. While the backlog has decreased, it remained at 280,000 at the end of FY 2016. As we stated in our August 2014 report on *The Social Security Administration's Completion of Program Integrity Workloads*, SSA had a backlog because it had not completed all full medical CDRs when they became due. As a result, SSA missed potential savings. Had SSA conducted full medical CDRs at historic levels, we estimated it would have identified billions of dollars in additional Federal benefit savings. SSA increased the number of full medical CDRs completed in recent years and expects to eliminate the backlog by the end of FY 2019.

Figure 1: Full Medical CDR Backlog and Completions, FYs 2002 Through 2016



RETURN TO WORK

The *Ticket to Work and Work Incentives Improvement Act of 1999* established the Ticket to Work and Self-Sufficiency Program (Ticket Program). The purpose of the Ticket Program is to assist disabled beneficiaries in returning to work. Under the Ticket Program, SSA provides disabled beneficiaries a Ticket they can present to qualified organizations to obtain vocational rehabilitation or employment services.

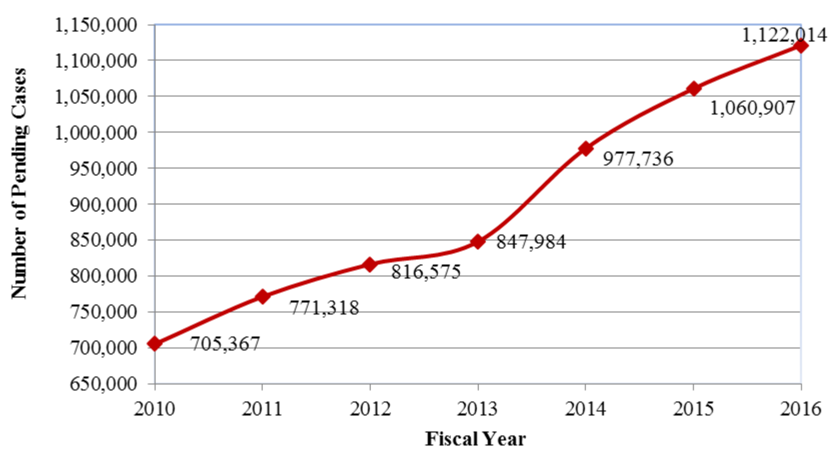
Few Ticket-eligible beneficiaries used their Tickets to receive vocational or employment services. For example, in FY 2015, less than 3 percent of Ticket-eligible beneficiaries assigned their Tickets or placed them in-use. Most of the individuals who used their Tickets placed them in-use with a State vocational rehabilitation agency under the cost-reimbursement option, the type of service that was in place before the Ticket Program was implemented. While few beneficiaries used their Tickets, SSA incurred significant costs to operate the Ticket Program. For example, SSA paid contractors over $234 million to help manage the Program since its inception. SSA will incur similar costs to help manage the Program in the future.

While SSA reported significant savings attributed to the suspension or termination of benefit payments for beneficiaries who assigned or placed their Tickets in-use, most of the savings was attributed to beneficiaries who placed their Tickets in-use with a State vocational rehabilitation agency, the type of service available before the Ticket Program was implemented. Also, an independent evaluation failed to provide strong evidence of the Ticket Program's impact on employment and concluded that many successful Program participants might have been equally successful without SSA-financed services or with services provided by State vocational rehabilitation agencies under the payment system that predated the Ticket Program.

PENDING HEARINGS AND APPEALS

The hearings and appeals process has experienced worsening timeliness and growing backlogs. For instance, the average processing time for a hearing increased 27 percent from 426 days at the end of FY 2010 to 543 days at the end of 2016. Moreover, during the same period, the pending hearings backlog grew 59 percent, from 705,367 cases at the end of FY 2010 to 1,122,014 at the end of FY 2016. In addition, the Appeals Council workload had grown 21 percent since FY 2010 to about 129,000 pending appeals at the end of FY 2016, and average processing time during the same period increased about 13 percent from 345 to 389 days.

Figure 2: Pending Hearings, FYs 2010 Through 2016



In January 2016, the Office of Disability Adjudication and Review (ODAR) issued the *Compassionate and Responsive Service* (CARES) plan, which outlined 21 initiatives to address the growing number of pending hearings and increasing wait times. According to the CARES plan, ODAR's goal is to reach an average processing time of 270 days for hearings by the end of FY 2020. The CARES plan also includes a goal to process requests for Appeals

Council review in an average of 180 days. Since issuing the plan, ODAR has added six initiatives. These 27 initiatives relate to (1) business process improvements, (2) information technology (IT) innovations, (3) staffing and facilities, and (4) employee engagement activities.

AGENCY ACTIONS

COOPERATIVE DISABILITY INVESTIGATIONS

The Cooperative Disability Investigations program continues to be one of the Agency's most successful joint initiatives, combining the efforts of the Office of the Inspector General (OIG), SSA, DDSs, and State or local law enforcement personnel. As of the end of September 2016, the Cooperative Disability Investigations program had 38 units covering 33 States; Washington, D.C.; and the Commonwealth of Puerto Rico. The units work to obtain sufficient evidence to identify and resolve questions of fraud and abuse related to disability claims. From inception in FY 1998 through September 2016, Cooperative Disability Investigations program efforts nationwide have resulted in $3.5 billion in projected savings to SSA's Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) disability programs and $2.4 billion to non-SSA programs. In FY 2016, Cooperative Disability Investigations program efforts nationwide resulted in $268.8 million in projected savings to SSA's OASDI and SSI disability programs and $323.1 million to non-SSA programs.

RETURN TO WORK

SSA reported that it focuses its employment support efforts on ensuring people who use those supports not only work, but work at their maximum capacity, reaching self-sufficient earnings whenever possible. SSA is working with other Federal agencies to develop early intervention demonstration proposals that would provide resources and support to workers who have disabilities to help them stay in the labor force as long as possible. For example, it is partnering with the Departments of Education, Labor, and Health and Human Services to implement Promoting Readiness of Minors on SSI. SSA is also working to simplify work incentive policies and improve such programs as the Ticket to Work program, and develop return-to-work demonstration proposals.

HEARINGS AND APPEALS

As part of its CARES plan, the Agency hired 264 new ALJs in FY 2016 to increase the number of available ALJs and replace departing ALJs. As for other initiatives in the CARES plan, the Agency used new technology to identify high-risk cases for review and hearing office support from other Agency components, expanded the use of pre-hearing conferences, and expanded the use of video hearings. In addition, ODAR continues focusing on decision quality through its ongoing review of pre-effectuated adjudicator allowances, monitoring of potential anomalies in ALJ workload performance, and monitoring the quality of ALJ denials and dismissals that were remanded or reversed in subsequent appeals.

WHAT THE AGENCY NEEDS TO DO

To address this challenge, the Agency needs to:

Continue focusing on reducing and eliminating the initial disability claims and CDR backlogs. While the Agency made progress in reducing the backlogs in recent years, it still needs to use its available resources and technology to increase its capacity to ensure it completes initial disability claims and full medical CDRs timely.

Continue simplifying work incentive regulations and creating new opportunities for returning beneficiaries to work.

Implement and monitor the CARES initiatives designed to improve timeliness and reduce the backlog.

Focus resources on capacity issues to better balance processing times and workloads in hearing offices.

KEY RELATED PERFORMANCE MEASURES

Some of the key performance measures from SSA's FY 2016 *Annual Performance Plan* related to this challenge are listed below.

- Complete the budgeted number of full medical CDRs.
- Ensure the quality of decisions by achieving the DDS net accuracy rate for initial disability decisions.
- Complete the budgeted number of initial disability claims.
- Average processing time for initial disability claims.
- Complete the budgeted number of disability reconsideration claims.
- Average processing time for reconsiderations.
- Increase the number of beneficiaries returning to work by achieving the target number of beneficiaries with Tickets assigned and in use who work above a certain level.
- Increase ability to provide timely decisions by reducing the percentage of pending Appeals Council requests for review 365 days or older.
- Complete the budgeted number of hearing requests.
- Average processing time for hearing decisions.
- Improve customer service by reducing the wait time for a hearing decision.

KEY RELATED LINKS

Mathematica Report – Executive Summary of the Seventh Ticket to Work Evaluation Report, July 2013.

OIG Report – The Social Security Administration's Completion of Program Integrity Workloads, (A-07-14-24071), August 2014.

OIG Report – The Social Security Administration's Efforts to Eliminate the Hearings Backlog, (A-12-15-15005), September 2015.

OIG Report – Hearing Office Average Processing Times, (A-05-15-50083), September 2015.

OIG Report – Characteristics of Claimants in the Social Security Administration's Pending Hearings Backlog (A-05-16-50207), September 2016.

OIG Report – Compassionate and Responsive Service Plan to Reduce Pending Hearings, (A-05-16-50167), September 2016.

OIG Report – The Ticket to Work Program (A-02-17-50203), September 2016.

REDUCE IMPROPER PAYMENTS AND INCREASE OVERPAYMENT RECOVERIES

CHALLENGE

SSA is responsible for issuing over $900 billion in benefit payments, annually, to about 65 million people. Given the large overall dollar amounts involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

SSA is one of several Federal agencies that have a high amount of improper payments. In its FY 2016 *Agency Financial Report*, SSA reported it made about $7.9 billion in over- or underpayments in FY 2015 (the most recent year available) and incurred an administrative cost of $0.07 for every overpayment dollar it collected. SSA also needs to adhere to the requirements in Executive Order 13520, the *Improper Payments Elimination and Recovery Act of 2010* (Pub. L. No. 111-204), and *the Improper Payments Elimination and Recovery Improvement Act of 2012* (Pub. L. No. 112-248).

IMPROPER PAYMENT RATES

Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

According to SSA, in FY 2015 (the most recent year available),

- the OASDI overpayment error was $3.1 billion or 0.36 percent of program outlays, and the underpayment error was $572 million or 0.07 percent of program outlays; and
- the SSI overpayment error was $3.4 billion or 6 percent of program outlays, and the underpayment error was $770 million or 1.36 percent of program outlays.

For FYs 2015 through 2017, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and, for SSI, the Agency's goal was to achieve over- and underpayment accuracy rates of 95 and 98.8 percent, respectively.

Table 1 shows that SSA has not met its payment accuracy targets in the last few years.

Table 1: Rates and Targets for Payments Without Overpayments FYs 2012 to 2015

FY	2012		2013		2014		2015	
Program	SSI	OASDI	SSI	OASDI	SSI	OASDI	SSI	OASDI
Rate	93.66	99.78	92.43	99.78	93.05	99.47	93.94	99.64
Target	95.00	99.80	95.00	99.80	95.00	99.80	95.00	99.80
Met	**No**	**No**	**No**	**No**	**No**	**No**	**No**	**No**

COMPLIANCE WITH IMPROPER PAYMENT LEGISLATIVE REQUIREMENTS

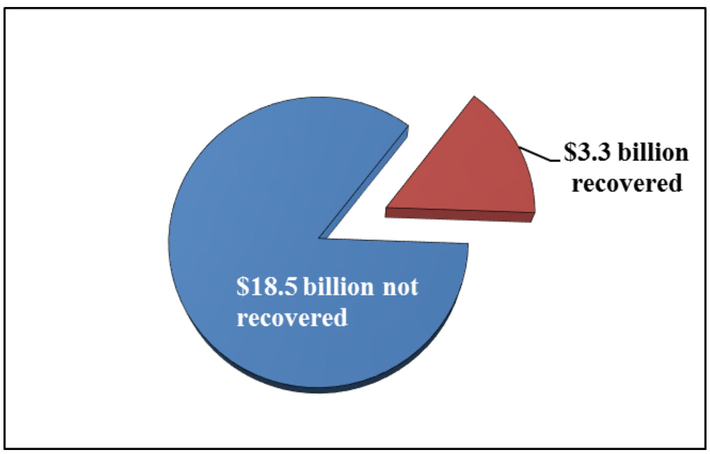
In November 2009, the President issued Executive Order 13520 on reducing improper payments. Later, the *Improper Payments Elimination and Recovery Act of 2010* and *Improper Payments Elimination and Recovery Improvement Act of 2012* were enacted in July 2010 and January 2013, respectively, to refine steps agencies should take to address improper payments. As a result, all agencies with high-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. The Office of Management and Budget designated SSA's programs as high-risk.

Both the OIG and Government Accountability Office noted in 2016 reports that SSA was not in compliance with the *Improper Payments Elimination and Recovery Act of 2010* requirements for meeting its targeted payment accuracy rates (which are shown in Table 1). Because of this noncompliance, SSA prepared remediation plans that outlined steps it plans to take to become compliant. For example, SSA's August 2016 *Improper Payments Elimination and Recovery Act Old-Age, Survivors, and Disability Insurance Remediation Plan* and its June 2016 *Improper Payments Elimination and Recover Act Supplemental Security Income Remediation Plan* included steps to identify and prevent overpayments due to wages—one of the leading causes of overpayments in both the OASDI and SSI programs.

OVERPAYMENT RECOVERIES

Once SSA determines an individual has been overpaid, it attempts to recover the overpayment. According to SSA, in FY 2016, it recovered $3.3 billion in overpayments at an administrative cost of $0.07 for every dollar collected and ended the FY with an uncollected overpayment balance of $18.5 billion (see Figure 3).

Figure 3: Overpayments Recovered - FY 2016



AGENCY ACTIONS

IMPROPER PAYMENT CAUSES

One of the major causes of improper payments in the OASDI program is beneficiaries' failure to timely report earnings or SSA not timely withholding monthly benefit payments from beneficiaries who are engaging in substantial gainful activity. Similarly, a major cause of improper payments in the SSI program is recipients' failure to accurately and timely report new or increased wages.

With the enactment of the *Bipartisan Budget Act of 2015*, SSA was given a new tool to obtain wage data sooner. A provision in this new law allows SSA to enter into information exchanges with payroll data providers to obtain wage data (without the need for independent verification) to efficiently administer OASDI and SSI benefits and prevent improper payments. It also allows the Agency to require that individuals provide authorization to obtain payroll data. SSA plans to publish regulations by November 2016 and implement a system in 2018.

DEBT COLLECTION TOOLS

SSA uses such methods as benefit withholding and billing with follow up to collect debt related to overpayments. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal salary offset. According to SSA, in the future, it will ". . . implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect current value."

CDRS AND REDETERMINATIONS

The CDR is a tool for reducing improper payments. Through completed CDRs, SSA periodically verifies individuals are still disabled and eligible for disability payments. Available data indicate that SSA saves about $8 for every $1 spent on CDRs, including Medicare and Medicaid program effects.

According to SSA, another important program integrity tool is SSI non-medical redeterminations, which are periodic reviews of such non-medical eligibility factors as income and resources. SSA estimated that non-medical redeterminations will yield a return on investment of about $3 on average over 10 years per $1 budgeted for this workload. However, budgetary constraints determine the number of redeterminations that SSA conducts each year.

WHAT THE AGENCY NEEDS TO DO

Identify and prevent improper payments through automation and data analytics. SSA needs to use available data to better identify changes that affect beneficiaries and recipients' benefit payments. For example, we have previously recommended that SSA use its own data to identify anomalies that suggest a beneficiary may be ineligible.

Expand efforts to collect data from reliable third-party sources that would aid SSA in mitigating discrepancies that can occur when SSI recipients self-report information.

Accurately calculate overpayments and reconcile any data discrepancies between different systems that could lead to payment errors.

KEY RELATED PERFORMANCE MEASURES

The key improper payment related performance measures from SSA's FY 2016 *Annual Performance Plan* are listed below.

- Improve the integrity of the SSI program by ensuring that 95 percent of SSI payments are free of overpayment.
- Maintain a high accuracy rate of payments made through the OASDI program to minimize improper payments.
- Complete the budgeted number of full medical CDRs.
- Complete the budgeted number of SSI non-medical redeterminations.

KEY RELATED LINKS

Federal Payment Accuracy Website.

Office of Management and Budget Memorandum M-15-02, Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments, October 20, 2014.

OIG Report – Old-Age, Survivors and Disability Insurance Benefits Withheld Pending a Windfall Offset Determination (A-09-15-15041), March 2016.

OIG Report – Collecting Title II Overpayments from Contingently Liable Beneficiaries (A-07-16-50089), April 2016.

OIG Report – Underpayments Payable to Widow(er)s Eligible for a Higher Monthly Benefit Amount (A-09-14-34103), April 2016.

OIG Report – Supplemental Security Income Recipients Eligible for, or Receiving, Pensions from China (A-01-16-50011), June 2016.

IMPROVE CUSTOMER SERVICE

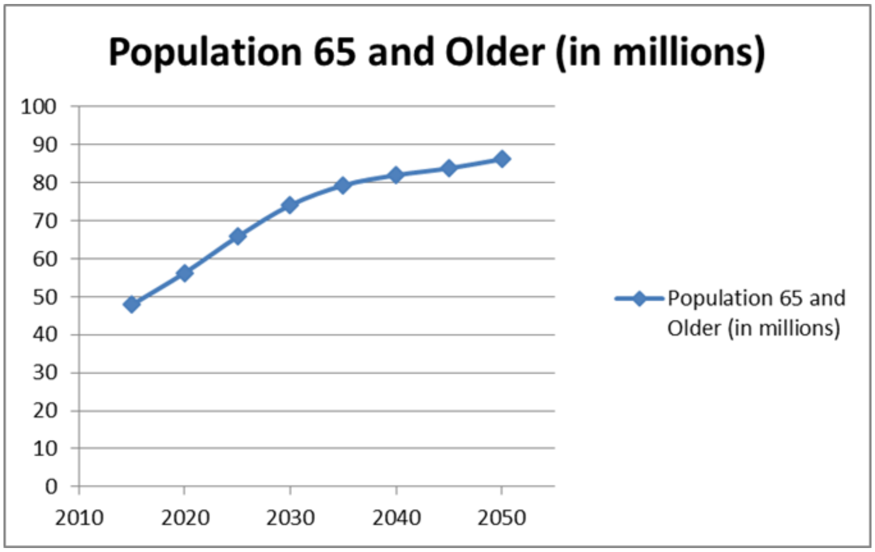
CHALLENGE

SSA faces several challenges as it pursues its mission to deliver quality services, including rapid advances in technology and an aging population and workforce.

INCREASE IN DEMAND FOR SERVICES

SSA stated that the population aged 65 and older would grow by about 18 million from FYs 2016 to 2025 and an additional 20.4 million by 2050 thereby dramatically increasing the demand for its services.

Figure 4: Aged 65 and Older Population Projections



In the FY 2016 Justification of Estimate for Appropriations Committees, SSA reported it would pay monthly Social Security benefits to approximately 69 million beneficiaries and recipients, a 6-percent increase from FY 2015 and 8.9-percent increase from FY 2014.

In addition to paying benefits, the Agency reported it completed the following workloads in FY 2016.

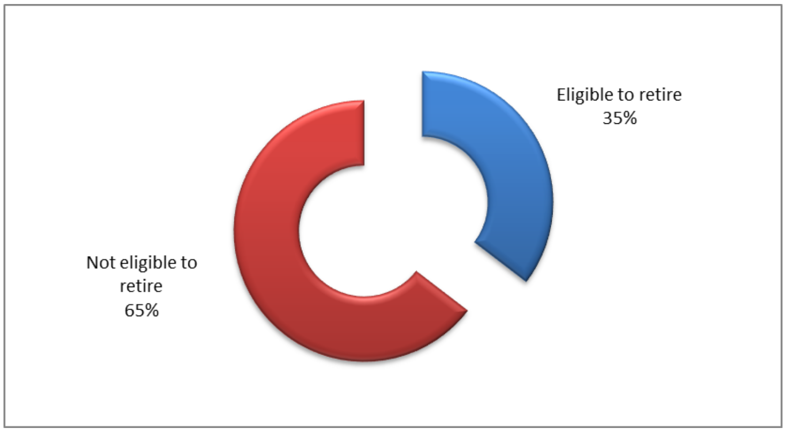
- Processed about 5.1 million retirement, survivors, and Medicare claims, and nearly 2.7 million initial disability claims.
- Completed nearly 667,000 disability reconsiderations and over 652,000 requests for hearings.
- Conducted about 2.5 million SSI non-medical redeterminations and 850,000 full medical CDRs.
- Completed approximately 16 million requests for new and replacement Social Security number (SSN) cards.

AGING WORKFORCE AND LOSS OF INSTITUTIONAL KNOWLEDGE

SSA continues to face significant service delivery challenges due to the aging of the baby boomer population and the expectation that many of its most experienced staff will retire in the near future.

While SSA estimates that the number of retirement and disability beneficiaries will increase from 59 million in 2016 to 75 million in 2025, it projects that more than one-third of its workforce will retire by 2022.

Figure 5: SSA Employees Projected to Retire by 2022



According to the Government Accountability Office's most recent *High-Risk Series* report, Federal agencies need to take additional steps to coordinate their efforts for (1) identifying and addressing mission-critical skills gaps and (2) making better use of workforce analytics that can be used to predict newly emerging skills gaps. The Government Accountability Office further states in its report, *OPM and Agencies Need to Strengthen Efforts to Identify and Close Mission-Critical Skills Gaps* that skills gaps in the Federal workforce can significantly impact agencies' ability to serve the public and achieve their missions.

ONLINE AND MOBILE SERVICE DELIVERY

Over the past few decades, advances in technology have revolutionized the business world, changing the pace of SSA's business processes. Because of these changes, the public expects to complete more business online. According to the Pew Research Center, the percentage of American adults who use the Internet increased from 52 percent in 2000 to 84 percent in 2015.

In addition, the rapid spread of mobile devices, ease of use, and growth in service provision via these devices will fuel expectations for mobile access to government services. Smart phones and other mobile devices may provide an opportunity to deliver online services to SSA customers who lack traditional Internet access in their homes.

REPRESENTATIVE PAYMENT PROGRAM

SSA appoints representative payees to manage the benefits of beneficiaries and recipients who are incapable of managing their own because of their age or mental or physical impairment. In January 2016, SSA reported that approximately 6.2 million representative payees were managing about $70 billion in annual benefit payments for about 8 million beneficiaries and recipients.

In March 2016, the Social Security Advisory Board released *Representative Payees: A Call to Action*, which outlines some of the issues facing the Representative Payment Program. It lays out the reasons for concern regarding the Program's administration and encourages further research. For example, according to the Social Security Advisory Board, one of the most worrisome aspects of the payee program is the absence of serious monitoring of the performance of payees. The Social Security Advisory Board reported that SSA conducted reviews for a small fraction of the universe of over 6 million payees during its FY 2015 onsite reviews.

In addition, our audits continue to identify problems with SSA's administration of the payee program. Most recently, we found

- representative payees continued serving as payees after determinations of benefit misuse without proper documentation as to why they continued to serve,
- some organizational payees did not have effective controls over the disbursement of underpayments received,
- SSA needed to improve its controls to prevent the selection of representative payees who were incapable of managing their own benefits, and
- high-volume representative payees collected unallowable and/or excessive fees.

Further, our investigations identified various types of representative payee fraud. For example, we found

- a former representative payee received benefits for children who had been removed from his care;
- a representative payee used several recipients' SSI payments to pay her credit card, cellular telephone, and utility bills; and
- a representative payee concealed a beneficiary's 10-year incarceration and continued receiving and spending his monthly benefit.

SSA acknowledges that representative payees play a significant role in many beneficiaries' lives, and it consistently explores ways to better identify, screen, and appoint representative payees.

AGENCY ACTIONS

SSA is implementing its long-term vision by incorporating several strategic goals to meet the public's changing needs. In addition, it continues to expand the use of online services that take advantage of technology and personalize the customer service experience. Finally, the Agency continues monitoring payees in the Representative Payment Program.

AGENCY'S EFFORTS TO IMPLEMENT VISION 2025

SSA developed *Vision 2025* to plan how it will serve customers in the future. One of the three priorities in Vision 2025 is superior customer service. SSA's *Annual Performance Plan for Fiscal Year 2017, Revised Performance Plan for 2016, and Annual Performance Report for Fiscal Year 2015* detailed the specific actions underway to transform the Agency to meet its future demands. The actions in that document align with the three vision priorities established in *Vision 2025*. However, one of our reviews found that, with this approach, SSA is using short-term strategic planning documents to support a broadly stated "aspirational vision."

INCREASING THE WORKFORCE

SSA recognizes that an aging employee base and increased employee turnover is a challenge for the future. In its *FY 2015-2017 Annual Performance Report*, the Agency reported that it had implemented such modernized recruitment strategies as social networking tools and promotion of workplace flexibilities like telework, hired a recruitment manager to support Agency recruitment efforts, and used Pathways Programs such as the Internship, Recent Graduates, and Presidential Management Fellows programs for recruitment. These programs enhance SSA's ability to attract and hire a talented and diverse workforce that reflects the public it serves.

ONLINE SERVICE DELIVERY

One of SSA's goals is to provide high quality and timely services while offering customers the convenience of interacting with it from anywhere. To provide a superior customer experience, SSA has developed the strategic objective to develop and increase the use of self-service options. SSA reported it

- launched the online Social Security Benefit Statement (i1099) that reduced mail requests by more than 60 percent,
- streamlined the online disability application by removing 25 duplicate data fields,
- released the online Social Security Number Replacement Card in selected states, and
- added new services to the *my* Social Security portal, including enhancements to Click-to-Callback and a new secure Message Center.

REPRESENTATIVE PAYMENT PROGRAM

SSA continues to identify representative payees that misuse funds. In its January 2016 report to Congress, SSA stated it conducted 2,852 payee reviews through face-to-face interviews. Based on its reviews, SSA identified 25 representative payees who misused beneficiaries' funds, removed 8 payees because the Agency found misuse occurred, and removed 19 payees because of poor performance.

In a May 2016 report, we stated that SSA needed to improve controls to ensure it does not make direct payments to concurrently entitled beneficiaries (that is, beneficiaries receiving payments under both the OASDI and SSI programs) who have a representative payee. We recommended that SSA conduct timely Master Beneficiary and Supplemental Security Records matches to identify and correct discrepant payment information. In response to our recommendation, SSA stated, as of June 2016, it was completing a data match to (1) identify concurrent beneficiaries who were receiving benefits through a payee for one benefit payment and direct payment for another benefit, (2) correct these discrepancies, and (3) avoid making direct payments to concurrently entitled beneficiaries who have a payee. According to the Agency, it plans to evaluate the results of the data match to determine the need and frequency of conducting future data matches.

WHAT THE AGENCY NEEDS TO DO

Develop and implement strategies that will provide quality services to the public now and in the future, while overcoming challenges related to an aging population, loss of institutional knowledge, and evolving technology trends.

Explore ways to strengthen its controls for administering the Representative Payment Program, including selection of payees. Also, research and improve on monitoring the performance of representative payees and prevent benefit misuse.

KEY RELATED PERFORMANCE MEASURES

Some of the key performance measures from SSA's FY 2016 *Annual Performance Plan* related to this challenge are listed below.

- Improve customer service and convenience by increasing online transactions by 25 million each year.
- Increase customer satisfaction with SSA services.
- Achieve the target speed in answering National 800-Number calls.
- Assess field and hearing office lease expirations and increase colocation of field and hearing offices to reduce SSA's physical footprint.
- Improve customer service by using IT to provide new online services to users of *my* Social Security.
- Enhance IT infrastructure by implementing innovative systems accessibility and performance capabilities.

KEY RELATED LINKS

SSA's Vision 2025.

SSA's Agency Strategic Plan Fiscal Years 2014-2018.

SSA's Annual Performance Plan for Fiscal Year 2017, Revised Performance Plan for Fiscal Year 2016, and Annual Performance Report for FY 2015.

SSA's Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews, Fiscal Year 2015.

SSA's FY 2017 Budget Overview.

National Academy of Public Administration - Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025 – 2030, July 2014.

Government Accountability Office Report – Report to Congressional Committees, High-Risk Series (An Update) (GAO-15-290), February 2015.

Pew Research Center - American's Internet Access: 2000 – 2015, June 2015.

The Board of Trustees - The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, July 2015.

OIG Report – Volume Individual Representative Payees (A-15-16-50034), January 2016.

OIG Report – Agency Actions Concerning Misuse of Benefits by Organizational and Volume Individual Representative Payees (A-13-12-21247), February 2016.

OIG Report – Congressional Response Report: The Social Security Administration's Vision 2025 Plan (A-02-16-50125), March 2016.

Social Security Advisory Board Issue Brief – Representative Payees: A Call to Action, March 2016.

OIG Report – Concurrently Entitled Beneficiaries Receiving Representative Payee and Direct Payments (A-09-16-50093), May 2016.

OIG Report – Accounting for Large Underpayments Released to Organizational Representative Payees (A-02-15-13056), May 2016.

OIG Report – Beneficiaries Serving as Representative Payees Who Have a Representative Payee (A-09-16-50109), August 2016.

MODERNIZE INFORMATION TECHNOLOGY INFRASTRUCTURE

CHALLENGE

SSA must modernize its IT to accomplish its mission despite budget and resource constraints.

Few Federal agencies touch as many people as SSA. IT plays a critical role in the Agency's day-to-day operations. However, SSA's aging IT infrastructure is increasingly difficult and expensive to maintain. The Agency continues relying on outdated applications and technologies to process its core workloads (for example, retirement and disability claims). Many of SSA's legacy applications were programmed with Common Business Oriented Language. SSA maintains more than 60 million lines of Common Business Oriented Language, along with millions more lines of other legacy programming languages. According to the Agency's Chief Information Officer, these legacy systems are not sustainable.

In FY 2016, SSA spent $1.5 billion on IT. According to SSA, budget constraints have forced it to use much of its IT funding to operate and maintain existing systems. To ensure SSA can keep pace with increasing workloads, the Agency must maintain its legacy systems while developing their modern replacements.

IT PHYSICAL INFRASTRUCTURE

One of SSA's recent major IT investments has been replacing its existing National Computer Center (NCC). The NCC had been in continuous operation as a data center since it opened in 1980 and, while its computing capacity has been expanded over the years, increasing workloads and expanding telecommunication services have severely strained its ability to support the Agency's business. SSA received $500 million from the *American Recovery and Reinvestment Act* to replace the NCC with a new National Support Center.

DEVELOPMENT AND IMPLEMENTATION OF ELECTRONIC SERVICES

Since SSA launched *my* Social Security in 2012, over 26 million customers have created accounts. According to SSA, in FY 2015, more than half of all Social Security retirement and disability applications were filed online, and customers completed over 87 million transactions using the Agency's Website. Still, the Agency saw over 40 million visitors in its field offices and handled about 37 million calls to its National 800-Number.

To reduce unnecessary field office visits, SSA plans to enhance its online services to provide the public a secure and convenient self-service option. To support its increasing workloads, SSA has developed and implemented over 30 electronic services for the public, businesses, and other government agencies.

One of the Agency's priorities is to develop, and increase the use of, self-service options. To achieve that goal, SSA plans to rapidly expand the services available through its *my* Social Security online portal. For example, SSA plans to provide direct access to certain information and notices through its online services. In addition, the Agency is expanding the availability of an application to permit certain individuals to request replacement SSN cards online. In 2015, we evaluated SSA's Authentication Risk Assessment for the Internet Social Security Number Replacement Card Project and identified some concerns with the mitigating controls SSA plans to use for the application.

IMPLEMENTATION OF MAJOR IT PROJECTS

SSA faces challenges in executing and implementing major IT projects and delivering expected functions on-schedule and within budget.

To simplify system support and maintenance, improve the speed and quality of the disability process, and reduce the overall growth rate of infrastructure costs, SSA plans to develop the Disability Case Processing System (DCPS), which, once implemented, will be used by all DDSs. However, the project has faced schedule delays and increasing stakeholder concerns.

In response to a request from the Chairman of the House Subcommittee on Social Security, Committee on Ways and Means, we completed two reviews of the DCPS project in FY 2016. In the first, we concluded SSA did not sufficiently evaluate all alternatives for DCPS, such as phasing an existing system into all DDSs or procuring and modernizing one of the vendor-supported legacy systems. Without a comprehensive analysis of alternatives, the Agency could not be assured the chosen path was the best path to simplify system support and maintenance and reduce infrastructure costs—key objectives for the DCPS project. Furthermore, because SSA based some of its conclusions on high-level assessments and did not prepare detailed documentation, we were unable to independently evaluate the reasonableness of the Agency's cost and implementation estimates. As a result, we could not conclude that SSA's chosen path forward is most likely to result in the timely delivery of a cost-effective solution that meets users' needs.

In another review, we concluded that SSA's reported costs of $356 million for the DCPS project for the 8-year period ended September 30, 2015 were reasonably accurate. However, we noted issues with SSA's processes for capturing and reporting contractor and labor costs. While we did not consider these issues to be sufficiently significant to materially affect the overall DCPS cost figure, we believe they warranted SSA's attention.

AGENCY ACTIONS

IT MODERNIZATION PLAN

For several years, SSA has worked incrementally to modernize its IT infrastructure. However, the Agency's Chief Information Officer has acknowledged that the Agency must now undertake a larger, multi-year effort.

In FY 2016, SSA began reorganizing its data into a modern architecture and developing a framework to allow real-time updates (in contrast to legacy systems that batch transactions). According to SSA, it is also moving to modernize its software engineering tools and skills. However, SSA needs a sustained, long-term investment to make the changes needed to develop a fully modern IT infrastructure capable of supporting the Agency's vast and complex operations.

IT PHYSICAL INFRASTRUCTURE

Construction of the new National Support Center was complete in September 2014, and SSA began migrating systems to the new facility. In 2015, and again in 2016, our evaluations of SSA's efforts to transition its NCC operations to the new National Support Center did not identify any significant issues that threatened the project. SSA reported it completed migration in August 2016 on time and within budget.

DEVELOPMENT AND IMPLEMENTATION OF ELECTRONIC SERVICES

In FY 2016, SSA took steps to enhance its online services so they are more compatible with mobile devices. SSA also developed new customer engagement tools including Click-to-Callback and a Message Center for relaying informational messages to *my* Social Security users.

IMPLEMENTATION OF MAJOR IT PROJECTS

SSA has taken steps to get the DCPS project on track. In FY 2016, SSA continued developing a new DCPS product using an Agile framework, which promotes iterative development and close collaboration between users and software developers. In December 2016, the Agency plans to provide a pre-release of the software to three DDSs that will enable them to process a limited number of cases.

IT INVESTMENT PROCESS

SSA developed a new IT Investment Process that it expects will improve how it manages and invests in IT. The IT Investment Process will focus on up-front project planning with outcomes tied to specific Agency goals. An enterprise-wide executive IT investment board will meet throughout the year to make funding decisions on projects that provide the greatest benefit to the Agency. As a result, SSA believes it will be better able to deliver the right project on time and within budget.

WHAT THE AGENCY NEEDS TO DO

Prioritize and adequately fund IT modernization activities.

Ensure the Agency's IT planning and investment control processes are effective.

KEY RELATED PERFORMANCE MEASURES

The key related performance measures from SSA's FY 2016 *Annual Performance Plan* are listed below.

- Improve customer service and convenience by increasing online transactions by 25 percent.
- Increase customer satisfaction with SSA's services.
- Improve customer service by using information technology to provide new online services to users of *my* Social Security.
- Enhance IT infrastructure by implementing innovative systems accessibility and performance capabilities.
- Provide uninterrupted access to SSA systems during scheduled times of operation.
- Provide secure and effective services to the public by improving cyber security performance.

KEY RELATED LINKS

OIG Report - Congressional Response Report: The Social Security Administration's Analysis of Alternatives for the Disability Case Processing System (A-14-16-50078), May 2016.

OIG Report - The Social Security Administration's National Support Center: Progress Report as of April 2016 (Limited Distribution) (A-14-16-50101), July 2016.

OIG Report - Access to the Social Security Administration's my Social Security Online Services (Limited Distribution) (A-14-15-15010), September 2016.

OIG Report - Congressional Response Report: Costs Incurred to Develop the Disability Case Processing System (A-14-16-50099), September 2016

SECURE INFORMATION SYSTEMS AND PROTECT SENSITIVE DATA

CHALLENGE

SSA must ensure its information systems are secure and sensitive data are protected.

Federal information systems—and the information they hold—are increasingly becoming targets of cyber-attacks. Recent breaches at several Federal agencies have underscored the importance of securing Federal systems and protecting sensitive information. The information SSA houses on nearly every U.S. citizen is invaluable to would-be hackers and potential identity thieves. Consequently, the Agency's information systems may be at particular risk of attack. Given the highly sensitive nature of the personal information in its systems, it is imperative that SSA have a robust information security program.

INFORMATION SECURITY PROGRAM

Our prior audit and investigative work has revealed a number of concerns with the security of SSA's information systems. Since FY 2012, auditors have identified weaknesses that, when aggregated, created a significant deficiency in SSA's overall information systems security program that compromised the security of the Agency's information and information systems. Additionally, other recent audits and evaluations have identified serious concerns with SSA's information security program.

In our most recent report on SSA's compliance with the *Federal Information Security Modernization Act* (FISMA), we determined that SSA had established an information security program and practices that were generally consistent with FISMA requirements. However, we identified a number of deficiencies that may limit the Agency's ability to protect the confidentiality, integrity, and availability of SSA's information systems and data. The deficiencies identified in several FISMA reporting metrics—configuration management, identity and access management, risk management, and security training—are consistent with those that we have cited in prior reports on SSA's FISMA compliance.

SECURING ONLINE SERVICES

As part of the Administration's *Cybersecurity National Action Plan*, agencies must take steps to safeguard personal data in online transactions between citizens and the Government, including adopting and using effective identity proofing and strong multi-factor authentication methods.

One of the Agency's priorities is to develop and increase the use of self-service options. To achieve that goal, SSA plans to expand the services available under its *my* Social Security online portal. For example, SSA plans to provide direct access to certain information and notices through its online services.

While expanding its inventory of electronic services, the Agency needs to ensure those services are secure. Prior investigative and audit work have identified multiple incidents of fraud committed through SSA's electronic services. For example, despite controls to prevent unauthorized access to *my* Social Security, we continue to receive fraud allegations related to *my* Social Security accounts.

We recognize that online services are an important component of SSA's strategy to deliver services to the public during a period of increasing workloads and constrained resources. Still, we believe SSA's primary responsibility must be to safeguard the sensitive information the American public has entrusted to the Agency. To ensure citizens' sensitive information is adequately protected, we believe it is imperative that SSA take steps to strengthen controls over access to *my* Social Security as soon as possible.

AGENCY ACTIONS

SSA acknowledges it must be mindful of potential cyber-threats and remain committed to protecting privacy and security. One of the Agency's goals is to ensure its IT services are reliable, secure, and efficient. As part of that effort, SSA plans to strengthen its information security program.

INFORMATION SECURITY PROGRAM

In FY 2016, SSA continued addressing the underlying issues of the significant deficiency in information security. For example, SSA implemented additional policies and procedures including, but not limited to, strengthening access controls and management of privileged accounts, prioritizing critical data inventory, and expanding penetration testing. In 2017, SSA plans to enforce that all employees and contractors log into its internal network using two-factor authentication (for example, using a physical badge and password). Two-factor authentication methods make it harder for unauthorized individuals to access SSA's network and systems and better protect sensitive data.

SECURING ONLINE SERVICES

On July 30 2016, SSA began requiring that individuals use multi-factor authentication to access its *my* Social Security portal. Customers were required to provide their cellular telephone numbers to which SSA would send a temporary code during the online registration process and each time the customer attempted to sign into his/her online account. However, SSA found that this requirement inconvenienced or restricted access to some of its customers. As a result, the Agency reversed course and again made multi-factor authentication for *my* Social Security optional, as it was before July 2016.

In FY 2016, SSA's new risk assessment for *my* Social Security determined that a higher degree of confidence is needed to ensure that users are who they claim to be. Now, SSA must identify and implement appropriate authentication and identity proofing technology to strengthen the security of *my* Social Security.

WHAT THE AGENCY NEEDS TO DO

Address the deficiencies identified by the independent auditor that, when aggregated, are considered to be a significant deficiency in SSA's information security program.

Ensure the electronic services the Agency provides are secure.

KEY RELATED PERFORMANCE MEASURES

The key related performance measures from SSA's FY 2016 *Annual Performance Plan* are listed below.

- Improve customer service and convenience by increasing online transactions by 25 percent.
- Increase customer satisfaction with SSA services.
- Improve customer service by using information technology to provide new online services to users of *my* Social Security.

- Enhance IT infrastructure by implementing innovative systems accessibility and performance capabilities.
- Provide uninterrupted access to SSA systems during scheduled times of operation.
- Provide secure and effective services to the public by improving cyber security performance.

KEY RELATED LINKS

OIG Report - The Social Security Administration's Compliance with the Federal Information Security Modernization Act of 2014 for Fiscal Year 2015 (A-14-16-50037), November 2015.

OIG Report - The Social Security Administration's Management of Electronic Message Records (A-14-15-25025), February 2016.

OIG Report – Congressional Response Report: The Security of Systems that Provide Access to Personally Identifiable Information (Limited Distribution) (A-14-16-50173), August 2016.

OIG Report - Access to the Social Security Administration's my Social Security Online Services (Limited Distribution) (A-14-15-15010), September 2016

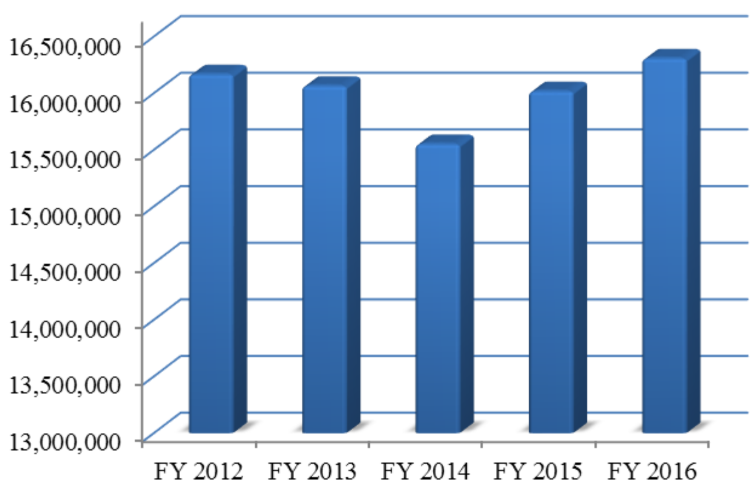
STRENGTHEN THE INTEGRITY AND PROTECTION OF THE SOCIAL SECURITY NUMBER

CHALLENGE

Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.

As shown in Figure 6, SSA issued over 16 million original and replacement SSN cards in FY 2016. In addition, for Tax Year (TY) 2015, the Agency received and processed about 266 million wage items, totaling approximately $6.3 trillion in earnings. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and that eligible individuals receive the full benefits due them.

Figure 6: Original and Replacement SSN Cards Issued



SSN USE

The SSN is relied on as an identifier in U.S. society and is valuable as an illegal commodity. Additionally, the SSN is critical in accurately recording workers' earnings on which future benefit payments are based. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

SSN MISUSE

While SSA has improved its enumeration process, given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA as well as its millions of stakeholders. Unfortunately, once SSA assigns an SSN, it has no authority to control how other entities collect, use, and protect it. For example, some educational institutions unnecessarily collect and use SSNs as a primary student identifier. Yet, our audit and investigative work have shown that the more SSNs are unnecessarily used, the higher the probability individuals could use them to commit crimes.

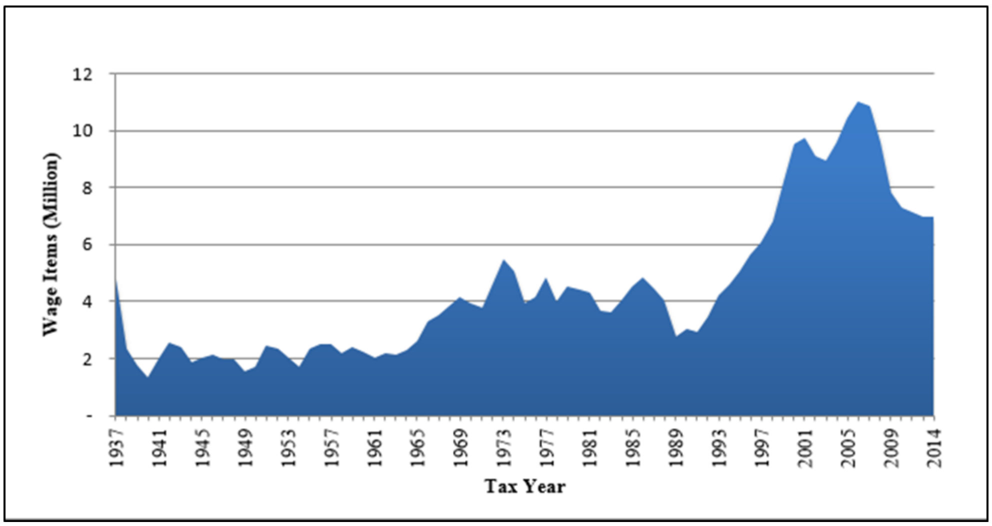
We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States. We are also concerned that some individuals misuse SSNs for identity theft purposes. The Federal Trade Commission has estimated that as many as 9 million Americans' identities are stolen each year.

EARNINGS

SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated over $1.3 trillion in wages and 346 million wage items for TYs 1937 through 2014. As shown in Figure 7, in TY 2014 alone, SSA posted about 7 million wage items, representing $77 billion in wages, to the ESF. From TYs 2005 to 2014, the ESF grew by approximately $696 billion in wages and 85 million wage items, representing about half of the total wages in the ESF and one-quarter of the total wage items.

Figure 7: ESF Suspended Wage Items (1937 to 2014)



AGENCY ACTIONS

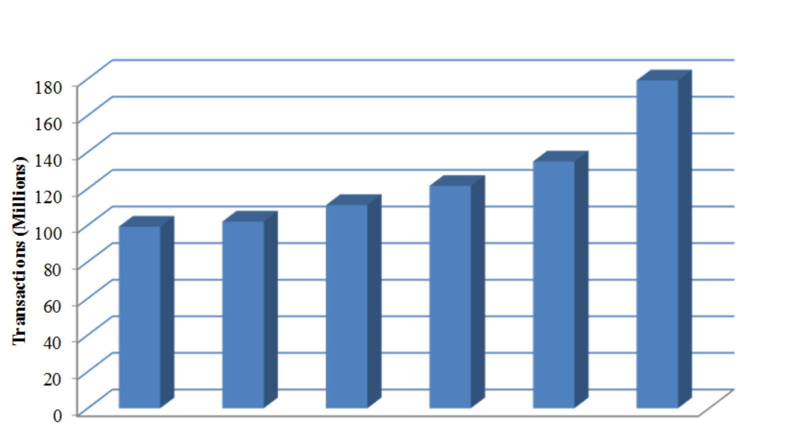
SSA has taken steps to streamline its enumeration process. For example, SSA released the Internet-based Social Security Number Replacement Card application in November 2015. This will allow SSA to reduce the number of replacement card requests in field offices and Social Security Card Centers. In FY 2016, SSA processed over 96,000 replacement card applications via Internet-based Social Security Number Replacement Card application. While we believe this initiative may enhance customer service, SSA must ensure it takes all necessary steps to minimize the risk of individuals fraudulently obtaining an SSN replacement card.

In addition, SSA has strengthened its policy for processing requests for the SSN printout and no longer provides SSN printouts to the public except in certain disaster situations. If an individual needs proof of his/her SSN and does not have an SSN card, he/she must request a replacement by completing an *Application for a Social Security Card* (Form SS-5) and providing the required documentation.

SOCIAL SECURITY NUMBER VERIFICATION SERVICE

SSA has taken steps to reduce the size and growth of the ESF. The Agency has offered employers the ability to verify the names and SSNs of their employees using the Agency's Social Security Number Verification Service, which is an online verification program, before reporting wages to SSA. In FY 2016, approximately 34,000 registered employers had submitted about 179.1 million verifications, see Figure 8.

Figure 8: Social Security Number Verification Service Verifications
FYs 2011 Through 2016

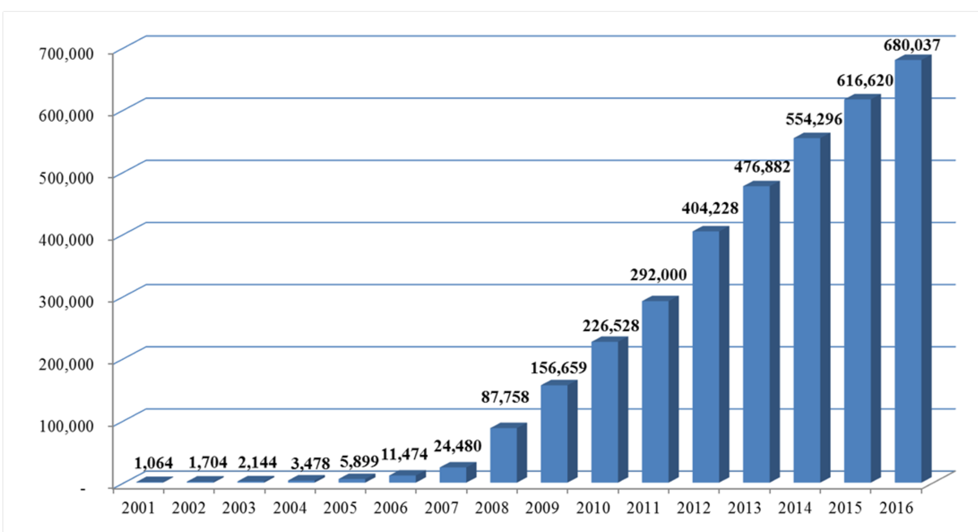


Fiscal Year	2011	2012	2013	2014	2015	2016
Transactions (Millions)	99.2	102	111	121.5	134.8	179.1
Employers	41,775	40,702	38,421	36,712	34,496	34,348
Mismatch Rate	3.77	3.38	4.28	5.6	6.3	5.14

E-VERIFY

SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. According to the Department of Homeland Security, over 680,000 employers have enrolled to use E-Verify, and since its inception in 2001, E-Verify's enrollment has steadily increased as shown in Figure 9. In FY 2016, more than 34.7 million queries were submitted.

Figure 9: Enrollment in E-Verify



WHAT THE AGENCY NEEDS TO DO

Continue to be vigilant in the protection of SSNs. We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes.

Ensure that any electronic applications related to SSN card issuance offered through *my* Social Security include an effective authentication process.

Improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, re-examining the validity and integrity checks used to prevent suspicious W-2s from being posted, and encouraging greater use of the Agency's employee verification programs. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

KEY RELATED PERFORMANCE MEASURES

The key SSN-related performance measure from SSA's FY 2016 *Annual Performance Plan* is listed below.

- Improve the accuracy and timeliness of the earnings data used to calculate benefits.

KEY RELATED LINKS

OIG Report – Kindergarten Through 12th Grade Schools' Collection and Use of Social Security Numbers (A-08-10-11057), July 2010.

OIG Report – Controls for Issuing Social Security Number Printouts (A-04-11-11105), December 2011.

Inspector General Testimony – Hearing on Social Security's Death Records, February 2012.

OIG Report – Noncitizens Issued Multiple Social Security Numbers (A-06-10-20155), December 2012.

OIG Report – Potential Misuse of Foster Children's Social Security Numbers (A-08-12-11253), September 2013.

OIG Report – Improper Use of Children's Social Security Numbers (A-03-12-21269), March 2014.

OIG Report – Access Controls over the Business Services Online (Limited Distribution), (A-03-13-13015), June 2014.

OIG Report – Internet Social Security Number Replacement Card Project (Limited Distribution) (A-08-14-24096), July 2014.

OIG Report – Numberholders Age 112 or Older Who Did Not Have a Death Entry on the Numident (A-06-14-34030), March 2015.

OIG Report – The Social Security Administration's Authentication Risk Assessment for the Internet Social Security Number Replacement Card Project (Limited Distribution) (A-14-14-24130), May 2015.

OIG Report – Status of the Social Security Administration's Earnings Suspense File (A-03-15-50058), September 2015.

OIG Report – Social Security Numbers Assigned to Diversity Visa Immigrants (A-08-15-15021), November 2015.

OIG Report – Social Security Administration Correspondence Containing Full Social Security Numbers (A-04-15-50070), April 2016.

STRENGTHEN PLANNING, TRANSPARENCY, AND ACCOUNTABILITY

CHALLENGE

Planning, transparency, and accountability are critical factors in effective management. Failure to plan properly to meet its mission and challenges will lessen the Agency's ability to provide its services efficiently and effectively now and in the future. Similarly, mismanagement and waste as well as a lack of transparency for citizens in Government operations, can erode trust in SSA's ability to tackle the challenges it faces.

PLANNING

The Agency has long developed annual performance and multiple-year strategic plans, which include descriptions of the programs, processes, and resources needed to meet its mission and strategic objectives. We have previously noted that, while planning for the next few years is important, a longer-term vision is critical to ensuring the Agency has the programs, processes, staff, and infrastructure required to provide needed services 10 to 20 years from now and beyond.

SSA contracted with the National Academy of Public Administration (NAPA) to develop a vision and high-level strategic plan aimed at helping the Agency address the continuing service delivery challenges it may face. SSA used the Academy's report and additional stakeholder input to develop its *Vision 2025*, which it released in FY 2015. Per SSA, *Vision 2025* was a critical first step in planning how it will serve the public in the future. It presents three priorities: superior customer experience, exceptional employees, and innovative organization. These priorities will guide the development of goals, plans, and performance measures, which SSA will outline in its strategic plans and annual performance reports.

Vision 2025 does not include specific, measurable goals or outline the strategy needed to implement SSA's proposed vision. We believe SSA's long-term strategic vision should include specific, measurable goals that clearly outline the service delivery model SSA envisions in year 2025 and beyond, which would allow SSA to use its shorter term planning documents to outline the steps needed to achieve larger and clearly defined objectives. Also, while *Vision 2025* describes its future environmental drivers, it does not explain how they will affect SSA's ability to provide services in the future. Additionally, *Vision 2025* addresses many of the issues outlined in NAPA's plan for SSA, but NAPA's plan is more specific than *Vision 2025*. Most importantly, NAPA concludes that SSA needs to develop a more cost-effective service delivery system that is primarily virtual. *Vision 2025* does not choose one primary service delivery method and promises a service delivery system that will meet each customer's desire.

TRANSPARENCY

The Agency has a mixture of outcome and output performance measures on which it publicly reports. Some outcomes measure customer satisfaction, the timeliness of service or claims processing, or the accuracy of payments. Other performance measures appear to measure outcomes but really measure outputs. In these cases, SSA included a desired outcome in the wording of the performance measures, but it does not actually measure those outcomes. For example, one of SSA's performance measures is to "Improve the disability determination process by increasing the percentage of initial disability claims using electronically transmitted health records and medical evidence (Health IT)." While an increased number of claims using Health IT may improve the disability determination process, it may not. A better performance measure would measure whether claims using Health IT had better outcomes, like more accurate or timely disability determinations when compared to claims processed without Health IT. Without an understanding of the outcomes associated with the use of Health IT, one cannot determine whether any investment in the increased use of Health IT is an effective use of SSA's resources.

SSA also has a number of output performance measures, such as budgeted workloads, including the completion of the budgeted number of full medical CDRs, SSI non-medical redeterminations, disability claims, and hearings requests. While measuring these workloads may be helpful for budgeting purposes, the performance measures do not inform a reader whether the completion of the workloads has positive outcomes. More useful performance measures would measure the outcomes of the workloads, like the dollars saved by identifying beneficiaries who were no longer disabled and, therefore, ineligible for benefits through the completion of CDRs. Measuring outputs, or steps in a process, does not inform the public whether SSA is achieving the outcomes it needs to efficiently and effectively provide its services and meet its mission.

ACCOUNTABILITY

SSA'S ANTI-FRAUD PROGRAMS

In FY 2014, we hired a contractor to complete a fraud risk assessment of SSA's anti-fraud activities and found that SSA did not track all instances of fraud or use a risk-based approach for combatting fraud. The contractor also concluded that the Agency could be more proactive in addressing and mitigating new fraud schemes and improving the design and operating effectiveness of anti-fraud measures.

Additionally, SSA needs to prepare for new risk management requirements that will become effective in FY 2017. In July 2016, OMB issued Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.* It states that management has overall responsibility for establishing internal controls to manage fraud risk. This includes reporting to the Agency's governance structure the actions the Agency has taken to manage fraud risks and the status of the Agency's Risk Profile. The Agency's Risk Profile must include an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified material fraud risks.

INDEPENDENT AUDITOR'S REPORT

The FY 2016 *Independent Auditor's Report* contained two significant deficiencies in internal control (refer to SSA's FY 2016 *Agency Financial Report* for the full text of the report).

The auditor identified four deficiencies in internal control that, when aggregated, were considered to be a significant deficiency in internal controls related to accounts receivable and overpayments.

- The auditor found that SSA's subsidiary ledgers did not agree with its general ledger balances, and SSA had a lack of internal controls over the routine reconciliation of subsidiary ledgers with the general ledger. In addition, the auditor identified control deficiencies related to the periodic testing of IT system programs to ensure accounts receivable information was accurate and complete.
- The auditor found errors in 30 percent, and missing documentation in 25 percent, of the overpayment sample items it selected for review.
- The auditor identified instances where employees did not fully comply with SSA polices, including retaining sufficient evidence to support a claim for overpayment.
- The auditor determined that, because of an SSA identified system's limitation, SSA is not tracking receivable overpayment installment payments that extend past the year 2049.

In addition, the auditor identified information system control deficiencies in four areas that, when aggregated, were considered to be a significant deficiency over information systems controls. The areas included the following.

- Threat and Vulnerability Management.
- IT Oversight and Governance.

- Change and Configuration Management.
- Access Controls.

AGENCY ACTIONS

PLANNING

SSA created an addendum to its *Agency Strategic Plan* for FYs 2014-2018 to show how the *Vision 2025* priorities aligned with the Plan's strategic objectives. The addendum also showed how the *Vision 2025* priorities aligned with SSA's major management priorities for FYs 2015-2016 (see Table 2). Per the addendum, the major management priorities were the Agency's first step in focusing and prioritizing the resources to realize *Vision 2025* and served as the first phase of the implementation of *Vision 2025*. The Agency reported it completed 90 percent of the activities to which it committed with the first eight critical management priorities and established new critical priorities for 2016-2017.

Table 2: Alignment of Vision 2025 Priorities to Major Management Priorities

Vision Priority	Major Management Priorities 2015 Through 2016	Major Management Priorities 2016 Through 2017
Superior Customer Experience	I. Enhance Online Customer Service II. Reduce Hearings Backlog III. Educate the Public About Social Security Programs	I. Advance Customer Engagement II. Advance Service Delivery in Our Disability Programs III. Enhance Knowledge of Social Security Retirement and Disability Programs IV. Enhance Quality and Payment Accuracy for our Customers
Exceptional Employees	IV. Improve Succession Management V. Promote Employee Development and Engagement	V. Invest in Our Employees
Innovative Organization	VI. Transform the IT Investment Process VII. Establish Program Management Model/Office VIII. Accelerate the Use of Data-Driven Decision-Making	VI. Upgrade Our Foundational Infrastructure VII. Modernize Our IT and Accelerate Data Driven Decisions

SSA also worked with a contractor to develop an execution strategy and roadmap to cover the 10-year period addressed by *Vision 2025*. The roadmap includes a more specific description of a future SSA, but the contractor's reports do not discuss how SSA's budget uncertainty and other environmental factors could affect the envisioned roadmap. The value of the contractor's work will be measured by whether SSA uses the guidance the contractor provided as it makes the changes needed to meet its mission and successfully serve its customers in the future.

TRANSPARENCY

In FY 2016, SSA provided its strategy and performance teams with performance-measure development training. Additionally, it implemented a new process for developing performance measures, with the goal of identifying the best indicators where data are available to measure progress in achieving the desired outcome of strategic objectives.

Per SSA, it will continue working toward developing more outcome-based performance measures as it moves forward with developing its next Agency Strategic Plan.

ACCOUNTABILITY

SSA has taken a number of steps to increase its anti-fraud activities. In November 2014, it established the Office of Anti-Fraud Programs to monitor the Agency's anti-fraud initiatives. The Office of Anti-Fraud Programs is developing the Anti-Fraud Enterprise Solution to identify high fraud risk areas that have the most significant impact to the Agency. Specifically, the Anti-Fraud Enterprise Solution will employ advanced data analytics to identify patterns that indicate fraud, improve functionality for data-driven fraud triggers, conduct real-time analysis, and integrate technology into SSA's anti-fraud business process. Once SSA completes its risk management work and establishes a risk tolerance(s), it can use the results of that work to build risk-scoring capabilities into the Anti-Fraud Enterprise Solution.

Once operational, the system will be the platform used by the Office of Anti-Fraud Programs to centralize agency level anti-fraud activities. According to SSA, the software and hardware system will use existing and emerging methods to prevent and detect fraud through data modeling and analytics. SSA also plans to apply a risk-based approach by using predictive modeling to prioritize program integrity and stewardship workloads. SSA expects the use of predictive modeling to help it identify and work cases with the greatest potential for improper payments.

Finally, the Acting Commissioner has made addressing the internal control significant deficiencies a priority.

WHAT THE AGENCY NEEDS TO DO

SSA should make public the roadmap guiding implementation of its *Vision 2025*. Also, the Agency should develop performance measures that address its long-term outcomes, so SSA and the public can track implementation of the roadmap.

SSA needs to be more proactive in addressing and mitigating new fraud schemes and improving the design and operating effectiveness of anti-fraud measures.

The Agency needs to address its two internal control significant deficiencies.

KEY RELATED AGENCY PERFORMANCE MEASURES

The key planning, transparency, and accountability related measures from SSA's FY 2016 *Annual Performance Plan* are listed below.

- Assess field and hearing office lease expirations and increase colocation of SSA field and hearing offices to reduce SSA's physical footprint.
- Enhance security features and business processes to prevent and detect fraud.
- Strengthen workforce diversity by maintaining the representation of employees with targeted disabilities.
- Strengthen workforce competence by improving SSA's talent management index score.
- Become one of the Top 5 Best Places to Work among large agencies in the Government.
- Increase employee engagement as measured by the employee engagement index score.
- Lay the foundation for building a 21st century workforce by meeting or exceeding targeted Human Resources measures.

KEY RELATED LINKS

OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, July 2016.

SSA's Agency Strategic Plan, Fiscal Years 2014-2018.

SSA's Agency Strategic Plan, Fiscal Years 2014-2018, Update Addendum: Vision 2025 Alignment.

SSA's Annual Performance Report 2015 – 2017 (Annual Performance Plan for FY 2017, Revised Performance Plan for FY 2016, and Annual Performance Report for FY 2015).

SSA's Vision 2025.

National Academy of Public Administration Report – Anticipating the Future: Developing a Vision and Strategic Plan for the Social Security Administration for 2025-2030, July 2014.

OIG Report – Fraud Risk Performance Audit of the Social Security Administration's Disability Programs (Limited Distribution) (A-15-15-25002), April 2015.

OIG Report - The Social Security Administration's Financial Report for Fiscal Year 2015 (A-15-16-50025), November 2015.

OIG Report – Congressional Response Report: The Social Security Administration's Vision 2025 Plan (A-02-16-50125), March 2016.

OIG Report – The Social Security Administration's Financial Report for Fiscal Year 2016 (A-15-17-50155), November 2016.

OTHER REPORTING REQUIREMENTS

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FINANCIAL STATEMENT AUDIT TABLE

Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

SUMMARY OF MANAGEMENT ASSURANCES TABLE

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

ENTITLEMENT REVIEWS AND OFFICE OF THE INSPECTOR GENERAL ANTI-FRAUD ACTIVITIES

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law (P.L.) 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

ENTITLEMENT REVIEWS

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

DISABILITY QUALITY ASSURANCE REVIEWS

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure our level of accuracy against standards mandated by the regulations. We review initial claims, requests for reconsideration, and determinations of continuing eligibility, and conduct these reviews prior to the effectuation of the DDS determinations. The following table shows the quality assurance accuracy rates for fiscal years (FY) 2012 through FY 2016.

QUALITY ASSURANCE REVIEWS TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction	98.5%	98.1%	98.1%	97.7%	97.6%
Number of cases reviewed	32,262	31,672	29,780	29,360	33,010
Number of cases returned to the DDS offices due to error or inadequate documentation	476	608	577	663	796

DI PRE-EFFECTUATION REVIEWS

We also perform pre-effectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of pre-effectuation reviews, and it satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review (CDR) continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI pre-effectuation accuracy rates for FY 2012 through FY 2016.

DI PRE-EFFECTUATION REVIEWS TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Percent of State DDS decisions to allow or continue not returned to the DDS offices for correction	97.4%	97.1%	96.9%	96.4%	95.8%
Number of cases reviewed	362,250	333,159	316,306	293,015	300,440
Number of cases returned to the DDS offices due to error or inadequate documentation	9,414	9,619	9,689	10,647	12,758

SSI PRE-EFFECTUATION REVIEWS

Following legislation enacted in February 2006, we began pre-effectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI pre-effectuation accuracy rates for FY 2012 through FY 2016.

SSI PRE-EFFECTUATION REVIEWS TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Percent of State DDS decisions to allow not returned to the DDS offices for correction	97.9%	97.7%	97.6%	97.1%	96.9%
Number of cases reviewed	116,681	109,645	105,628	104,808	112,875
Number of cases returned to the DDS offices due to error or inadequate documentation	2,430	2,530	2,562	2,988	3,508

CONTINUING DISABILITY REVIEWS

Periodic CDRs are a key activity in ensuring the integrity of the disability program. Through CDRs, we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2012 through FY 2016.

CDR ACCURACY TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Overall accuracy	97.9%	97.2%	97.6%	96.7%	97.1%
Continuance accuracy	98.6%	98.0%	98.3%	97.3%	97.8%
Cessation accuracy	95.8%	95.1%	95.5%	95.0%	94.9%

OASDI AND SSI QUALITY ASSURANCE REVIEWS

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2012 through FY 2015. Please note that year-to-year differences are not statistically significant. Data for FY 2016 is not available at this time. We will report the FY 2016 data in our FY 2017 *Agency Financial Report.*

OASDI ACCURACY TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Overpayment accuracy	99.8%	99.8%	99.5%	99.6%	Data not yet available
Underpayment accuracy	99.9%	99.9%	99.9%	99.9%	Data not yet available

SSI ACCURACY TABLE

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Overpayment accuracy	93.7%	92.4%	93.0%	93.9%	Data not yet available
Underpayment accuracy	98.2%	98.3%	98.5%	98.6%	Data not yet available

SSI REDETERMINATIONS

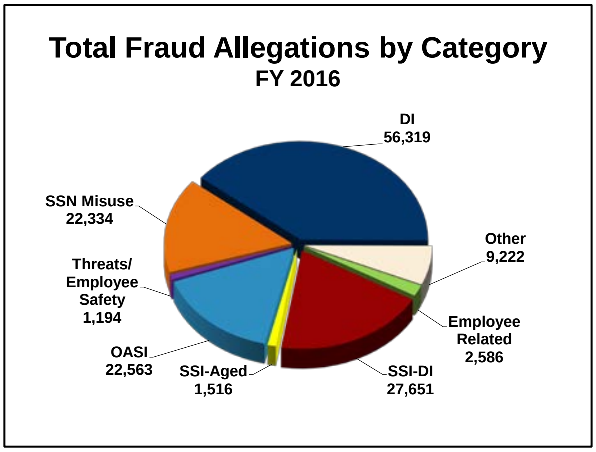
Once individuals become entitled to Social Security or SSI disability benefits, any changes in their circumstances may affect the amount or continuation of their benefits; therefore, we must reflect those changes in our records. SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2012 through FY 2016.

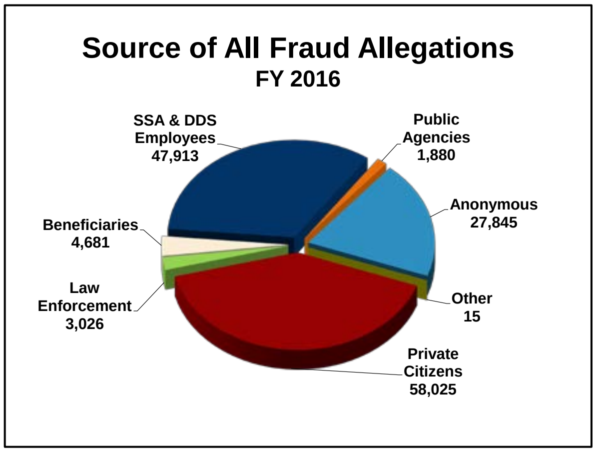
SSI REDETERMINATIONS TABLE
(IN MILLIONS)

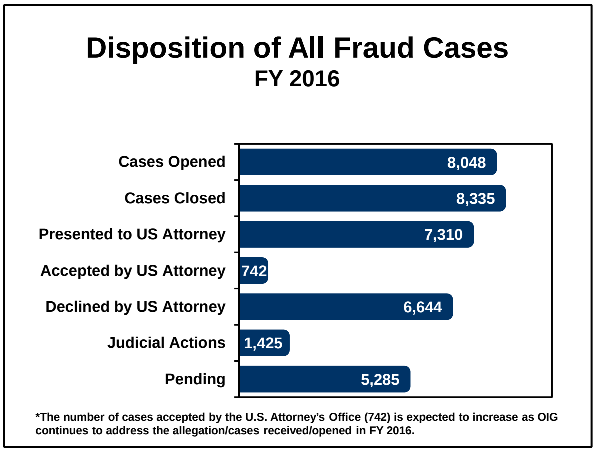
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Number of redeterminations completed	2.624	2.634	2.628	2.267	2.530

THE OFFICE OF THE INSPECTOR GENERAL'S ANTI-FRAUD ACTIVITIES

In FY 2016, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts provide information from our OIG concerning fraud.







CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Social Security Act* authorizes the Commissioner to impose a civil monetary penalty (CMP) for certain specific violations. Section 1129 of the *Social Security Act* authorizes a CMP against anyone who makes any false statements, misrepresentations, or omissions, who fails to report material information, and representative payees who commit conversions in connection with obtaining or retaining benefits or payments under Titles II, VIII, and XVI of the *Social Security Act*. Section 1140 of the *Social Security Act* authorizes CMPs to protect the public from fraudulent schemes that include misuse of Social Security symbols, emblems, or names. The Commissioner delegated authority to enforce both sections to the Inspector General.

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* expanded the categories of penalties that require adjustment for inflation to include CMPs under the *Social Security Act* and requires agencies to: (1) use an interim final rulemaking to adjust the level of CMPs in 2016 with an initial "catch-up" adjustment; (2) continue to make annual adjustments in future years; and (3) report on these adjustments annually. As required, we are providing information on our current CMPs, which include the initial "catch-up" adjustments. We will continue to make annual adjustments in future years and report on these adjustments annually.

CIVIL MONETARY PENALTY ADJUSTMENTS

Statutory Authority	Penalty	Year Enacted	Last Year of Adjustment (via statute or regulation)	Current Penalty Date of Adjustment	Current Penalty Level	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Section 206 (b), *Social Security Independence and Program Improvements Act of 1994*, P. L. 103-296, 108 Stat. 1509	Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8)	1994	2016 (this is the first year of adjustment since enactment)	8/1/2016	$0-7,954 **OR** $7,954 (current maximum penalty)	SSA/OIG	Federal Register 81 (27, June 2016): 41,438-41,441 (www.federalregister.gov/documents/2016/06/27)
Section 813 (c), *Bipartisan Budget Act of 2015*, P. L. 114-74, 129 Stat. 603	Flagrant Violation (Section 1129 of the *Social Security Act*, 42 U.S.C. 1320a-8)	2015	Not applicable (this CMP is new and has not been adjusted for inflation)	11/2/2015	$0-7,500 **OR** $7,500 (current maximum penalty)	SSA/OIG	Not applicable (this CMP is new and has not been adjusted for inflation)
Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815	Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10)	1988	2016 (this is the first year of adjustment since enactment)	8/1/2016	$0-49,467 **OR** $49,467 (current maximum penalty)	SSA/OIG	Federal Register 81 (27, June 2016): 41,438-41,441 (www.federalregister.gov/documents/2016/06/27)
Section 428 (a), *Medicare Catastrophic Coverage Act of 1988*, P. L. 100-360, 102 Stat. 815	Flagrant Violation (Section 1140 of the *Social Security Act*, 42 U.S.C. 1320b-10)	1988	2016 (this is the first year of adjustment since enactment)	8/1/2016	$0-9,893 **OR** $9,893 (current maximum penalty)	SSA/OIG	Federal Register 81 (27, June 2016): 41,438-41,441 (www.federalregister.gov/documents/2016/06/27)

BIENNIAL REVIEW OF USER FEE CHARGES

SUMMARY OF FEES

In FY 2015 and FY 2016, we earned $306 million and $314 million in user fees, respectively. This revenue accounted for less than one percent of our total financing sources. We derive over 74 percent of user fee revenues from agreements with 20 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2016, we charged a fee of $11.56 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $11.68 for FY 2017. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our FY 2016 review, we identified updates to the uniform standard fee structure for non-programmatic workloads previously implemented in FY 2014. We are planning to perform another review of these fees during FY 2018.

FREEZE THE FOOTPRINT

Office of Management and Budget (OMB) Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations* (May 11, 2012), directed Executive Branch departments and agencies not to increase the size of their real estate inventory. Called Freeze the Footprint, this initiative established a baseline using each agency's total square footage as of FY 2012, per OMB Management Procedures Memorandum 2013-02, *Implementation of OMB Memorandum M-12-12 Section 3: Freeze the Footprint* (March 14, 2013).

The following information reflects the overall change in the agency's real property footprint from the FY 2012 baseline for Freeze the Footprint, as well as strategies we are pursuing to comply with the mandate.

The agency does not own or directly lease any buildings in its inventory. Per Federal Management Regulation, Subchapter C, the General Services Administration (GSA) acts as the landlord for the Federal civilian Government, and is charged with promulgating regulations governing the acquisition, use, and disposal of real property. We work closely with GSA to manage our portfolio given changing workloads and the best business case for the agency.

SQUARE FOOTAGE TABLE

	FY 2012 Baseline	FY 2015 Baseline	Change from 2012 to 2015 Baseline	FY 2016	Change from 2015 Baseline
Freeze the Footprint Useable square feet	26,367,253	24,956,355	-1,410,898 or -5.3%	24,862,582[1]	-93,773 or -0.4%

Notes:

1. This is an agency estimate based on the final rent bill. Per GSA, GSA will no longer be providing final baselines for Freeze the Footprint moving forward.

OPERATION AND MAINTENANCE COST – OWNED AND DIRECT LEASE BUILDINGS TABLE

	FY 2012 Reported Cost	FY 2015	Change	FY 2016	Change
Operation and maintenance cost	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

We are pursuing the following strategies to comply with OMB's Reduce the Footprint policy:

- Analyzing rent trend projections, while evaluating market gap opportunities to identify locations where it makes sense to renegotiate lower rent rates with lessors;
- Optimizing space use by identifying and improving the overall use rate in new projects;
- Reviewing field and hearing office Federal building occupancies to determine if the current space meets our agency's business and mission needs based on current space standards and staffing levels;
- Pursuing field and hearing office collocation opportunities when it makes business sense and does not adversely affect customer service; and
- Continuing to phase in telework, which may present opportunities for future office space reductions.

DEBT COLLECTION AND MANAGEMENT

DEBT COLLECTION

We have a robust debt collection program to recover all types of overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding and billing/follow-up), as well as some of the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (DCIA) for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts. The following table provides a description of each of our external debt collection techniques for OASDI, SSI, and administrative overpayments, and a summary of the results. For more information on our agency's debt collection techniques, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

CUMULATIVE PROGRAM AND ADMINISTRATIVE DEBT RECOVERY METHODS THROUGH FY 2016 TABLE
(DOLLARS IN BILLIONS)

Recovery Method	Inception	Description	OASDI	SSI	Administrative	TOTAL
Treasury Offset Program (TOP)	1992	TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal salary offset. We collected $173.1 million in FY 2016 through this initiative.	$1.770	$1.135	$0.0003[1]	**$2.905**
Credit Bureau Reporting[2]	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of $88.6 million in FY 2016.	$0.606	$0.419	Not Applicable	**$1.025**
Cross-Program Recovery	2002	Cross-program recovery collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments. We collected $165.5 million through cross-program recovery in FY 2016.	$0.251	$1.599[3]	Not Applicable	**$1.850**
Non-Entitled Debtors (NED)[4]	2005	NED is an automated system used to control recovery activity for debtors who are not entitled to benefits (e.g., representative payees who receive payments after the death of a beneficiary). We used NED to recover $3.3 million in FY 2016.	$0.039	Not Applicable	Not Applicable	**$0.039[4]**
Administrative Wage Garnishment (AWG)	2005	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private-sector disposable (i.e., that part of a worker's total compensation after deduction of health insurance premiums and required deductions) pay. We collected $8.8 million through this process in FY 2016.	$0.145	$0.028	Not Applicable	**$0.173**
Automatic Netting SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" $138.1 million in FY 2016.	Not Applicable	$1.621	Not Applicable	**$1.621**

Notes:

1. Cross-Servicing is a consolidated government-wide program operated by the Department of the Treasury's Debt Management Services that fulfills the requirement of DCIA to collect delinquent, non-tax debt on behalf of Federal agencies. As required by DCIA, we must refer any eligible debt more than 180 days delinquent to the Bureau of the Fiscal Service for cross-servicing. Cross-Servicing incorporates debt collection tools such as AWG, credit bureau reporting, and private collection agency contracts.
2. The credit bureau reporting totals are a subset of TOP collections.
3. Starting in FY 2016, we record all collections via cross-program recovery, not just a subset.
4. NED is a subset of TOP and AWG collections.

DEBT MANAGEMENT

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the Debt Management Activities Program and Administrative table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of certain overpayments. In July 2011, the Government Accountability Office (GAO) issued an audit report on the DI program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." In that audit, GAO identified an OASDI system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond the year 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 57,000 debts are affected by payment plans extending beyond the year 2049. We estimate the total gross value of the post year 2049 receivable amounts is approximately $663 million. This amount is not material to the consolidated financial statements.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. We are working to address the system limitation; however, the accounts receivable balance reported on the financial statements are presented fairly in all material respects.

DEBT MANAGEMENT ACTIVITIES
PROGRAM AND ADMINISTRATIVE TABLE
(DOLLARS IN MILLIONS)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Total receivables	$16,588	$17,046	$18,252	$19,361	$21,014
New receivables	5,955	5,616	5,976	5,865	6,420
Total collections	(3,663)	(3,817)	(3,686)	(3,692)	(3,604)
Adjustments	(536)	(391)	(309)	(446)	(536)
Total write-offs	(1,022)	(950)	(775)	(618)	(627)
- Waivers	(502)	(421)	(373)	(342)	(275)
- Terminations	(520)	(529)	(402)	(276)	(352)
Non delinquent debt	11,589	11,268	11,895	12,210	12,984
Total delinquent debt	$4,999	$5,778	$6,357	$7,151	$8,030
Percentage Analysis					
% of outstanding debt:					
- Non delinquent	69.9%	66.1%	65.2%	63.1%	61.8%
- Delinquent	30.1%	33.9%	34.8%	36.9%	38.2%
% of debt estimated to be uncollectible*	27.3%	26.3%	25.5%	24.2%	42.7%
% of debt collected	22.1%	22.4%	20.2%	19.1%	17.2%
% change in collections from prior fiscal year	0.8%	4.2%	-3.4%	0.2%	-2.4%
% change in delinquencies from prior fiscal year	7.2%	15.6%	10.0%	12.5%	12.3%
Clearances as a % of total receivables	28.2%	28.0%	24.4%	22.3%	20.1%
- Collections as a % of clearances	78.2%	80.1%	82.6%	85.7%	85.2%
- Write-offs as a % of clearances	21.8%	19.9%	17.4%	14.3%	14.8%
Other Analysis					
Cost to collect $1	$0.07	$0.07	$0.07	$0.07	$0.07
Average number of months to clear receivables:					
- OASI	15	15	15	16	17
- DI	49	66	55	62	55
- SSI	36	38	39	43	42

Note:

*The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

Definitions:

1. Adjustments – Program debt adjustments represent: (a) written-off debts, by way of terminations, that we reinstate for collections; (b) changes in debts when we update debtor accounts with new information; and (c) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (a) is without fault in causing the debt; and (b) recovery would either defeat the purpose of the act or be against

equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.

3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (a) the debtor will not repay the debt or alleges they cannot pay the debt; (b) we cannot locate the debtor after diligent search; or (c) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the TOP and AWG. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.

4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (a) the date we establish an OASDI debt; (b) the date of the initial overpayment notice for a SSI debt; (c) the date of the last voluntary payment; (d) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (e) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

FY 2016 Quarterly Debt Management Activities
Program and Administrative Table
(Dollars in Millions)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables	$19,343	$19,604	$20,125	$21,014
New receivables	1,116	2,460	4,084	6,420
Total collections	(903)	(1,715)	(2,569)	(3,604)
Adjustments	(102)	(240)	(355)	(536)
Total write-offs	(129)	(262)	(396)	(627)
- Waivers	(67)	(136)	(205)	(275)
- Terminations	(62)	(126)	(191)	(352)
Aging schedule of debts:				
- Non delinquent debt	11,594	11,878	12,256	12,984
- Delinquent debt				
- 180 days or less	1,686	1,447	1,438	1,581
- 181 days to 10 years	5,349	5,533	5,644	5,654
- Over 10 years	714	746	787	795
- Total delinquent debt	$7,749	$7,726	$7,869	$8,030

IMPROPER PAYMENTS INFORMATION DETAILED REPORT

BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments very seriously. As good stewards of our resources and taxpayer funds, we remain focused on the integrity of our programs, including minimizing improper payments. "Strengthen the Integrity of Our Programs" is a Strategic Goal in our *Agency Strategic Plan for Fiscal Years* (FY) *2014-2018* (www.socialsecurity.gov/agency/asp/). Each year, we report improper payment findings, both overpayments and underpayments, from our stewardship reviews of the non-medical aspects of the OASI, DI, and SSI programs. Regarding the medical aspects of our disability programs, we conduct continuing disability reviews (CDR) to determine whether disability beneficiaries continue to meet the programs' medical criteria. However, terminating disability benefits after a CDR does not mean that the original determination was incorrect, it may mean the beneficiary's medical condition has improved to the point he or she can work. Therefore, the benefits he or she received before improvement may not be improper.

In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), we report as improper those payments that result from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

As outlined in OMB's IPERIA guidance, any program with $750 million in improper payments qualifies as a high-priority program, and agencies must report improper payments in those programs. Two of our programs meet OMB's definition of high-priority programs: the OASDI program and the SSI program.

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. This report provides general information that demonstrates our commitment to reducing improper payments. The report also contains descriptions of our efforts in reducing, recovering, and preventing improper payments for our OASDI and SSI benefit programs and our administrative payments.

We also fulfill the requirements of Executive Order 13520, *Reducing Improper Payments*, by providing additional information about our efforts to curb improper payments in our OASDI and SSI programs on our public improper payments website (www.socialsecurity.gov/improperpayments).

RISK ASSESSMENT

RISK SUSCEPTIBLE PROGRAM

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1.1 for details of our OASI and DI improper payments, and Table 1.3 for details of our SSI improper payments.

OMB's IPERA guidance requires us to evaluate all of our payment outlays (i.e., payments from the OASI, DI, and SSI programs and other outlays, such as administrative payments). Since 2003, we have reviewed our administrative payments, including payroll disbursements and vendor payments. We found these payments were not susceptible to significant improper payments. Below we provide additional information on the risk assessment of our administrative payments.

We evaluated our FY 2015 administrative expenses and determined they were not susceptible to significant improper payments as defined by IPIA.

BENEFIT PAYMENTS

To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our stewardship review is a cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs.

ADMINISTRATIVE PAYMENTS

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that an agency's administrative payments are susceptible to significant improper payments, the agency is required to establish an annual improper payment measurement related to administrative payments.

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weakness in the administrative payment process;
- The size, stability, and complexity of our administrative payment processes;
- The historically low error rate for administrative payments;
- Extensive controls inherent in our administrative payment systems; and
- The current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We reviewed the agency's Travel and Purchase Card Management Plans required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. We also leveraged the results of an FY 2014 independent accounting firm's financial risk assessment in support of our *Federal Managers' Financial Integrity Act* (FMFIA) compliance program. This assessment found that our administrative expenses, accounts payables, human resources, and payroll management-related risks are low overall.

Other than the requirements of our annual *Agency Financial Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

SAMPLING AND ESTIMATION

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a statistically valid sample of OASI, DI, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, contact third parties for additional information if needed, and redevelop all non-medical factors of eligibility as of the sample month to determine whether the payment was correct. We express any difference between what we actually paid and what the reviewer determines we should have paid as an overpayment or underpayment error. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in FY 2015. For government-wide reporting purposes, we treat our FY 2015 findings as FY 2016 data. We will not have FY 2016 data until April 2017. We will report our findings from the FY 2016 stewardship reviews in next year's *Improper Payments Information Detailed Report*.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refer to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay more or less, than we should have paid. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year rolling average for each type of deficiency to identify and rank error trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We base our corrective actions for our high-priority programs on the information we obtain from the stewardship reviews. We focus our efforts on major causes of improper payments, both overpayments and underpayments.

IMPROPER PAYMENT REPORTING

IMPROPER PAYMENTS STRATEGY

For FY 2016, we continued to align our improper payments strategy with our improper payments governance. We are collaborating with our Federal partners, stakeholders, and beneficiaries to attain our agency Strategic Goal to "Strengthen the Integrity of Our Programs." Proper management of payments is an essential element of our goal.

Under this Strategic Goal, we will:

- Collaborate with our Federal partners across the Improper Payment and Data Exchange Communities of Practice to find innovative ways to prevent and reduce improper payments through potential legislative proposals, data exchange agreements, or other collaboration;
- Increase efforts to recover overpayments by modernizing our debt collection systems;
- Enhance predictive models and automation tools to help identify error-prone aspects of benefit eligibility;
- Expand the use of data analytics to reduce fraud and payment errors; and
- Streamline the Representative Payee Program to better identify potential misuse of benefits.

We do not intend for our key improper payment initiatives to be a static list. We periodically reassess our focus as it relates to reducing improper payments. One of our agency critical priorities focuses on enhancing quality and payment accuracy for our customers.

Within our prior strategic approach to address improper payments, we identified two initiatives to reduce improper payments: impose administrative sanctions and improve death data processing. We have made significant progress in these two areas. In September 2013, we revised our policy to apply administrative sanctions more consistently.

Since we implemented the new procedures, our data demonstrates improved consistency among personnel in our regional offices in applying administrative sanctions and an overall threefold increase in the number of sanction cases imposed nationally. Incorrect death data is not a leading cause of improper payments. Even so, we have made significant strides in the last fiscal year to ensure that we do not have different death data in our systems. The Death Information Processing System, a multi-year, multi-phase release, which made the Numident our official repository of death data, as well as the expansion of Electronic Death Registration to five additional States, are helping us reduce the number of erroneous deaths reported to the Death Master File. Payment errors based on death data correspond to the "Failure to Verify: Death Data" category in Table 2.

This fiscal year, based upon our stewardship reviews and other efforts, we identified the leading causes of improper payments and major quality issues and selected workloads where we can collectively make meaningful progress by the end of FY 2017, with adequate and sustained funding. Building on our current efforts and processes, we will focus on two key areas: (1) combating the leading cause of improper payments; and (2) improving quality and program integrity.

The following are our key priority strategic initiatives to achieve our Strategic Goal:

- Explore the cost-effectiveness of increasing Access to Financial Institutions (AFI) information;
- Enhance the wage reporting process;
- Identify non-home real property;
- Make better use of data exchanges, including a study of the Department of Homeland Security (DHS), Customs and Border Protection's Arrival and Departure Information System data, and exploring the possibility of a data exchange agreement with them;
- Implement a corrective plan for applying the Government Pension Offset (GPO) (a definition of GPO is available at: www.socialsecurity.gov/pubs/10007.html) and Windfall Elimination Provisions (WEP) (a definition of WEP is available at: www.socialsecurity.gov/pubs/EN-05-10045.pdf);
- Identify potential entitlements;
- Increase post-entitlement accuracy;
- Enhance debt collection policy and practices; and
- Improve medical cessation processing.

We discuss these initiatives and their relation to reducing improper payments in our OASDI and SSI programs in the Improper Payment Root Cause Categories and the Improper Payment Corrective Actions sections of this report. We also discuss initiatives that affect improper payments in both programs in the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section of this improper payments report.

In our *Annual Performance Report for FYs 2015-2017*, one of our strategic objectives to achieve our Strategic Goal is to Increase Payment Accuracy. To reach this strategic objective, we identified the following five performance measures:

- Reduce the percentage of improper payments made under the SSI program;
- Maintain a high accuracy rate of payments made through the OASDI program to minimize improper payments;
- Improve the integrity of the SSI program by ensuring that 95 percent of our payments are free of overpayment;
- Complete the budgeted number of full medical CDRs; and
- Complete the budgeted number of SSI non-medical redeterminations.

We discuss our strategies to achieve these performance measures in our *Annual Performance Report for FYs 2015-2017* (www.socialsecurity.gov/agency/performance/2016/FINAL_2015_2017_APR_508_compliant.pdf).

EXPERIENCE AND OUTLOOK IN THE OASI, DI, OASDI, AND SSI PROGRAMS

OMB requires agencies that have programs or activities that are susceptible to significant improper payments to list the programs and related improper payment rates in one table. Table 1 shows the improper payment rates for the OASI, DI, OASDI, and SSI programs for FY 2014 and FY 2015. In Table 1, we also include our improper payment rates for funds we spent to support Hurricane Sandy recovery activity, since they are also considered susceptible to significant improper payments by the *Disaster Relief Appropriations Act of 2013* (DRAA). We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid. We calculate the improper payment (IP) rate by adding overpayment and underpayment dollars and dividing the sum total dollars paid. This table also presents our accuracy targets for FYs 2016, 2017, and 2018 for the OASDI and SSI programs.

Please see Table 1.1 for more details about our improper payment rates for the OASI and DI programs for FYs 2013, 2014, and 2015, and see Table 1.2 for more details about our combined OASDI Improper Payments Reduction Outlook for FYs 2016, 2017, and 2018. For our SSI program, please see Table 1.3 for more details about our improper payment rates for the SSI program for FYs 2013, 2014, and 2015, and see Table 1.4 for more details about our SSI Improper Payments Reduction Outlook for FYs 2016, 2017, and 2018.

TABLE 1: IMPROPER PAYMENT REDUCTION OUTLOOK[1,2,3,4,5,6,7,8]
FY 2014 – FY 2018
(DOLLARS IN MILLIONS)

	OASI	DI	OASDI	SSI	DRAA[9,10,11]	Total
FY 2014 Outlays	$720,351.38	$142,368.41	$862,719.79	$56,457.56	$0.081	$919,177.43
2014 IP %	0.45%	1.25%	0.58%	8.44%	0.00%	1.07%
2014 IP $	$3,253.32	$1,784.87	$5,038.19	$4,764.74	$0.00	$9,802.93
FY 2015 Outlays	$712,644.02	$141,045.42	$853,689.44	$56,625.58	$0.00	$910,315.02
2015 IP %	0.27%	1.22%	0.43%	7.42%	0.00%	0.86%
2015 IP $	$1,947.09	$1,725.06	$3,672.16	$4,201.49	$0.00	$7,873.65
2015 Overpayment $	$1,575.47	$1,524.93	$3,100.40	$3,431.29	$0.00	$6,531.69
2015 Underpayment $	$371.62	$200.14	$571.76	$770.20	$0.00	$1,341.96
2016 Est. Outlays			$906,096.90	$57,481.26	$0.00	$963,578.16
2016 Est. IP %[6]			0.40%	6.20%	0.00%	0.75%
2016 Est. IP $			$3,624.39	$3,563.84	$0.00	$7,188.23
2017 Est. Outlays			$943,044.67	$57,794.37	$0.00	$1,000,839.04
2017 Est. IP %[6]			0.40%	6.20%	0.00%	0.73%
2017 Est. IP $			$3,772.18	$3,583.25	$0.00	$7,355.43
2018 Est. Outlays			$997,066.57	$58,891.74	$0.00	$1,055,958.31
2018 Est. IP %[6]			0.40%	6.20%	0.00%	0.72%
2018 Est. IP $			$3,988.27	$3,651.29	$0.00	$7,639.56

Notes:

1. Total OASDI and SSI outlays for FY 2014 and FY 2015 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. OASDI outlays are estimates based on limited sample sizes, which may cause them to vary from year to year.
3. FY 2016 data will not be available until late April 2017; therefore, the rates shown for FY 2016 are targets.
4. Total OASDI benefit payments for FYs 2016-2018 are estimates consistent with projections for the Mid-Session Review of the FY 2017 President's Budget. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.
5. Total federally administered SSI payments for FYs 2016-2018 are estimates consistent with projections for the Mid-Session Review of the FY 2017 President's Budget, adjusted to be presented on a constant 12 month per year payment basis.
6. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data. We derive percentages from unrounded source data.
7. Please note that year-to-year differences are not statistically significant.
8. OMB Circular No. A-136 Part II.5.8, section III.vii states, "If an agency establishes a reduction target that does not decrease (e.g., a target that is constant or increasing), the reason(s) for establishing such a target must be clearly explained in a footnote to the table." We strive to reduce improper payments within the constraints of statutory and regulatory requirements and limited resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our OASDI and SSI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to address improper payments, outcomes must be significant to affect our error rate. For FY 2015, each tenth of a percentage point in payment accuracy represents about $854 million in program outlays for the OASDI program and about $56.6 million in program outlays for the SSI program. Given our improper payment results, we will work with OMB over the coming year to develop targets for the FY 2018 and FY 2019 Agency Priority Goal to reduce SSI payment error.

9. Total FY 2014 DRAA payments represent the total outlays in FY 2014 against the FY 2013 obligations. The FY 2013 DRAA obligations were for $1,021,379. The current unpaid obligation balance is $29,519. We realized recoveries of $6,257 on previously recorded unpaid obligations.
10. We had no DRAA payments in FY 2015. In addition, there is no additional funding or obligations for DRAA.
11. We had no DRAA payments in FY 2016. In addition, there is no additional funding or obligations for DRAA.

OASDI EXPERIENCE AND REDUCTION OUTLOOK

Over the last 5 years (FYs 2011-2015), our stewardship reviews estimate that we paid approximately $3.4 trillion to OASI beneficiaries. Of that total, we estimate $6.8 billion were overpayments, representing approximately 0.20 percent of outlays. We estimate that underpayments during this same period were $2.3 billion, the equivalent of approximately 0.07 percent of outlays.

Applying the same analysis to the DI program, we estimate that we paid $670 billion to DI beneficiaries over the last 5 years (FYs 2011-2015). Of that total, we estimate $6.6 billion were overpayments, representing approximately 0.99 percent of outlays. We estimate underpayments during this same period totaled $1.5 billion, the equivalent of approximately 0.22 percent of outlays.

Table 1.1 shows the estimated improper payment rates for the OASI and DI programs for FYs 2013, 2014, and 2015.

TABLE 1.1: OASDI IMPROPER PAYMENTS EXPERIENCE
FY 2013 – FY 2015
(DOLLARS IN MILLIONS)

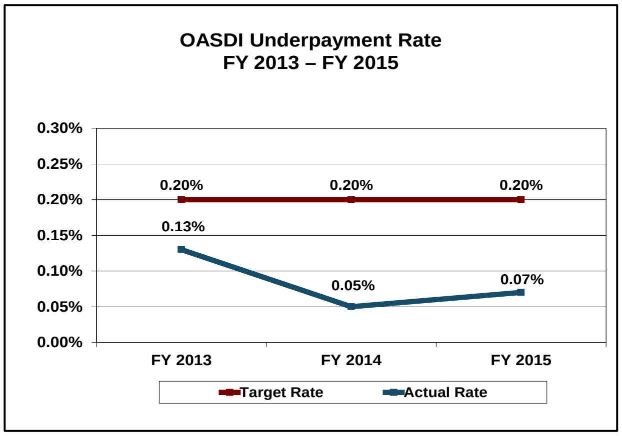
	FY 2013		FY 2014		FY 2015	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	$692,672.98		$720,351.38		$712,644.02	
Underpayment Error	$682.09	0.10%	$291.26	0.04%	$371.62	0.05%
Overpayment Error	$1,108.75	0.16%	$2,962.06	0.41%	$1,575.47	0.22%
DI						
Total Benefit Payments	$131,518.38		$142,368.41		$141,045.42	
Underpayment Error	$417.25	0.32%	$181.19	0.13%	$200.14	0.14%
Overpayment Error	$743.69	0.57%	$1,603.68	1.13%	$1,524.93	1.08%
Combined OASDI						
Total Benefit Payments	$824,191.36		$862,719.79		$853,689.44	
Underpayment Error	$1,099.33	0.13%	$472.45	0.05%	$571.76	0.07%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	$1,852.44	0.22%	$4,565.74	0.53%	$3,100.40	0.36%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments for FYs 2013-2015 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. Total benefit payments for OASDI are estimates based on limited sample sizes, which may cause them to vary from year to year.
3. FY 2016 data will not be available until late April 2017; therefore, the rates shown for FY 2016 are targets.
4. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.

5. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2013, +0.10 percent and –0.13 percent for underpayments and +0.16 percent and –0.17 percent for overpayments; for FY 2014, +0.03 percent and –0.05 percent for underpayments and ±0.40 percent for overpayments; and for FY 2015, +0.03 percent and –0.04 percent for underpayments and +0.14 percent and –0.15 percent for overpayments.
6. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2013, +0.32 percent and –0.33 percent for underpayments and +0.57 percent and –0.61 percent for overpayments; for FY 2014, +0.12 percent and –0.23 percent for underpayments and +0.12 percent and –1.76 percent for overpayments; and for FY 2015, +0.13 percent and –0.25 percent for underpayments and +1.07 percent and –1.18 percent for overpayments.
7. Changes in the OASDI error rates from FY 2013 to FY 2014 and from FY 2014 to FY 2015 are not statistically significant.

The graphs below show our estimated OASDI underpayment and overpayment rates for the last three years. Substantial Gainful Activity (SGA) (a definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html) and WEP and GPO errors continue to impact the overall error rates as the leading causes of error.



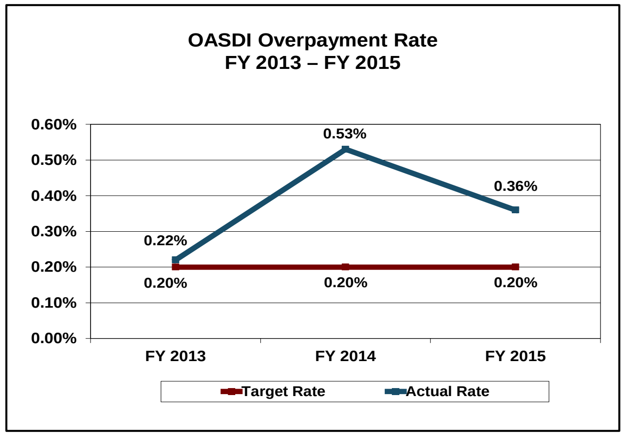


Table 1.2 presents our accuracy targets for FYs 2016, 2017, and 2018 for the OASDI program. In the OASDI program, our goal is to maintain a 99.8 percent accuracy rate for program payments.

TABLE 1.2: OASDI IMPROPER PAYMENTS REDUCTION OUTLOOK[1,2,3]
FY 2016 – FY 2018
(DOLLARS IN MILLIONS)

	FY 2016 Target		FY 2017 Target		FY 2018 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	$906,096.90		$943,044.67		$997,066.57	
Underpayments	$1,812.19	≤0.20%[4]	$1,886.09	≤0.20%[4]	$1,994.13	≤0.20%[4]
Overpayments	$1,812.19	≤0.20%[4]	$1,886.09	≤0.20%[4]	$1,994.13	≤0.20%[4]

Notes:
1. Total OASDI benefit payments for FYs 2016-2018 are estimates consistent with projections for the Mid-Session Review of the FY 2017 President's Budget.
2. FY 2016 data will not be available until late April 2017; therefore, the rates shown for FY 2016 are targets.
3. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.
4. OMB Circular No. A-136 Part II.5.8, section III.vii states, "If an agency establishes a reduction target that does not decrease (e.g., a target that is constant or increasing), the reason(s) for establishing such a target must be clearly explained in a footnote to the table." We strive to reduce improper payments within the constraints of statutory and regulatory requirements and limited resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our OASDI and SSI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to address improper payments, outcomes must be significant to affect our error rate. For FY 2015, each tenth of a percentage point in payment accuracy represents about $854 million in program outlays for the OASDI program.

SSI EXPERIENCE AND REDUCTION OUTLOOK

Over the last 5 years (FYs 2011-2015), our stewardship reviews estimate that we paid approximately $274.5 billion to SSI recipients. Of that total, we estimate $18.7 billion were overpayments, representing about 7 percent of outlays. We estimate that underpayments during this same period were $4.4 billion, the equivalent of approximately 1.6 percent of outlays.

Table 1.3 shows the estimated improper payment rates for the SSI program for FYs 2013, 2014, and 2015.

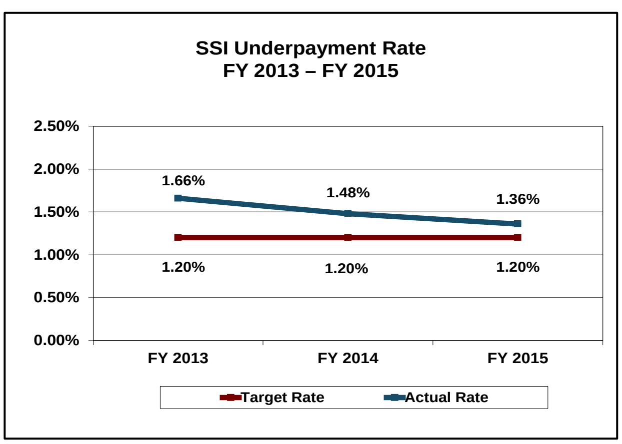
TABLE 1.3: SSI IMPROPER PAYMENTS EXPERIENCE FY 2013 – FY 2015 (DOLLARS IN MILLIONS)

	FY 2013	FY 2014	FY 2015
Total Federally Administered Payments			
Dollars	$55,349.89	$56,457.56	$56,625.58
Underpayments			
Dollars	$917.82	$840.26	$770.20
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.66%	1.48%	1.36%
Overpayments			
Dollars	$4,189.49	$3,924.48	$3,431.29
Target Rate	≤5.00%	≤5.00%	≤5.00%
Actual Rate	7.57%	6.95%	6.06%

Notes:

1. Total federally administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.
2. FY 2016 data will not be available until late April 2017; therefore, the rates shown for FY 2016 are targets.
3. The percentages and dollar amounts presented in Table 1.3 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: For FY 2013, ±0.45 percent for underpayments and ±1.83 percent for overpayments; for FY 2014, ±0.27 percent for underpayments and ±0.95 percent for overpayments; and for FY 2015, ±0.64 percent for underpayments and ±0.51 percent for overpayments.
5. Please note that year-to-year differences are not statistically significant.

The graphs below show our estimated SSI underpayment and overpayment rates for the last three years.



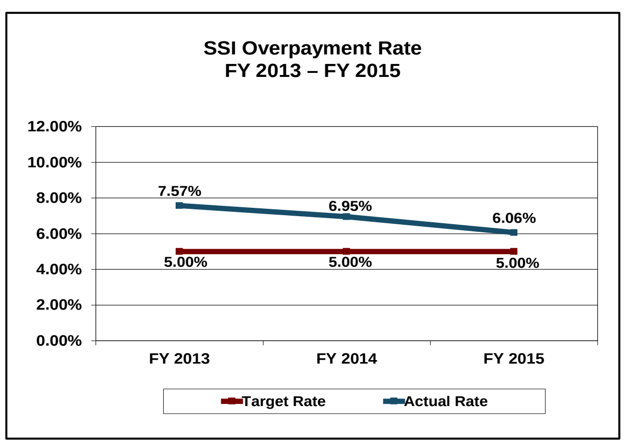


Table 1.4 shows our target accuracy goals for FYs 2016, 2017, and 2018 for the SSI program.

TABLE 1.4: SSI IMPROPER PAYMENTS REDUCTION OUTLOOK[1,2]
FY 2016 – FY 2018
(DOLLARS IN MILLIONS)

	FY 2016 Target		FY 2017 Target		FY 2018 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Federally Administered Payments	$57,481.26		$57,794.37		$58,891.74	
Underpayments	$689.78	≤1.20%[3]	$693.53	≤1.20%[3]	$706.70	≤1.20%[3]
Overpayments	$2,874.06	≤5.00%[3]	$2,889.72	≤5.00%[3]	$2,944.59	≤5.00%[3]

Note:

1. Total federally administered SSI payments for FYs 2016-2018 are estimates consistent with projections for the Mid-Session Review of the FY 2017 President's Budget, adjusted to be presented on a constant 12 month per year payment basis.
2. FY 2016 data will not be available until late April 2017; therefore, the rates shown for FY 2016 are targets.
3. OMB Circular No. A-136 Part II.5.8, section III.vii states, "If an agency establishes a reduction target that does not decrease (e.g., a target that is constant or increasing), the reason(s) for establishing such a target must be clearly explained in a footnote to the table." We strive to reduce improper payments within the constraints of statutory and regulatory requirements and limited resources. We also work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. In addition, in this report, we discuss the major causes of our OASDI and SSI error rates and our corrective action plans to reduce them. While we strive to improve our efforts to address improper payments, outcomes must be significant to affect our error rate. For FY 2015, each tenth of a percentage point in payment accuracy represents about $56.6 million in program outlays for the SSI program. We will work with OMB over the coming year to develop targets for the FY 2018 and FY 2019 Agency Priority Goal to reduce SSI payment error.

HIGH-PRIORITY PROGRAMS - SSI SUPPLEMENTAL MEASURES AND TARGETS

To comply with Executive Order 13520, as amended by IPERIA, we developed the following two 3-year SSI supplemental measures and targets for FYs 2015-2017:

1. Complete the number of budgeted non-medical redeterminations.

   The total number of SSI redeterminations we complete varies from year to year based on available resources and field office workload considerations. We completed approximately 2.267 million SSI redeterminations in FY 2015. Our FY 2016 appropriated budget included resources to complete 2.522 million SSI redeterminations. We anticipate the target will be 2.822 million, subject to our funding, in both FY 2017 and FY 2018.

2. Increase the number of successful wage reports received using SSI Telephone Wage Reporting (SSITWR) and SSI Mobile Wage Reporting (SSIMWR) by 6 percent from the previous fiscal year.

   The SSITWR system contains a dedicated telephone number to allow SSI beneficiaries and their representative payees to report the beneficiary's monthly wages by calling and using a combination of touch-tone entry and voice-recognition software. For FYs 2015-2017, our goal was and still is to increase the combined SSITWR and SSIMWR successful wage reports by 6 percent from the prior fiscal year.

These supplemental measures also support our Agency Priority Goal to improve the integrity of the SSI program by ensuring that 95 percent of our payments are free of improper payments. Our goal is to increase our SSI overpayment accuracy to 95 percent and our SSI underpayment accuracy to 98.8 percent by the end of FY 2016 and FY 2017.

We discuss the SSI redeterminations workload in more detail in the Improper Payment Corrective Actions section.

The following tables reflect our supplemental targets and measures for FYs 2016-2018.

TABLE 1.5: SSI – SUPPLEMENTAL MEASURES AND TARGETS FY 2016

Type of Error	Targets	Actuals	Reporting Frequency
Overpayment/Underpayment Due to a Change That Affects Payment Amount of Eligibility			
Cause: Beneficiaries fail to report a change that affects payment amount or eligibility. **Program Savings:** Refer to the Accountability section of this improper payments report for information on our program savings.	By September 30, 2016, complete the budgeted amount of 2.522 million SSI non-medical redeterminations.	In FY 2016, we completed approximately 2.530 million SSI redeterminations.	Monthly
Overpayment Due to Unreported Wages			
Cause: Beneficiaries, representative payees, and deemors (i.e., individuals such as a parent or spouse whose income and resources are considered in determining an applicant's or recipient's eligibility and payment) fail to report their new or increased wages. **Error Amount:** $592.2 million (94 percent of all wage overpayment deficiency dollars and 15.4 percent of all overpayment deficiency dollars) in FY 2015.	In FY 2016, increase the number of wage reports we process using SSITWR and SSIMWR by 6 percent over 896,488, the number in FY 2015.	In FY 2016, we received 1,046,757 monthly wage reports, a 16.76 percent increase over FY 2015.	Monthly

TABLE 1.6: SSI – SUPPLEMENTAL MEASURES AND TARGETS FY 2017

Type of Error	Targets	Actuals	Reporting Frequency
Overpayment/Underpayment Due to a Change That Affects Payment Amount of Eligibility			
Cause: Beneficiaries fail to report a change that affects payment amount or eligibility. **Program Savings:** Refer to the Accountability section of this improper payments report for information on our program savings.	By September 30, 2017, complete the budgeted amount of 2.822 million SSI non-medical redeterminations.[1]	FY 2017 actual information not yet available.	Monthly
Overpayment Due to Unreported Wages			
Cause: Beneficiaries, representative payees, and deemors fail to report their new or increased wages. **Error Amount:** $592.2 million (94 percent of all wage overpayment deficiency dollars and 15.4 percent of all overpayment deficiency dollars) in FY 2015.	By FY 2017, increase the number of wage reports we process using SSITWR and SSIMWR by 6 percent over 1,046,757, the number in FY 2016.	FY 2017 actual information not yet available.	Monthly

Note:

1. This amount is based on the FY 2017 President's Budget and is subject to change depending upon the specifics of the FY 2017 appropriations.

TABLE 1.7: SSI – SUPPLEMENTAL MEASURES AND TARGETS FY 2018

Type of Error	Targets	Actuals	Reporting Frequency
Overpayment/Underpayment Due to a Change That Affects Payment Amount of Eligibility			
Cause: Beneficiaries fail to report a change that affects payment amount or eligibility. **Program Savings:** Refer to the Accountability section of this improper payments report for information on our program savings.	Official processing targets for SSI non-medical redeterminations in FY 2018 have not yet been determined. These targets will be released with the publication of the FY 2018 President's Budget.	FY 2018 actual information not yet available.	Monthly
Overpayment Due to Unreported Wages			
Cause: Beneficiaries, representative payees, and deemors fail to report their new or increased wages. **Error Amount:** $592.2 million (94 percent of all wage overpayment deficiency dollars and 15.4 percent of all overpayment deficiency dollars) in FY 2015.	By FY 2018, increase the number of wage reports we process using SSITWR and SSIMWR by 6 percent over the number in FY 2017.	FY 2018 actual information not yet available.	Monthly

IMPROPER PAYMENT ROOT CAUSE CATEGORIES

Table 2 lists the major causes of improper payments (overpayments and underpayments) in the OASDI and SSI programs using OMB's seven categories of error. For consistency with Table 1, we also included DRAA payments.

TABLE 2: IMPROPER PAYMENT ROOT CAUSE CATEGORY MATRIX FOR FY 2015
(DOLLARS IN MILLIONS)

	OASDI Program		SSI Program		DRAA	
Reason for Improper Payment	**Overpayments**	**Underpayments**	**Overpayments**	**Underpayments**	**Overpayments**	**Underpayments**
Program Design or Structural Issue	$0	$0	$0	$0	$0	$0
Inability to Authenticate Eligibility	$163.63	$52.54	$3,089.41	$631.61	$0	$0
Failure to Verify:						
Death Data	$1.02	$9.08	$31.92	$5.46	$0	$0
Financial Data	$0	$0	$39.07	$25.22	$0	$0
Excluded Party Data	$0	$0	$0	$0	$0	$0
Prisoner Data	$247.99	$0	$0	$0	$0	$0
Other Eligibility Data	$1,985.34	$27.31	$9.12	$22.02	$0	$0
Administrative or Process Error Made by:						
Federal Agency	$702.42	$482.83	$261.77	$85.89	$0	$0
State or Local Agency	$0	$0	$0	$0	$0	$0
Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	$0	$0	$0	$0	$0	$0
Medical Necessity	$0	$0	$0	$0	$0	$0
Insufficient Documentation to Determine	$0	$0	$0	$0	$0	$0
Other Reason (a) (explain)	$0	$0	$0	$0	$0	$0
Other Reason (b) (explain)	$0	$0	$0	$0	$0	$0
TOTAL	$3,100.40	$571.76	$3,431.29	$770.20	$0	$0

Notes:

1. Data Source: FY 2015 OASDI and SSI stewardship reviews.
2. There may be slight variances in the dollar amounts reported due to rounding of source data.
3. Because the amount of death overpayment is small, the estimated amount of error found in our samples varies from year to year. Over the five-year period, FY 2011 through FY 2015, it averaged approximately $17 million per year.
4. Because the amount of prisoner overpayment is small, the estimated amount of error found in our samples varies from year-to-year.
5. Beginning in 2015, OMB required us to categorize improper payments in our programs into seven categories as defined below:
   - **Program Design or Structural Issue** – Improper payments resulting from the design of the program or a structural issue.
   - **Inability to Authenticate Eligibility** – Improper payments issued because the agency is unable to authenticate eligibility criteria. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Substantial Gainful Activity (Table 2.1). For our corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.4), Wages (Table 2.5), and Other Real Property (Table 2.7).
   - **Failure to Verify Data** – Improper payments issued because the agency or another party administering Federal dollars fails to verify appropriate data to determine whether or not a recipient should be receiving a payment, even though such data exists in government or third-party databases.
     - **Death Data** – Failure to verify that an individual is deceased and the agency pays that individual. For more information, see the Improper Payment Reporting section.
     - **Financial Data** – Failure to verify that an individual's or household's financial resources (e.g., current income or assets) do not meet the threshold to qualify him or her for a benefit, and the agency makes a benefit payment to that individual or household. For our corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; Financial Accounts (Table 2.4) and Other Real Property (Table 2.7).
     - **Excluded Party Data** – Failure to verify that an individual or entity has been excluded from receiving Federal payments and the agency pays that individual or entity.
     - **Prisoner Data** – Failure to verify that an individual is incarcerated and ineligible for receiving a payment and the agency pays that individual. For our corrective actions related to this improper payment category, refer to the Other Major Causes and Corrective Actions in the OASDI and SSI Programs section; Prisoner Information.
     - **Other Eligibility Data** – Any other failure to verify data not already listed above, causing the agency to make an improper payment as a result. For OASDI, the leading root causes are SGA and GPO. For SSI, the leading root causes are Living Arrangement and In-kind Support and Maintenance. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Substantial Gainful Activity (Table 2.1). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; In-kind Support and Maintenance (Table 2.6).
   - **Administrative or Process Errors Made** – Improper payments caused by incorrect data entry, classifying, or processing of applications or payments made by Federal, State, local agencies, or other organizations that administer Federal dollars. For OASDI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for OASDI Improper Payments section; Increase Post-Entitlement Accuracy (Table 2.2) and Potential Entitlements (Table 2.3). For SSI corrective actions related to this improper payment category, refer to the Major Causes and Corrective Actions for SSI Improper Payments section; In-kind Support and Maintenance (Table 2.6).
   - **Medical Necessity Errors** – Improper payments issued to a medical provider who delivers a service or item that does not meet coverage requirements for medical necessity.
   - **Insufficient Documentation to Determine** – Improper payments issued when there is a lack of supporting documentation necessary to verify accuracy of a payment identified in the improper payment testing sample.
   - **Other Reason** – Improper payments caused by payment errors that do not fit in the above categories.

IMPROPER PAYMENT CORRECTIVE ACTIONS

MAJOR CAUSES AND CORRECTIVE ACTIONS FOR OASDI IMPROPER PAYMENTS

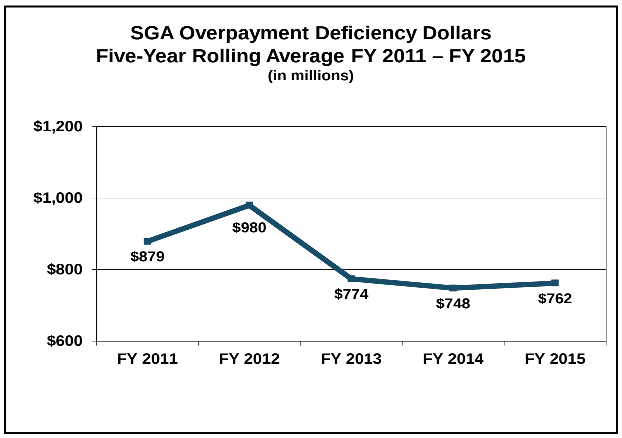
Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are SGA and errors in computations. The major cause of underpayments is errors in computations.

SUBSTANTIAL GAINFUL ACTIVITY

DESCRIPTION:

When disability beneficiaries work, several factors determine whether they can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely, or we do not take the proper actions to process work reports. The following graph shows the five-year rolling average of SGA overpayment deficiency dollars. Please note that year-to-year differences are not statistically significant.

HISTORICAL FIGURES:



CORRECTIVE ACTIONS:

Table 2.1 shows our actions to ensure timely processing of beneficiaries' earnings. Payment errors based on SGA correspond to the "Inability to Authenticate Eligibility" and the "Failure to Verify: Other Eligibility Data" category in Table 2.

TABLE 2.1: SGA – CORRECTIVE ACTIONS

Description	Target Completion	Status
Audit Recommendation		
To minimize improper payments, we agreed with an audit recommendation to prioritize identifying cases where we failed to terminate the disability payments following medical cessation determinations.	Ongoing	We continue to work with all stakeholders to develop appropriate corrective actions and enhance automated solutions on these cases. Since November 2015, we have cleared 6,298 of the 8,800 cases for corrective action. We continue discussions with appropriate stakeholders to enhance our automated solutions to prevent such errors in the future.
Predictive Model		
We have developed Work Smart. The Work Smart process identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. The process builds on the current Continuing Disability Review Enforcement Operation (CDREO) by integrating quarterly work CDR alerts based on quarterly earnings from the Office of Childhood Support Enforcement (OCSE) into the CDREO process. We receive quarterly alerts up to one year earlier than the current CDREO alerts, meaning we learn of unreported work more quickly and reduce work-related overpayments. Work Smart will also include a national screening program that removes unproductive work CDRs from the CDREO process.	Ongoing	The national screening program within Work Smart ran in June 2016. We removed approximately 700,000 unproductive CDR alerts from the current CDREO process. The quarterly work CDR alerts based on OCSE data will be released nationally in November 2016.

Description	Target Completion	Status
Legislation and Legislative Proposals		
The *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with payroll data providers to obtain wage data to administer the disability and SSI programs to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage data through such an exchange will be exempt from certain statutory penalties for failure to report changes in employment. The statutory effective date was November 2016.	November 2017	To implement the *Bipartisan Budget Act of 2015* authority, we have convened a cross-agency project team to collaborate on implementing the *Bipartisan Budget Act* Section 824 and other wage-related *Bipartisan Budget Act* provisions. We are meeting major milestones such as documenting the business process document and general user requirements. We are currently documenting systems requirements, benchmarking with other federal agencies, conducting market research, and publishing a statement of work to engage with commercial payroll providers. We have begun drafting a notice of proposed rulemaking and are targeting late calendar year 2017 for implementation. This target is contingent on adequate funding throughout FY 2017.
The *Bipartisan Budget Act of 2015* requires the Commissioner to establish and implement a system permitting DI beneficiaries to report their earnings electronically.	September 2017	Development will continue, and we expect to implement by the end of FY 2017.
The *Bipartisan Budget Act of 2015* establishes a rebuttable presumption that earnings were earned in the month in which earnings were paid for the purpose of SSI and DI post-entitlement determinations. This new policy will no longer require us to contact employers when doing an SGA determination. Instead, we will use other readily available evidence, thus reducing processing times for work CDRs and reducing overpayments.	September 2017	We expect to implement by the end of FY 2017.
The FY 2017 President's Budget includes a proposal that would restructure the wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal would not affect reporting on self-employment. Increasing the frequency of wage reporting could enhance tax administration and improve program integrity for our OASDI and SSI programs by permitting us to leverage the wage data more timely.	Pending	No Congressional action to date.

COMPUTATIONS

DESCRIPTION:

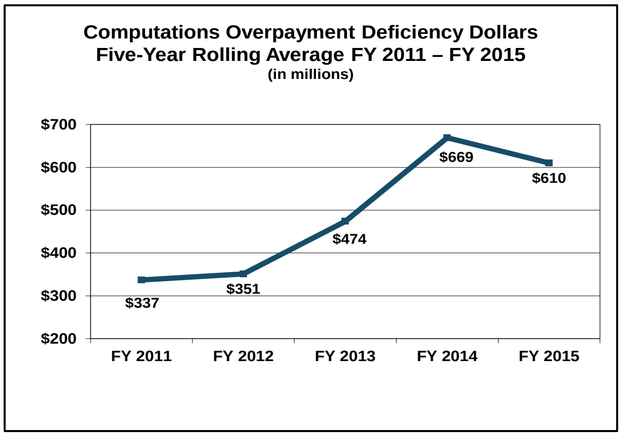
While steadily declining, errors in computations are a major cause of both OASDI overpayments and underpayments. Our goal is to correct and prevent instances where a recipient or beneficiary has potential entitlement to, but is not receiving, a new or higher benefit.

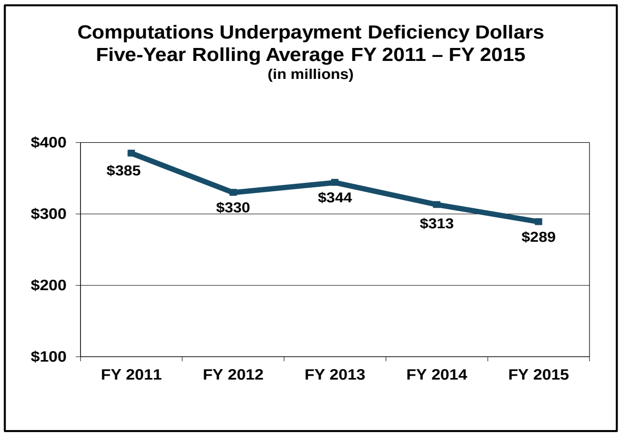
We determine a person's benefit amount based on several factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2011-2015, approximately 68 percent of the computation errors resulted in overpayments, with the leading causes being WEP, failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM) when applicable, and adjustment of the reduction factor (ARF) computation. RIB-LIM applies when a deceased beneficiary received a reduced retirement benefit. Under RIB-LIM, the maximum benefit for a surviving spouse or surviving divorced spouse is limited to the benefit amount that the deceased beneficiary would receive if he or she were still alive. WEP accounted for 65 percent of computation errors for the five-year period, while RIB-LIM and ARF, respectively, accounted for 9 percent and 8 percent of these errors. In addition to the WEP Corrective Action Plan that is now underway, we will further identify the root causes of RIB-LIM and ARF errors and likely issue policy reminders to our staff.

HISTORICAL FIGURES:

Please note that year-to-year differences are not statistically significant.





CORRECTIVE ACTIONS - INCREASE POST-ENTITLEMENT ACCURACY

Recent studies indicate that we can improve accuracy in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. To address this issue, we developed Work Smart. The Work Smart process identifies Social Security disability beneficiaries whose earnings put them at risk for receiving overpayments. The process builds on the current CDREO by integrating quarterly work CDR alerts based on quarterly earnings from the OCSE into the CDREO process. We receive quarterly alerts up to one year earlier than the current CDREO alerts, meaning we learn of unreported work more quickly and reduce work-related overpayments. Work Smart will also include a national screening program that removes unproductive work CDRs from the CDREO process so technicians can evaluate cases where a beneficiary is working over SGA.

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we established a dedicated workgroup and process for evaluating and addressing potential entitlement workloads. To date, we have addressed:

- Initiated four outreach efforts dealing with vulnerable populations such as widows, veterans, the aged, and disabled children.
- Implemented systems changes for three projects dealing with widows, children, and the aged.
- Developed a community outreach plan to promote OASDI surviving parent's benefits.
- Completed analysis on projects involving potential entitlement situations for minor children, Medicare only beneficiaries, military service retirees, and disabled children.
- Selected projects to be addressed in FY 2017.

By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 2.2 shows our actions to increase our post-entitlement accuracy. Post-entitlement accuracy errors correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

TABLE 2.2: INCREASE POST-ENTITLEMENT ACCURACY

Description	Target Completion	Status
Provide better descriptive definitions of the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed.	FY 2018	Planning and analysis was completed September 22, 2016. Development is scheduled for FY 2017, contingent on available resources.
Review the most problematic overpayment cases being worked in our Office of Disability Operations. Our objective is to determine the root causes of overpayment errors and provide recommendations to address improved processing.	FY 2017	This project is ongoing. We began a national payment center overpayment study in April 2016. The current focus is on overpayments due to disability cessation or the extended period of eligibility. We expect to have data available for reporting by December 31, 2016.
The FY 2017 President's Budget includes a proposal to establish workers' compensation and public disability benefits information reporting. Since we currently rely on beneficiaries to report when they receive benefits, this proposal would improve program integrity by requiring States, local governments, and private insurers that administer workers' compensation and public disability benefits to provide this information to us. The proposal would provide for the development and implementation of a system to collect such information from States, local governments, and insurers.	Pending	No Congressional action to date.

Table 2.3 shows our actions to pursue potential entitlement workloads. We plan to reduce underpayments by completing workloads targeting vulnerable populations. We will identify cases and develop a strategy to prevent recurrences. Payment errors related to potential entitlements correspond to the "Administrative or Process Error Made by: Federal Agency" category in Table 2.

TABLE 2.3: POTENTIAL ENTITLEMENTS

Description	Target Completion	Status
Pursue potential entitlement workloads.		In FY 2014 and FY 2015, we evaluated the following initiatives:
	Completed September 2014	• Outstanding Potential Entitlement Referral Account Cases: We identified SSI recipients who are potentially entitled to OASDI benefits. o Through September 2014, we reviewed 184 cases and entitled 57 individuals to OASDI benefits.
	Completed March 2014	• We identified individuals potentially entitled to higher benefits on the record of a former spouse, who is now deceased. o In March 2014, we sent letters to over 2,800 individuals, informing them of their higher potential benefits. Through December 2014, over 1,000 individuals filed for benefits and are currently receiving an average monthly increase of $607.
	Completed FY 2016	• Veteran's Pension Referral: We identified SSI recipients who had a scheduled redetermination in FY 2014, and were possibly eligible for a veteran's pension. o Through FY 2014, we reviewed over 5,400 cases out of 5,748 identified. Of those cases, we referred over 4,200 to the Department of Veterans Affairs (VA). o In FY 2015, we notified approximately 30,000 SSI recipients that they might be entitled to a veteran's pension. o We have completed the final evaluation of the FY 2015 mailing. By the end of FY 2016, over 7,800 (25 percent) of the SSI recipients contacted are now receiving VA benefits or compensation.

Description	Target Completion	Status
Pursue potential entitlement workloads (continued).	FY 2017	• In December 2014, we issued notices to over 25,000 individuals entitled as spouses who may be eligible for higher benefits on their own records. Through August 2015, approximately 11,730 of those that received notices filed for or are receiving benefits on their own account. The average monthly increase to those beneficiaries is approximately $333. o In May 2016, we mailed 9,500 notices to individuals entitled as spouses who may be eligible for higher benefits on their own records. Based on a review of the population that received these notices, by the end of FY 2016, 4,092 claimants had filed for and are receiving benefits on their own record. The average monthly increase to those beneficiaries is approximately $397. o Starting in the first quarter of FY 2017, we will notify individuals entitled as spouses who may be eligible for higher benefits on their own records on a biannual basis.
	Completed October 2016	• We have developed a process for addressing all 80 items on the original Potential Entitlement workload list and have defined deliverables for each stage of that process. We processed FY 2015 potential entitlement workloads, and when applicable, identified possible root causes of the missed entitlements to prevent recurrence. o In FY 2016, we completed three outreach efforts, implemented three Information Technology Investment Process proposals, and completed analysis on six additional Potential Entitlement projects that address various issues for vulnerable populations that include veterans, widows, and disabled and minor children.

MAJOR CAUSES AND CORRECTIVE ACTIONS FOR SSI IMPROPER PAYMENTS

Our greatest payment accuracy challenges occur within the SSI program. The program's complexities stem from the way legislation requires us to calculate SSI payments. We generally make SSI payments on the first day of the month for eligibility in that month. Many factors influence SSI payment accuracy. Even if the payment is correct when paid, any changes that may occur during the month can affect the payment due, which can result in an overpayment or underpayment. Thus, the program requirements themselves sometimes cause improper payments. We remain committed to simplifying the SSI program, and we are exploring ways to do this in a fair and equitable manner.

SSI is a means-tested program for individuals with limited income and resources that are blind, disabled, or aged. This program is complex because fluctuations in monthly income, resources, and living arrangements may affect eligibility and monthly payment amounts. Improper payments often occur if recipients (or their representative payees on their behalf) fail to timely report changes in any of these factors (e.g., an increase of their resources or a change in their wages). Failure to report such changes is the primary cause of both overpayment and underpayment errors.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages;
- In-kind Support and Maintenance (ISM); and
- Other real property (i.e., ownership of non-home real property).

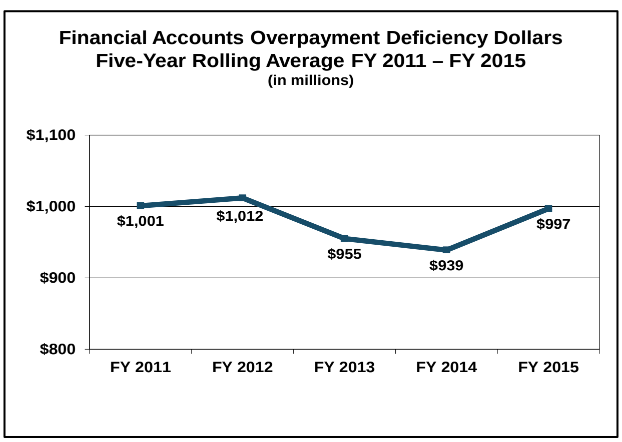
Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in ISM, living arrangements, and wages. Later in this section, we provide information on our corrective actions for living arrangements under the corrective action for wages.

FINANCIAL ACCOUNTS

DESCRIPTION:

Financial accounts with countable resources in excess of the allowable resource limits are the leading cause of SSI overpayment errors. When an applicant, recipient, or deemor has financial accounts with values exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility.

HISTORICAL FIGURES:



CORRECTIVE ACTIONS:

A claimant, recipient, or deemor must give us permission to request his or her financial records from any financial institution (i.e., financial permission) as an eligibility requirement for SSI. We developed the AFI program to address overpayment errors related to financial accounts. AFI is an automated process that verifies alleged bank account balances with financial institutions to identify potential excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged bank accounts, AFI detects undisclosed accounts using unique search criteria. We use AFI to verify financial accounts during the SSI application process, as well as when we conduct periodic redeterminations of continued eligibility.

We reduce SSI improper payments resulting from excess resources held in financial institutions by using the AFI electronic process on initial claims and redeterminations (i.e., a review of a recipient's non-medical eligibility factors such as income and resources to determine continued eligibility and payment amount) and conducting up to 10 searches per individual for undisclosed bank accounts.

Table 2.4 shows our actions to reduce errors related to financial accounts. Payment errors related to financial accounts correspond to the "Failure to Verify: Financial Data" and "Inability to Authenticate Eligibility" categories in Table 2.

TABLE 2.4: FINANCIAL ACCOUNTS – CORRECTIVE ACTIONS

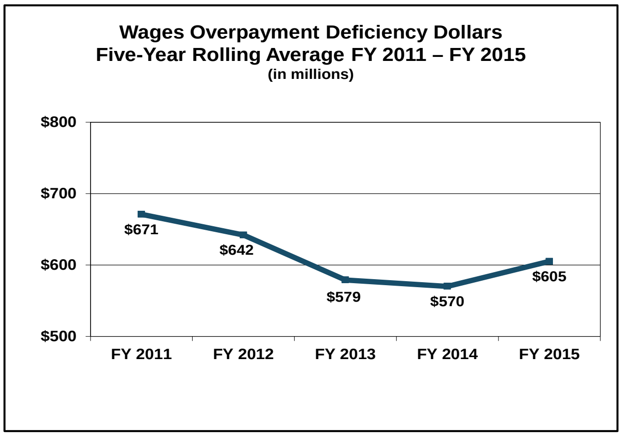
Description	Target Completion	Status
Evaluate the effect of increased undisclosed bank account searches and a lowered tolerance that we implemented in October 2013.	Completed FY 2016	We completed evaluations in the first quarter of FY 2016. Based on these findings, we are recommending that it would not be the most efficient use of our limited program integrity resources to conduct additional AFI searches or to make any additional changes to the process at this time.
Conduct study to evaluate benefits of automatically initiating AFI requests during the period between redeterminations of SSI eligibility. This proposal would enable us to prevent improper payments earlier and limit the amount of any overpayments.	Completed December 2015	Our study found that it would not be the most efficient use of program integrity resources to use AFI between SSI redeterminations. While there are positive returns, there may be more efficient uses of program integrity resources than lowering the tolerance used for AFI.
Implement two AFI systems enhancements that will improve our current process for initiating AFI.	Completed January 2016	In October 2015, we added functionality to allow an address, other than the current residence address, for geographic searches in AFI to search the prior address when a person moves. In January 2016, we added functionality to search for financial institutions by the routing transit number when initiating AFI requests.

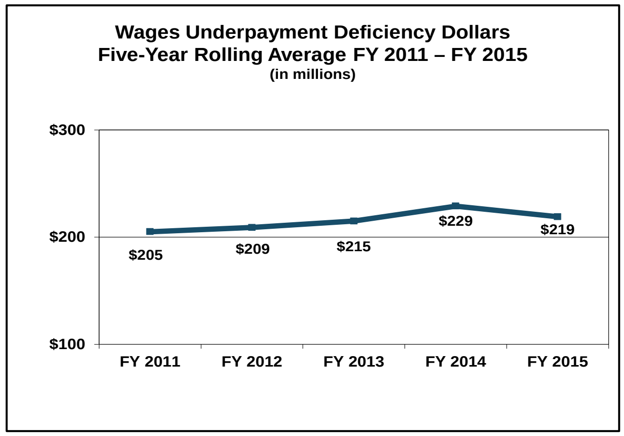
WAGES

DESCRIPTION:

For more than a decade, wage discrepancies have been one of the leading causes of SSI overpayment and underpayment errors. Wage discrepancies occur when the recipient or his or her deemor has actual wages that differ from the wage amount used to calculate the SSI payment.

HISTORICAL FIGURES:





CORRECTIVE ACTIONS:

We rely on individuals to self-report wages to us on time. However, we know that they may fail to report or not report wages in time to prevent an improper payment. Section 824 of the *Bipartisan Budget Act of 2015* gives the agency authority to conduct information exchanges with payroll providers to obtain accurate, up-to-date, and relevant wage information to determine SSI eligibility and to prevent improper payments. We will request that applicants, recipients, and deemors provide their consent for us to obtain wage information from payroll data providers as part of the SSI application and redetermination processes.

We developed several communication initiatives to help encourage recipients not only to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, but also to make it easier for them to comply with reporting requirements. For example, we created two educational resources that field offices give recipients during claims and redeterminations:

- A two-pocket folder – The folder includes panels that list the SSI reporting requirements and pockets to store key documents such as wage stubs or other materials to help people report accurately.
- A business card – This small card contains information on the reporting requirements to be kept in a wallet or with other important papers.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payees on their behalf) or their deemors to self-report wages via telephone or a smartphone application. Since October 2013, recipients, representative payees, and deemors can use those automated reporting tools to report the preceding month's wages at any time in the current month.

- SSITWR

  In FY 2008, we implemented SSITWR, which allows recipients, representative payees, and deemors to report prior monthly gross wages via an automated telephone system. SSITWR ensures we post the wage amounts to the individual's record in a timely manner.

- SSIMWR Smartphone Application

  Beginning in December 2012, 50 field offices across all 10 regions began a pilot project for mobile wage reporting. This initiative allowed certain SSI recipients, representative payees, and deemors to use their smartphones to report a prior month's gross wages, using an application they can download at no cost from the Google Play and Apple App stores. The initial pilot was successful, and we expanded it to nearly 270 participating field offices in March 2013. The expanded phase of the pilot was successful as well, with more than 9,000 wage reports submitted using the smartphone application during the entire pilot.

We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as the result of feedback received during the pilot.

- Automated Reminder

  In September 2013, we implemented an automated SSI wage reporting reminder using GovDelivery. Individuals can voluntarily sign up to receive a monthly email or text message reminder to report wages for the prior month.

We continue to increase the number of successful wage reports SSI recipients submit using our automated SSI wage reporting systems. In FY 2016, we processed 1,046,757 successful automated wage reports, which is an increase of 16.76 percent over the number in FY 2015.

Table 2.5 shows our actions to reduce errors related to wages. Payment errors related to wages correspond to the "Inability to Authenticate Eligibility" category in Table 2.

TABLE 2.5: WAGES – CORRECTIVE ACTIONS

Description	Target Completion	Status
Request that SSI applicants and recipients provide their consent for us to obtain information from other sources.	Completed October 2015	We now capture the SSI recipient's authorization for us to contact commercial entities, including payroll providers, for evidence related to SSI eligibility and payment amount. In addition, we added new print options to allow the claims representative to provide a printed copy of the authorization information to the person who provided the authorization or to any third parties that require proof of authorization prior to releasing personal information to us.
Perform a proof of concept (POC) to test whether automated posting of income information available through commercial wage databases offered by private payroll providers would allow us to reduce wage-related improper payments and save administrative resources.	Completed July 2015	We gathered data through the POC. The findings revealed that there is value in monthly matching with a payroll provider as wage information is available for the majority of the sample.
Section 824 of the *Bipartisan Budget Act of 2015* authorizes the Commissioner to establish information exchanges with private payroll data providers to obtain wage data to administer the DI and SSI programs to prevent improper payments. DI and SSI applicants and beneficiaries who give us their authorization to obtain wage information through such an exchange will be exempt from certain statutory penalties for failure to report a change in employment.	November 2017	To implement the *Bipartisan Budget Act of 2015* authority, we obtained executive approval on the business process document and will begin systems planning and analysis in November 2016. We are conducting market research and drafting the Statement of Work as part of our effort to let the contract by July 2017. We are also drafting the Notice of Proposed Rulemaking with a target completion date of June 2017. Final implementation of Section 824 is targeted for November 2017.

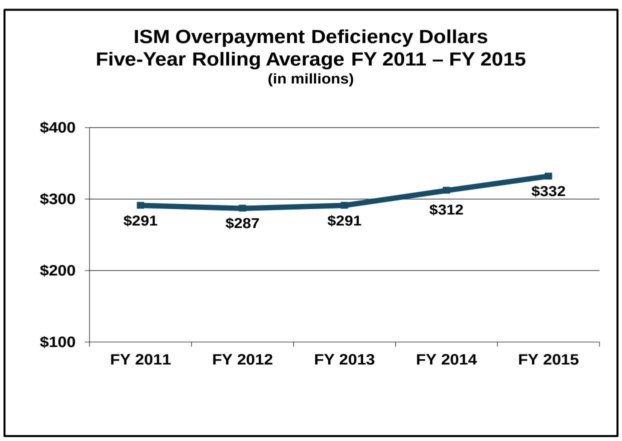
Description	Target Completion	Status
Section 826 of the *Bipartisan Budget Act of 2015* requires the Commissioner to establish and implement a system permitting DI beneficiaries to report their earnings electronically.	September 2017	Enacted in the *Bipartisan Budget Act of 2015.* Development will continue, and we expect to implement by the end of FY 2017.
Pursue an SSI RoboCalling pilot to encourage SSI recipients and deemors to use our automated wage reporting tools.	Completed April 2016	The pilot ran from July 2015 through September 2015. A subsequent evaluation found a small increase in the likelihood of a call recipient using the wage reporting tools. Based on these findings, we are recommending that it would not be the most efficient use of our limited resources to continue to pursue the use of SSI RoboCalling.

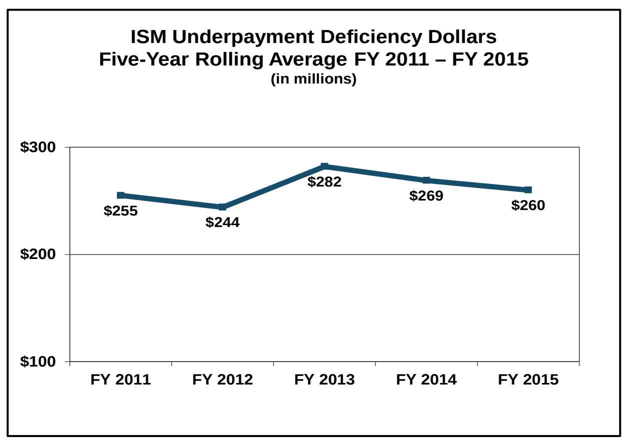
IN-KIND SUPPORT AND MAINTENANCE

DESCRIPTION:

ISM is unearned income a recipient receives in the form of food, shelter, or both. Overpayments can occur when the recipient fails to report ISM. Underpayments can occur when the recipient's ISM amount is less than the amount used to calculate his or her monthly payment. Studies show that many of the errors attributed to ISM are due to the complexity of the statute and our regulations and policies concerning ISM. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes in a timely manner.

HISTORICAL FIGURES:





CORRECTIVE ACTIONS:

Table 2.6 shows our actions to reduce errors stemming from ISM. Payment errors stemming from ISM correspond to the "Failure to Verify: Other Eligibility Data" and the "Administrative or Process Error Made By: Federal Agency" categories in Table 2.

TABLE 2.6: ISM – CORRECTIVE ACTIONS

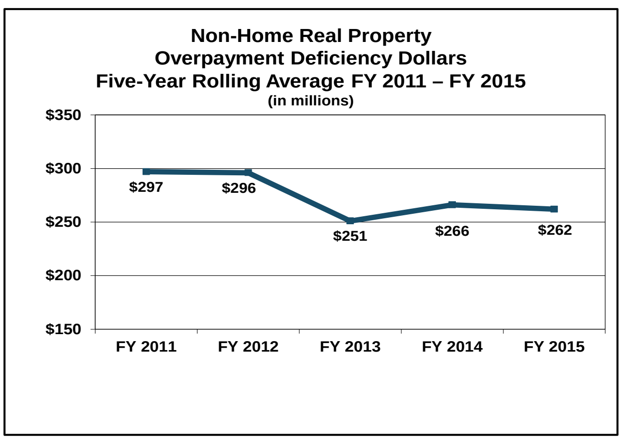
Description	Target Completion	Status
Statutory, Regulatory, Policy and Procedure Review		
We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	Because of our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

OTHER REAL PROPERTY

DESCRIPTION:

SSI ineligibility may result if a recipient owns real property (generally land and the building, such as a house, on the land) other than his or her principal place of residence (referred to as "non-home real property"), and the current equity value exceeds the resource limit. Undisclosed non-home real property is a leading cause of improper overpayments in the SSI program. For the five-year period from FY 2011 through FY 2015, our FY 2015 stewardship reviews identified real property as the fourth leading cause of SSI overpayments, with average projected improper payments of $262 million in SSI overpayments. We currently rely on the applicant or recipient to report ownership of non-home real property. Our corrective actions, discussed on the following page, will provide our technicians with an electronic process to identify undisclosed property owned by the applicant, recipient, or deemor.

HISTORICAL FIGURES:



CORRECTIVE ACTIONS:

Real property ownership information is available publicly for all 50 States through commercial data providers (e.g., *LexisNexis/Accurint*). To test the value of using a commercial provider to identify undisclosed real property, we studied the use of *LexisNexis/Accurint* in SSI claims and redeterminations. This study indicated that the use of this data could reduce SSI overpayments associated with the ownership of undisclosed property by SSI claimants and recipients. In November 2015, our Acting Commissioner approved nationwide expansion of non-home real property integration with the SSI Claims System. The process will integrate third-party non-home real property ownership data directly into the SSI Claims System path as a lead for further development. Implementation is scheduled for the end of FY 2017. During FY 2018, we will fully implement the use of non-home real property data nationwide.

Table 2.7 shows our actions to reduce errors related to non-home real property. Payment errors related to non-home real property correspond to the “Failure to Verify: Financial Data” and “Inability to Authenticate Eligibility” categories in Table 2.

TABLE 2.7: OTHER REAL PROPERTY – CORRECTIVE ACTIONS

Description	Target Completion	Status
Fully integrate third-party non-home real property data with SSI systems for use during initial claims and high error redetermination interviews.	FY 2016 through FY 2017	In November 2015, we decided to move forward with nationwide expansion. The current focus is on management information planning and requirements, as well as systems development. By the end of FY 2017, we will complete the integration.

OTHER MAJOR CAUSES AND CORRECTIVE ACTIONS IN THE OASDI AND SSI PROGRAMS

The following key initiatives enhance our program integrity efforts.

WINDFALL ELIMINATION PROVISION AND GOVERNMENT PENSION OFFSET

DESCRIPTION:

WEP and GPO are benefit reductions/offsets that apply to Social Security benefits of those individuals who worked in non-covered employment (i.e., did not pay Social Security taxes on their earnings) and who receive a pension based on those non-covered earnings. The majority of these non-covered workers are in Federal, State or local government service.

While in total WEP and GPO lead to a large dollar value of improper payments, there is no single dominating cause of improper payments or errors leading to them. The root causes for the problems fall into four general areas:

- Lack of accurate data to administer the WEP and GPO provisions;
- Lack of automation to minimize human error and ensure timely action in response to existing alerts;
- Lack of understanding among agency technicians of how non-covered pensions work; and
- Lack of understanding among agency technicians of how to administer the WEP and GPO provisions.

We propose a multi-pronged approach to address each of the underlying causes of improper payments:

- Pursuit of new data;
- Enhanced automation;
- Clarified policy instructions; and/or
- Enhanced training specific to the more common WEP/GPO errors.

We are fully committed to improve our administration of these workloads, we plan to make substantial progress in FY 2017, and possibly continue into FY 2018, depending on resource constraints.

We formed a cross-agency work group to:

1. Review all Office of the Inspector General (OIG) and internal studies over the past five years to compile a comprehensive list of identified changes in WEP/GPO implementation;
2. Assess the root causes of improper payments based on these changes; and
3. Develop policy, data, systems, or training solutions in line with each of the root causes of improper payments.

TABLE 2.8: WINDFALL ELIMINATION PROVISION AND GOVERNMENT PENSION OFFSET

Description	Target Completion	Status
Pursuit of new data	FY 2017	We have encountered a legal barrier with some states sharing information regarding non-covered pensions and are exploring alternative options. We have recently re-engaged the Department of the Treasury's Internal Revenue Service (IRS) to explore whether we can obtain non-covered pension information from the IRS as those talks progress.
Enhanced Automation	FY 2018	We are pursuing a series of systems changes that will automate calculations and alter the system agency technician's use. Our goal is to reduce human error, prompt additional questions of likely non-covered pension recipients to encourage accurate self-reporting, and automate notices to claimants to obtain updated pension information more timely. There are 10 automation enhancements proposed. Completion of these enhancements is FY 2017 and FY 2018, dependent on availability of resources.
Policy Clarification	FY 2017	We will update and modify policy and process documentation to focus on those areas of WEP/GPO administration that have been most error prone, such as those beneficiaries dually-entitled and affected by both the WEP and GPO.
Targeted Training	FY 2017	We will develop and conduct a series of videos on demand on WEP and GPO that specifically target the error prone areas, such as understanding how non-covered pension payments are distributed to beneficiaries.

DATA EXCHANGES

We developed a strategic initiative focused on making better use of data exchanges to further use data from outside sources to improve program administration and prevent improper payments.

DESCRIPTION:

Our objective is to continue current computer matching agreements (CMA) that yield a positive cost benefit analysis, expand effective CMAs to meet additional program needs, research current programs, work with internal stakeholders to identify data exchange needs, and pursue new data exchanges with potential partners.

Currently, we conduct 22 CMAs with various Federal partners to obtain benefit payment data, wage data, unemployment data, fugitive felon identification, savings securities, workers' compensation, residency information, and nursing facility admission data that we use to determine eligibility and offset benefits for our programs. The total annual savings attributed to these CMAs is nearly $4.5 billion, with an annual cost of approximately $200 million yielding a positive cost benefit ratio of 22.27 to 1.

Table 2.9 shows our efforts to pursue additional data exchanges to improve our OASDI and SSI improper payment identification and prevention efforts.

TABLE 2.9: DATA EXCHANGES

Description	Target Completion	Status
Establish a data exchange agreement with DHS to obtain information necessary to identify when SSI recipients are out of the country. SSI recipients are ineligible for any entire calendar month during which they are not present in the United States.	FY 2018	We are performing a study of an initial set of data for non-citizens before implementing a full data exchange. We anticipate completion of the study analysis by December 31, 2016. If the study findings support an ongoing data exchange, we will enter into a CMA with DHS. Full CMAs take approximately 12 months to develop; therefore, the earliest implementation date would be in FY 2018.
Obtain Federal payroll data via the OCSE quarterly wage data. This effort will reduce improper payments by timely suspending monthly DI payments if data suggests a recipient's income meets certain thresholds at which the benefit should be reduced or suspended. This data exchange is limited to Federal employees.	Completed May 2016	The agency and OCSE entered into the new CMA on December 17, 2015, to obtain new hire, quarterly wage, and unemployment insurance data for DI recipients. We began receiving Federal payroll data via OCSE's quarterly wage data beginning May 2016.

PRISONER INFORMATION

In order to diminish improper payments in the prisoner suspension area, we are undertaking three new initiatives to help curb fraud and reduce overpayments. First, we are issuing prisoner case processing reminder items to our technicians to re-emphasize important prisoner data verification requirements and restate our OASDI and SSI suspension and non-payment policies. Second, we established a new monitoring process to track and control the return of incorrectly paid incentive payments from overpaid correctional institutions. This effort allows us to repay this returned money to the OASI and DI Trust Funds. Third, we are reviewing our prisoner reports from the largest State correctional institutions to determine if we are receiving complete prisoner information from each of these State prison reporters. This review will identify long-term prisoners who are fraudulently claiming Social Security benefits on fictitious numbers while they still are incarcerated in a State prison.

MAJOR CAUSES OF IMPROPER ADMINISTRATIVE PAYMENTS

The major causes of improper administrative payments (overpayments and underpayments) include:

- Incorrect amounts paid (including duplicate payments);
- Health benefit debts due to insufficient employee pay (e.g., in a non-pay status);
- Retroactive timesheet corrections; and
- Retroactive personnel actions.

Corrective actions include:

- The majority of the incorrect amounts paid in FY 2015 (for vendor and travel payments) were due to a lone incident where we processed the incorrect amount on a single high-dollar invoice. We recovered this overpayment within one week of the incorrect payment. To prevent a similar occurrence, we reviewed our internal procedures, notified the appropriate personnel involved in the improper payment, and determined that existing internal controls are adequate.
- Health benefit debts are a major cause of payroll and benefit improper payments. These debts automatically occur when an employee, who has health benefits coverage, is in a non-pay status for the entire pay period or if there are insufficient funds to make the current pay period deduction. The employee now becomes indebted to the agency because we paid both the employee and agency's share. Salary overpayments are another major cause of payroll and benefits improper payments. They occur when we process a retroactive personnel and/or timesheet correction. We recalculate the employee's record for the earliest pay period affected forward for actions that occurred within the last 26 pay periods. A negative result indicates that the employee was overpaid and the system automatically creates a debt. Retroactive corrections are another major cause of payroll and benefit improper payments. A retroactive correction occurs when a retroactive personnel action that is past 26 pay periods cannot be processed through the electronic system; therefore, we must enter the debt manually. We plan to perform a risk profile in FY 2017 and a risk assessment in FY 2018 to determine how to address these major causes and create a corrective action plan.

INTERNAL CONTROL OVER PAYMENTS

We have a strong internal control environment that has always included controls over our benefit payment and debt management processes. As a result, we are directly leveraging our existing internal control environment and assurance processes to provide reasonable assurance that our internal controls over improper payments are in place and operating effectively.

As part of our internal control environment, we have a well-established, agency-wide management control program as required by FMFIA. We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until we resolve the issues.

We established the Improper Payment Oversight Board (IPOB) to ensure that we are focusing on improper payment prevention, formulating clear and innovative strategies, and driving timely results agency-wide. The IPOB's role is to serve as the corporate team to:

- Oversee all improper payment-related activities for the agency;
- Collaborate and shape strategy; and
- Resolve cross-component differences, address challenges encountered by staff, and drive timely results.

For additional information about our internal control environment, please refer to the *Systems and Controls* section of this FY 2016 *Agency Financial Report* and to the section of this improper payments report titled Risk Assessment and the section titled Sampling and Estimation.

TABLE 3: STATUS OF INTERNAL CONTROLS
FY 2016

Internal Control Standards	OASDI	SSI
Control Environment	3	3
Risk Assessment	3	3
Control Activities	3	3
Information and Communication	3	3
Monitoring	3	3

Legend:

1. Controls are not in place to prevent improper payments.
2. Minimal controls are in place to prevent improper payments.
3. Controls are in place to prevent improper payments but there is room for improvement.
4. Sufficient controls are in place to prevent improper payments.

The effective internal controls we incorporate into our business processes and financial management systems, as well as the program integrity efforts mentioned throughout this report, support our Acting Commissioner's annual statement to the President and Congress that discusses whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;
- Financial management systems are in conformance with government-wide requirements; and
- Internal controls over financial reporting are operating effectively.

We include the Acting Commissioner's annual statement of assurance, additional information of our review program, and our financial statement audit, in the *Systems and Controls* section of this FY 2016 *Agency Financial Report*. In addition, we include the auditors' report in the *Auditors' Report* section of this FY 2016 *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

ACCOUNTABILITY

HUMAN CAPITAL TO SUPPORT IMPROPER PAYMENT WORKLOADS

Our stewardship responsibility includes conducting non-medical SSI redeterminations and full medical CDRs. These reviews save significant program dollars by avoiding improper payments. In FY 2015 and FY 2016, our budgets increased and, as a result, we were once again able to increase the number of full medical CDRs that we process. In FY 2015, we completed over 799,000 full medical CDRs and approximately 2.267 million SSI redeterminations. In addition, we completed approximately 248,000 work CDRs in FY 2015. In FY 2016, we completed over 850,000 full medical CDRs and approximately 2.530 million SSI redeterminations. In addition, we completed approximately 285,000 work CDRs in FY 2016.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits and other mission-critical work.

The FY 2017 President's Budget will help enable us to eliminate the backlog of CDRs by the end of FY 2019 and prevent a new backlog from developing, which will help ensure that only those eligible for OASDI and SSI disability benefits continue to receive them. Assessments of the return on investment from CDRs completed in FY 2012 and earlier, establish that we achieve significant program savings with this workload. The Budget proposes the 2017 cap adjustment amount, as authorized in the *Bipartisan Budget Act of 2015*. The *Bipartisan Budget Act of 2015* authorized a net increase in new cap adjustment levels through 2021. We need adequate, sustained funding to continue to increase our program integrity efforts.

Effective FY 2012, as required by IPERA, we are holding managers, program officials, and senior executives accountable for reducing improper payments. For these employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent, detect, and recover improper payments and meet targets to reduce improper payments.

AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

INFORMATION SYSTEMS

The Comprehensive Integrity Review Process (CIRP) supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as FMFIA, which requires that we establish and maintain effective internal controls. CIRP automatically selects potentially suspicious transactions for management investigation based on predefined criteria. The selection criteria are focused on suspicious activity rather than improper payments. However, if the transaction involves an issued payment, the reviewer looks at the accuracy of the payment to ensure that we complied with proper procedures.

In September 2013, we implemented the Public Facing Integrity Review (PFIR) system to monitor potentially fraudulent online transactions. We use this tool to investigate suspicious direct deposit transactions made through *my* Social Security online accounts and to take steps to mitigate any losses to our agency and customers.
In November 2015, we released an update of the PFIR system that included measures intended to help secure our newest online service, Online Social Security Number Replacement Card application. This enhancement to the PFIR system added new fraud prevention and detection processes, specific to enumeration in addition to established processes that safeguard *my* Social Security online accounts and Direct Deposit transactions.

We continue to collaborate with the Department of the Treasury (Treasury) to identify and implement fraud detection activities. In April 2016, we launched a Direct Deposit Fraud Prevention (DDFP) enhancement; a reclamation process to recover funds from financial institutions processing fraudulent automated enrollments for direct deposit of benefit payments. With this enhancement, an alert appears that allows the review of the record to determine whether to accept or cancel a pending direct deposit change. In May 2016, we executed an additional enhancement to DDFP to allow us to add a suspense code to a record to prevent the unauthorized redirection of benefits. We continue to take advantage of a fraud indicator flag to assist when beneficiaries indicate that they did not receive their direct deposit payment. The fraud indicator provides supporting evidence to assist with the recovery of misdirected payments.

OTHER INFRASTRUCTURE

As required by law, we conduct pre-effectuation reviews on at least 50 percent of adult initial and reconsideration disability determination allowances made by the State disability determination services (DDS). We use a predictive statistical model to identify error-prone disability determinations, and we return deficient cases to the State DDS offices for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2014 cases will result in lifetime savings (after all appeals) of:

- $408 million in OASDI benefit payments;
- $58 million in SSI Federal payments;
- $213 million in Medicare benefits; and
- $2 million in the Federal share of Medicaid payments.

For information about our internal control environment and our human capital to support improper payment workloads, please refer to the Internal Control Over Payments and Accountability sections.

BARRIERS

Our processes, policies, and regulatory and statutory requirements are complicated, which poses challenges in our administration of our programs. To meet the challenges of our growing workloads and provide the best service possible, we continue to streamline our policies and procedures and automate more of our business processes. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The FY 2017 President's Budget includes several legislative proposals that can help simplify our programs and better identify, prevent, and recover improper payments. We discuss some of these proposals in the following paragraphs.

ESTABLISH WORKERS' COMPENSATION INFORMATION REPORTING

Under this proposal, we would require States, local governments, private insurers, and other entities that administer workers' compensation and public disability benefits to report payment information to us. We would create a standardized reporting format, and develop and implement a system to collect and use the information to offset DI benefits and reduce SSI payments, as necessary. This proposal includes funding for developing and implementing the system. We currently rely on the disabled worker to report receipt of, and any changes to, workers' compensation and public disability benefits. The proposed required reporting and a system to receive the information timely are crucial to avoid improper payments that occur when we do not have information about the receipt or amount of workers' compensation and public disability benefit payments. Under the proposal, we would collect and provide pertinent information to the Secretary of the Department of Health and Human Services for child support enforcement.

MOVE FROM ANNUAL TO QUARTERLY WAGE REPORTING

This proposal would restructure the Federal wage reporting process by requiring employers to report wages quarterly instead of annually. The proposal would facilitate the implementation of automated enrollment of employees in existing workplace pensions. It could also improve program integrity and help reduce improper payments because more frequent reporting could provide more timely information we can use to administer our programs. Finally, increasing the frequency of wage reporting could enhance tax administration.

IMPROVE COLLECTION OF PENSION INFORMATION AND TRANSITION AFTER 10 YEARS TO AN ALTERNATIVE APPROACH BASED ON YEARS OF NON-COVERED EARNINGS

This proposal would require State and local government pension payers to identify and report if the pension paid to a former government employee is based on work that was not covered by Social Security. We would use this information to better administer WEP and GPO. The proposal includes $70 million for administrative expenses, $50 million of which would be available to the States to develop an automated data exchange to report this information to us.

In addition, the FY 2017 President's Budget proposes to transition, after 10 years, to an alternative approach in which we would adjust benefits based on the extent to which workers have non-covered earnings. We now collect data on non-covered employment and can calculate the offset without disclosure from the individual.

INCREASE FROM $10 TO 10 PERCENT THE MINIMUM AMOUNT WE CAN WITHHOLD FROM MONTHLY OASDI BENEFITS TO RECOVER AN OVERPAYMENT

When a beneficiary receives more OASDI benefits than he or she should have, we can recover this overpayment by reducing the beneficiary's future monthly benefits. Depending on the beneficiary's financial circumstances, we may decide to recover less than the full amount of the monthly benefit until the overpayment is repaid in full. However, we are required to recover at least $10 per month. This proposal would require us to recover at least 10 percent of the monthly OASDI benefit when recovering an overpayment. The SSI program already uses the 10 percent rule to recover overpayments.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

INFORMATION ON PAYMENT RECAPTURE AUDIT PROGRAM

In this section, we discuss how we meet the payment recapture audit requirements of IPERA for our OASDI and SSI programs and administrative payments. Table 4 shows our results from our payment accuracy reviews for our OASDI and SSI programs and administrative payments.

TABLE 4: OVERPAYMENT PAYMENT RECAPTURES WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS
(DOLLARS IN MILLIONS)

Overpayments Recaptured through Payment Recapture Audits					
Program or Activity	Benefits		Other		Total
	OASDI	SSI	Payroll and Benefits	Vendor and Travel	
Amount Identified (FY 2016)	$11,950.25	$12,811.96	$3.86	$4.23	$24,770.30
Amount Recaptured (FY 2016)	$2,050.96	$1,238.29	$2.42	$4.19	$3,295.86
FY 2016 Recapture Rate	17%	10%	63%	99%	13%
FY 2017 Recapture Rate Target	16%	10%	100%	100%	13%
FY 2018 Recapture Rate Target	16%	10%	100%	100%	13%

Overpayments Recaptured outside of Payment Recapture Audits					
Program or Activity	Benefits		Other		Total
	OASDI	SSI	Payroll and Benefits	Vendor and Travel	
Amounts Identified (FY 2016)	$0.00	$0.00	We do not have separated totals for payroll and benefits or vendor and travel. See Total column.	We do not have separated totals for payroll and benefits or vendor and travel. See Total column.	$1.60
Amounts Recaptured (FY 2016)	$0.00	$0.00	We do not have separated totals for payroll and benefits or vendor and travel. See Total column.	We do not have separated totals for payroll and benefits or vendor and travel. See Total column.	$0.98

Notes:

1. This table comprises all identified and recovered benefit program overpayments from our benefit payment recapture audit program for the specified fiscal year. Overpayments identified or recovered in a specified year include debt established in prior years. We do not recapture benefit overpayments outside of our payment recapture audits for benefit payments.
2. The Amounts Identified for benefit payments are debt available for recovery in FY 2016. These amounts include debts identified in previous fiscal years that were not recovered or were determined to be uncollectible.
3. The Amounts Recaptured for benefit payments are FY 2016 recoveries from debt we had available for recovery in FY 2016, which include debts identified in prior years.
4. Both the Amounts Identified and Amounts Recaptured for benefit payments are based on 53 weeks of data. For more information, please refer to the section of this improper payments report titled Agency Efforts to Collect Overpayments in the OASI, DI, and SSI Programs.
5. We do not consider every overpayment improper according to the definition contained in IPIA.
6. The recapture rate target for benefit payments is based on FY 2016 and prior years' experience and the anticipated growth of our benefit payments in FY 2017 and FY 2018.
7. This table comprises all identified and recovered administrative overpayments from our internal payment recapture audit program for administrative payments. These administrative payments are stated under the table heading titled "Other."
8. Totals for Amount Identified (FY 2016) and Amount Recaptured (FY 2016) for administrative payments are from our internal payment recapture audit in FY 2015. Overpayments identified or recaptured in FY 2015 include debt established in prior years.
9. For the overpayments recaptured outside of payment recapture audits, the totals are derived from multiple sources and mainly include identified and recovered administrative overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which we discuss in the Recapture of Improper Payments Reporting section of this improper payments report. We do not have separated totals for payroll and benefits or vendor and travel.
10. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2015 but could have occurred in a prior year.
11. There may be slight variances in the dollar amounts and percentages due to rounding of the source data.
12. We return all amounts recaptured to the original appropriation from which the payment was made.

BENEFIT PAYMENTS

PAYMENT RECAPTURE AUDIT PROGRAM

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts. We have a multi-pronged approach to conducting payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, specialists with extensive expertise in our surveys, benefit programs, business processes, applied statistics and statistical models, and business analytics, conduct our stewardship reviews. These employees review a sample of OASDI and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility and payment amount for the review period. We use these data to identify payment accuracy, as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our field offices, processing centers, and State DDS offices, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first complete those CDRs and redeterminations that will likely result in the greatest savings. Please see the section of this improper payments report titled, Accountability, Human Capital to Support Improper Payment Workloads, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities because they both identify cases where we should discontinue benefit payments. To support CDRs and redeterminations, we specifically request funding through the normal budget process, and the number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency.

PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report about their payment recapture audit activities. However, we are unable to segregate our improper payments from our total overpayment aggregate for our OASDI and SSI benefit payments since some overpayments are not improper according to the definition of improper payments in IPIA. Certain overpayments are unavoidable and not improper if statute, regulation, or court order requires these payments, (such as continued payments required by due process procedures). Table 4 shows our OASDI and SSI overpayment experience, inclusive of improper payments.

In addition, some overpayments are uncollectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U. S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that such request is credible.

PROGRAM RECOVERY TARGETS

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). As shown in Table 4, we determine our payment recapture recovery targets for benefit payments for FY 2017 and FY 2018 based on our FY 2016 experience. Certain uncontrollable factors affect our payment recapture recovery targets. For example, the state of the economy affects the availability of employment. We generally experience greater collections from our external debt collection tools when jobs are abundant and former OASDI beneficiaries and SSI recipients are working.

ADMINISTRATIVE PAYMENTS

INTERNAL PAYMENT RECAPTURE AUDIT PROGRAM

As shown in Table 4.1, we segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

TABLE 4.1: FY 2015 ADMINISTRATIVE EXPENSES
(DOLLARS IN MILLIONS)

Payroll and Benefits	$6,659
State DDS	$1,952
***American Recovery and Reinvestment Act* (ARRA)[1]**	$63
Other Administrative Expenses[2]	$3,588
Total Administrative Expenses	$12,262

Notes:

1. ARRA expenses consist of National Support Center building costs only.
2. Other Administrative Expenses includes vendor, travel, transportation, rents, communications and utilities, printing and reproduction, other services, supplies and materials, equipment, land and structure, grants, subsidies and contributions, information technology systems, OASI and DI Trust Fund operations, other dedicated accounts, other reimbursable, interest and dividends, and insurance claims and indemnities.

We conduct annual payment accuracy reviews as part of our payment recapture audit program. Results from the audit program and quality review process continue to confirm that our administrative payments are well below the OMB threshold for reporting improper payments.

In the paragraphs below, we indicate the categories from Table 4.1 or payment types within a category that we did not review because it was not cost effective. As required by OMB Circular No. A-136, we notified OMB in September 2015 that certain categories and payment types within a category are not cost effective to review; and therefore, are excluded from our payment recapture audit program.

For FY 2015, the internal recovery audit program included a review of the following payment categories from Table 4.1 Payroll and Benefits and Other Administrative Expenses.

Payroll and benefits account for a majority of our total administrative expenses. For FY 2015, we found approximately $2.645 million in improper payroll overpayments out of $6,659 million payroll payments, which yielded a 0.040 percent improper overpayment rate. We return all amounts recovered to the original appropriation from which the overpayment was made.

From the Other Administrative Expenses category, we review vendor and employee travel payments using an existing internal recovery audit program that contains a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify duplicate payments made to the same vendor, with the same invoice date, and for the same amount;
- An annual payment accuracy review examining select criteria on a random sample of payments to identify improper payments or weakness in the internal payment recapture audit program; and
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

In FY 2015, we reviewed $1.69 billion in vendor and travel payments out of $1.75 billion subject to review. We elected to exclude incomplete cost-type contracts from the scope of the recovery audit since they have payments that are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms of the contract.

We identified total vendor and travel improper overpayments of $4.229 million, approximately 0.24 percent of total payments subject to review. As of the end of FY 2015, almost $63,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivables balance reflected the timing of when we issued the request for overpayment refund. Our recovery goal for all vendor and travel overpayments is 100 percent. We return all amounts recovered to the original appropriation from which the overpayment was made.

Within the Other Administrative Expenses category, we exclude, from our payment recapture audit program, payments made via electronic payment systems because they are not cost-effective to review for the following reasons:

- The excluded payments are not usually susceptible to improper payments because they utilize interfaced systems that require little manual intervention and include strong system controls to prevent improper payments.
- In November 2011, we awarded a contract to a vendor to perform a payment recapture audit of all our administrative payments, including the Other Administrative Payments category. Of $23,282 million payments reviewed (spanning three fiscal years), the auditors identified, and we confirmed and recovered, improper payments totaling $29,191, approximately 0.00013 percent of the payments reviewed. The few improper payments identified were either vendor or DDS payments.

For State DDS payments, our 10 regional offices review amounts drawn against pre-approved DDS spending plans. For payment accuracy, our OIG reviews the DDS payments on a rotational basis. We use our OIG's findings, if any, to enhance our payment controls.

For ARRA payments, we rely on our OIG's audits of the ARRA funds as part of our payment recapture audit program for administrative payments. ARRA payments made up only 0.5 percent of our total administrative expenses in FY 2015.

Not all administrative overpayments are collectable. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards based on the following criteria:

- The cost of collection does not justify the enforced collection of the full amount;
- The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized;
- The debt has been discharged in bankruptcy; or
- The debtor has requested a waiver or review of the debt and the agency determines that the request is credible.

ADMINISTRATIVE PAYMENTS RECOVERY TARGETS

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. Table 4 shows our targets for our administrative payment recapture audit program. We strive to recover all administrative overpayments, and established a 100 percent target. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former employees and duplicate payments to vendors. We use various tools for collection, including offset of subsequent vendor payments, the Treasury Offset Program (TOP), and Administrative Wage Garnishment (AWG).

DISPOSITION OF PAYMENT RECAPTURE FUNDS

TABLE 5: DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDIT PROGRAMS
(DOLLARS IN MILLIONS)

Program or Activity	Amount Recaptured	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Other[1]	Original Purpose	Office of the Inspector General	Returned to Treasury
Benefit	$3,289.25	Benefit	Not Applicable	Not Applicable	$3,289.25	Not Applicable	Not Applicable	Not Applicable
Other	$6.61	Administrative	Not Applicable	Not Applicable	$6.61	Not Applicable	Not Applicable	Not Applicable

Note:

1. We return all amounts recaptured to the original appropriation from which the payment was made for our benefit and administrative payments.

AGING OF OUTSTANDING OVERPAYMENTS

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies to have an aging schedule of the amount of outstanding overpayments identified through their payment recapture audit program (i.e., overpayments that have been identified but not recaptured). Table 6 shows our aging schedule for our OASDI and SSI programs and our administrative payments.

TABLE 6: AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS
(DOLLARS IN MILLIONS)

Program or Activity	Type of Payment	FY 2016 Amount Outstanding (0 to 6 Months)	FY 2016 Amount Outstanding (6 Months to 1 Year)	FY 2016 Amount Outstanding (Over 1 Year)	FY 2016 Amount Determined to not be Collectable
OASDI	**Benefit**	$854.32	$417.53	$1,994.81	$268.21
SSI	**Benefit**	$725.13	$483.04	$3,553.32	$350.38
Payroll and Benefits	**Administrative**	$1.20	$0.52	$1.18	$0.81
Vendor and Travel	**Administrative**	$0.04	$0.00	$0.02	$0.00
TOTAL		$1,580.69	$901.09	$5,549.33	$619.40

Notes:

1. The aging of outstanding overpayments begins when the overpayment is delinquent, which is generally when no voluntary payment has been made 30 days after the latest of the following dates:
   - The debt was established on our system for OASDI;
   - The initial overpayment notice for a debt established on the SSI system;
   - The last voluntary payment;
   - An installment arrangement;
   - A decision on an individual's request to reconsider the existence of the overpayment; or
   - A waiver denial.
2. Totals for administrative payments are from our internal payment recapture audit in FY 2015.

ADDITIONAL COMMENTS

AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI, AND SSI PROGRAMS

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected $3.289 billion in OASDI and SSI benefit overpayments in FY 2016 at an administrative cost of $0.07 for every dollar collected. We collected $16.69 billion over a 5-year period (FYs 2012-2016). Since 2004, our cumulative recoveries are $37.63 billion for OASDI and SSI benefit overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as some external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts. From 1992 through September 2016, our external collection techniques have yielded $6.554 billion in benefit overpayment recovery. For additional information about our external collection techniques, please refer to the Debt Collection and Management section of this FY 2016 *Agency Financial Report*.

We accumulate much of our debt recovery data based on an operating month rather than a true calendar month. An operating month ends on the last Friday of the calendar month. Each quarter of a normal operating year contains 13 weeks and the fiscal year contains 52 weeks. However, every 5 or 6 years, the fiscal year contains 53 weeks rather than the normal 52 weeks because the year is not evenly divisible by 7 days. FY 2016 is a 53-week fiscal year. Our program overpayment collection totals in this section show our fiscal year performance through the end of the 53rd week.

We suspend or terminate collection activity in accordance with the authority granted by the U.S. Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered. Terminating collection action is a temporary or conditional write-off in that the debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

We developed a system to handle TOP, credit bureau reporting, and AWG. Because the system includes more than TOP and is the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation (ECO) system.

In September 2013, we enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program. The State Reciprocal Program allows States to enter into reciprocal agreements with Treasury to collect unpaid State debt by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent non-tax debt by offset of State payments.

As authorized by Public Law 110-246, in May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the previous 10-year statute of limitations. In April 2014, some members of the public alleged that they received no prior notice that Treasury would offset their eligible payments to recover their delinquent overpayments. In response to the allegations, effective April 14, 2014, our Acting Commissioner ordered a halt of TOP referrals for debts 10 years or more delinquent, pending a thorough review of our responsibility and discretion under the law. We concluded our review in July 2014. Through our review, we determined that we correctly applied our regulations, policies, and procedures when we referred delinquent debts to TOP. Our OIG conducted a review of our use of TOP (oig.ssa.gov/audits-and-investigations/audit-reports/A-04-14-14104) and concluded we complied with applicable laws and policies.

Continued improvement in other aspects of our debt collection program is underway. In FY 2016, we began planning and analysis of the Overpayment Redesign Initiative. Through this initiative, we will build a new comprehensive overpayment system that will enable us to record, track, collect, and report our overpayments more efficiently. We expect development of the Overpayment Redesign Initiative to be a multi-year effort. As resources permit, we will also expand the Non-Entitled Debtors (NED) program to collect additional debts from debtors who have never been entitled to OASDI benefits or SSI payments. We plan to develop the NED initiative in a series of releases. Currently, NED captures payments made to representative payees after the death of an OASDI beneficiary, and overpayments to representative payees prior to the death of the OASDI beneficiary for which the payee is responsible.

In the future, we also will implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest, or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies for debt collection. Prior to implementing these additional debt recovery tools, we will need to address many factors. For example, we will assess which of these tools to pursue; e.g., penalties and fees or indexing debt balances, the impact on our current collection policies and procedures, our post-entitlement notices, as well as the need for new notices, and feasibility of resources to address development, implementation, and oversight from an information technology and operations impact perspective. We are also pursuing to modernize our remittance operation. Currently, individuals and third parties repay debt by either mail or telephone. We are developing multiple channels to receive remittances electronically. We plan to begin implementing our solutions in FY 2017.

COLLECTING DEBT

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts. In October 2013, we began notifying debtors of our ability to offset eligible State payments to collect their debt. These changes also support debt management compliance and performance as required by OMB. Below are enhancements to improve our OASDI and SSI debt recovery efforts.

- Collect delinquent OASDI and SSI debts through TOP/State Reciprocal Program.
    - We implemented the required systems enhancements in 2013.
    - We began sending mandatory notification to delinquent debtors in October 2013, which was suspended during our review of using TOP.
- Overpayment Redesign.
    - We began the planning and analysis phase of this project in FY 2016.
- Remittance Modernization.
    - We completed planning and analysis on the Social Security Electronic Remittance System for the processing of remittances by the field offices for programmatic debt and will begin development in FY 2017.
    - We are currently in the planning and analysis phase on the adoption of electronic remittance options.
- Treasury Report on Receivables enhancements for OASDI and SSI.
    - We implemented systems enhancements to meet the reporting requirements of the *Digital Accountability and Transparency Act of 2014*.

AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

Section 5(a)(2) of IPERIA states that Federal agencies should review, prior to any payment and award, as appropriate, the databases within the Do Not Pay (DNP) Initiative. IPERIA Section 5(d)(3) also states that, by June 1, 2013, agencies must match their payments against DNP databases.

The Treasury DNP system data sources available during FY 2016 that are applicable to our OASDI and SSI benefit payments include the General Services Administration's (GSA) Excluded Parties List System (EPLS) and our public version of the Death Master File (DMF). Below we describe our use of EPLS and our production of the DMF and Prisoner Update Processing System; therefore, precluding our use of the Treasury DNP system at this time.

Excluded Parties List System: Prior to making an award to a contractor, we use GSA's System for Award Management to determine a contractor's eligibility. We do not award contracts to contractors who are debarred or suspended. We check the EPLS listing prior to the award to make this determination.

List of Excluded Individuals/Entities (LEIE): We currently comply with regulations to use LEIE, which accomplishes the same purpose as EPLS. As prescribed in our policy, the State DDS offices are required to check the LEIE at least annually. LEIE includes the names of providers excluded from federally funded health care programs. The DDS offices also verify medical licenses, credentials, and certifications with State medical boards. In addition, because the DDS offices are State agencies, they do not have direct access to DNP.

Death Master File: The DMF is a publicly available extract of death information created from our own internal records (i.e., the Numident). These records contain basic information, such as name, Social Security number (SSN), date of birth, and date of death of deceased SSN holders. We update death information on the Numident daily based on information from acceptable reporters (e.g., States, funeral homes, and family members). We distribute reported death information to our related records using a complex systems interface. Because our internal death data is more complete than the extracts, we do not use Do Not Pay for purposes of verifying death.

We produce both the publicly available DMF and a full file of death information. The full file of death information contains State-reported death data, which we only share with a limited number of Federal agencies as mandated by Section 205(r) of the *Social Security Act*. We provide the public DMF to the National Technical Information Service who in turn provides the file to DNP. The public DMF does not contain State death information.

Prisoner Information: To comply with the *Bipartisan Budget Act of 2013*, we collaborated with Treasury's Bureau of Fiscal Service (Fiscal Service) in FY 2014 to provide current prisoner information as related to DNP. We will share our prisoner information with Fiscal Service in two phases. We completed Phase 1 in August 2016, and began sharing our current prisoner information on a daily recurring basis. In Phase 2, we plan to provide additional data elements with prisoner information shared on a recurring basis. Between September 2014 and February 2015, we sent Fiscal Service 6.3 million prisoner files and over 7,000 facility files as baseline data for testing purposes. In September 2015, we sent an additional 1.1 million prisoner records to Fiscal Service, for Fiscal Service to send that data to the IRS for the upcoming 2015 tax season. In August 2016, we sent a final file with an additional 1.8 million prisoner records to Treasury Fiscal Service, for Treasury Fiscal Service to send to the IRS for the upcoming tax season. Because our Prisoner Update Processing Systems is more complete than the data available via DNP, we use our own internal data to verify incarceration.

OUR ACTIONS AND THEIR FREQUENCY TO PREVENT IMPROPER PAYMENTS

We have pre- and post-payment internal controls for our benefit payment records including:

Pre-payment Internal Controls: Benefit Payment Intercept Process

We continuously screen beneficiary payment records for any adverse information that prohibits issuing benefit payments (e.g., reliable reports of death, incarceration, and overpayments). When we identify these situations, we systematically intercept and hold the monthly benefit payments.

Historically, we have performed payment intercepts for each monthly payment cycle; however, we did not capture management information until FY 2014. The table below contains payment intercept information reported in October 2015 through September 2016. We report this data monthly to OMB.

TABLE 7: RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS OASDI PAYMENT INTERCEPTS (DOLLARS IN MILLIONS)

Type of Payment	Number of Payments Intercepted	Amount of Payments Intercepted	Number of Payments Disbursed	Amount of Payments Disbursed	Percent of Intercepted Payments	Percent of Intercepted Dollars
Death	559,184	$707.16			0.078%	0.087%
Incarceration	8,480	$8.23			0.001%	0.001%
Total	567,664	$715.39	721,376,768	$814,139.40	0.079%	0.088%

Notes:

1. This table represents OASDI payment intercepts for benefits payable September 2015 through August 2016.
2. The Percent of Intercepted Payments and the Percent of Intercepted Dollars represents the percentage of total payments before we apply our intercept process, not the percentage of total payments after we intercept payments.
3. Monthly reports are generated the month after the benefits are payable. For example, any payments intercepted from the August 2016 benefits are shown in the September 2016 intercept report.
4. If we discover a suspension or termination event after the creation of our payment files, our intercept process prevents issuance of that payment.

Similar to OASDI, prior to creating our payments files, we continuously check our SSI records for any adverse information that would prohibit issuing benefit payments. However, we do not capture management information on prevented improper payments for SSI.

Post-payment Internal Controls: We have several post-payment internal controls to track and resolve discrepancies related to allegations of death, including:

- The Numident Death Match – This match identifies discrepancies between the Numident and our payment records, which results in monthly alerts that feed into the Death Alerts Tracking System (DATS). We use DATS to resolve these alerts and stop paying benefits, if appropriate.
- The Death Alert Control Update System – This system captures death data, which updates the Numident via batch processing.
- The Electronic Death Registration (EDR) process – This process allows us to receive death records electronically, which provides a timely method to verify and stop death benefits for the deceased beneficiary. The EDR process supports the Agency's Strategic Goal, "Strengthen the Integrity of our Programs." This includes minimizing improper payments by identifying and preventing erroneous payments after death, reducing erroneous death terminations, and improving our process of initial death reports. Death reports received timely greatly reduce the probability of improper payments to deceased beneficiaries.

RECOVERY OF OVERPAYMENTS DUE TO DEATH

The Federal Government uses the reclamation process to recover benefit payments paid via direct deposit to the financial account of a beneficiary who died, became legally incapacitated, or a beneficiary who died before the date of the payment(s). To recover OASDI and SSI payments funds from U.S. financial institutions, we must send reclamation requests within 120 days of the date we learned of a beneficiary's death. A financial institution may protest any reclamation if it believes we did not initiate reclamations timely.

We have procedures for recovering both OASDI and SSI improper payments for overpayments due to death where we paid the beneficiary by paper check. Below are examples of our actions:

If the overpaid OASDI beneficiary is deceased, we attempt to recover the overpayment by:

- Withholding any underpaid benefits due to the deceased beneficiary;
- Withholding any lump-sum death payment payable to individuals on the same earnings record;
- Proposing adjustment against any person who was living in the same household and receiving benefits on the overpaid individual's earnings record at the time the overpaid individual died; or
- Sending a letter to the endorser or the deceased's estate requesting repayment.

If the overpaid SSI recipient is deceased, we will notify the estate of the overpayment and seek recovery from:

- A liable representative payee;
- A liable spouse;
- A sponsor of an alien recipient (under certain circumstances); or
- Any individual who committed fraud to cause the overpayment.

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Appendix

GLOSSARY OF ACRONYMS

A

ADP	Automated Data Processing
AFI	Access to Financial Institutions
AFR	Agency Financial Report
ALJ	Administrative Law Judge
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
ARF	Adjustment of the Reduction Factor
ARRA	American Recovery and Reinvestment Act of 2009
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment

C

CAP	Cross-Agency Priority
CARES	Compassionate and Responsive Service
CDM	Continuous Diagnostics and Mitigation
CDR	Continuing Disability Review
CDREO	Continuing Disability Review Enforcement Operation
CEAR	Certificate of Excellence in Accountability Reporting
CIRP	Comprehensive Integrity Review Process
CMA	Computer Matching Agreement
CMP	Civil Monetary Penalty
CPI	Consumer Price Index
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSRS	Civil Service Retirement System

D

DACA	Deferred Action for Childhood Arrivals
DAPA	Deferred Action for Parents of Americans
DATA Act	Digital Accountability and Transparency Act of 2014
DATS	Death Alerts Tracking System
DCPS	Disability Case Processing System
DDFP	Direct Deposit Fraud Prevention
DDS	Disability Determination Services
DHS	Department of Homeland Security
DI	Disability Insurance
DMF	Death Master File
DNP	Do Not Pay
DRAA	Disaster Relief Appropriations Act of 2013

E

ECO	External Collection Operation
EDR	Electronic Death Registration
EPLS	Excluded Parties List System
ESF	Earnings Suspense File

F

FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employee Group Life Insurance Program
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contributions Act
Fiscal Service	Bureau of Fiscal Service
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GITC	General Information Technology Control
GPO	Government Pension Offset
GPRMA	Government Performance and Results Modernization Act of 2010
GS	General Schedule
GSA	General Services Administration

H

HI	Hospital Insurance
HI/SMI	Hospital Insurance/Supplemental Medical Insurance

I

IG	Inspector General
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IPOB	Improper Payment Oversight Board
IRS	Internal Revenue Service
ISM	In-Kind Support and Maintenance
IT	Information Technology
ITAC	Information Technology Application Control

K

KPMG	KPMG, LLP

L

LAE	Limitation on Administrative Expenses
LEIE	List of Excluded Individuals/Entities

M

MD&A	Management's Discussion and Analysis

N

NAFC	National Anti-Fraud Committee
NAPA	National Academy of Public Administration
NCC	National Computer Center
NED	Non-Entitled Debtors
NIST	National Institute of Standards and Technology
NSC	National Support Center

O

OA	Occupancy Agreement
OAFP	Office of Anti-Fraud Programs
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCSE	Office of Child Support Enforcement
ODAR	Office of Disability Adjudication and Review
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

P

PFIR	Public Facing Integrity Review
PII	Personally Identifiable Information
P.L.	Public Law
POC	Proof of Concept
POMS	Program Operations Manual System
PP&E	Property, Plant, and Equipment
PSC	Program Service Center
PTF	Payments to Social Security Trust Funds
Pub. L. No.	Public Law Number

R

RAFC	Regional Anti-Fraud Committee
RIB-LIM	Retirement Insurance Benefit Limitation
RRI	Railroad Retirement Interchange

S

SECA	Self Employment Contributions Act
SERS	Social Security Electronic Remittance System
SFFAS	Statement of Federal Financial Accounting Standards
SF-133	Budget Execution Reports
SGA	Substantial Gainful Activity
SMI	Supplemental Medical Insurance
SSA	Social Security Administration
SSI	Supplemental Security Income
SSIMWR	Supplemental Security Income Mobile Wage Reporting
SSITWR	Supplemental Security Income Telephone Wage Reporting
SSN	Social Security Number
SSOARS	Social Security Online Accounting and Reporting System

T

Ticket Program	Ticket to Work and Self-Sufficiency Program
Title VIII	Special Veterans Benefits
TOP	Treasury Offset Program
Treasury	Department of the Treasury
TY	Tax Year

U

U.S.	United States
U.S.C.	United States Code
USSGL	United States Standard General Ledger

V

VA	Department of Veterans Affairs

W

WEP	Windfall Elimination Provision

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