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STATEMENT OF
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HUMAN RESOURCES DIVISION
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON FINANCE
UNITED STATES SENATE *SEN04113*
ON
[GAO RECOMMENDATIONS FOR IMPROVING
THE MANAGEMENT OF
SOCIAL SECURITY ADMINISTRATION PROGRAMS]

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Mr. Chairman and Members of the Subcommittee, we are here today at your request to discuss our activities directed at evaluating the programs managed by the Social Security Administration. We appreciate your interest and concern over media reports that billions of dollars in public funds are misspent annually in these programs.

We in GAO have had a long and continuing interest in the efficient use of public funds and over the past few years have undertaken major efforts devoted to identifying weaknesses and pointing out improvements needed in the administration of Social Security programs with particular emphasis on eliminating or reducing errors and waste. From January 1, 1976, to March 31, 1979, we issued 40 reports to the Congress or its committees and members, and 20 reports to HEW or Social Security officials and testified before Congressional committees on 6 occasions on matters relating to our audit work on social security programs. Presently, we have 34 assignments underway at Social Security. Our testimony today draws heavily on these past and current efforts.

We understand that the purposes of today's hearings are to examine the following two issues:

- The accuracy of the waste and fraud reports presented in the media, and
- The management of the Social Security programs and the question of what improvements in this area, legislative or administrative, may be necessary.

Because of our understanding of the Subcommittee's interest, we are limiting our testimony largely to matters relating to the administration of the Old Age, Survivors, and Disability Insurance programs and the management functions supporting these programs.

Before proceeding with these two issues, let us take a moment to look at the Social Security programs in terms of benefits paid and numbers of beneficiaries served.

In 1980, Social Security outlays are estimated to be \$128 billion, or about 25 percent of the total Federal budget. Of the \$128 billion, \$99 billion will be spent in providing Old Age and Survivors Insurance benefits to over 30 million beneficiaries and over \$15 billion will be spent in providing Disability Insurance benefits to about 5 million disabled recipients. This represents about 90 percent of Social Security's 1980 estimated budget. The remaining \$14 billion is to be spent on cash assistance and other programs providing aid and services to about 10 million other recipients. Over the past 10 years, the insurance program outlays have grown 300 percent and beneficiaries on the rolls have increased 40 percent.

Considering the magnitude of these programs and the management tasks they involve, it is reasonable to expect some problems and even relatively small problems can translate into large dollar amounts. So I would stress that the thrust

of our work and reports is not to condemn the management of the programs, but to constructively criticize and foster needed improvements both legislatively and administratively.

HOW MUCH IS BEING MISSPENT?

In March 1979, the Los Angeles Times reported that over \$2 billion annually in Social Security programs is wasted or lost through administrative errors and poor management. While our audit activities at Social Security indicate millions of dollars have and continue to be misspent, overall accurate figures on the total amount are not available. According to the HEW Inspector General's March 1979 Annual Report, as much as \$1.6 billion is misspent due to fraud, abuse, or waste annually by Social Security. However, the report states that it would be speculative to use any figures relating to the social insurance programs until the measurement systems discussed below are developed.

Social Security recently established an Office of Payment Eligibility Quality, independent of its program operating components, whose principal function is to develop and maintain an agency-wide quality assurance system. A quality assurance system properly implemented could provide an estimate of misspent funds. Of the five largest Social Security programs-- Old Age and Survivors Insurance, Disability Insurance, Black Lung, Aid to Families with Dependent Children, and Supplemental

Security Income (SSI)--the Office of Payment Eligibility Quality has ongoing comprehensive quality assurance systems covering only the latter two. These two programs, however, account for less than 10 percent of total Federal funds spent by all Social Security programs. The Office is currently carrying out a pilot test for a quality assurance system for the Old Age and Survivors Insurance program and plans to implement this system sometime this fall. In addition, it plans to begin pilot testing a system for the Disability Insurance program next month. Implementation of this system is expected in 1980. The Inspector General estimates that the range of misspent funds in these two programs may exceed \$1 billion annually.

We reviewed the SSI quality assurance system and reported our findings to the Congress in May 1978. One of the principal weaknesses noted, which we believe could result in a sizeable understatement of estimated SSI payment errors, is the fact that the medical aspects of disability and blindness are not reviewed or reported on by the system. Over 2 million or about one-half of the SSI recipients on the rolls are blind or disabled. Based on the results of other work performed in this area which will be discussed later, we do not consider the SSI quality assurance system a reliable source for estimating the magnitude of waste in this program. We might add that no efforts are presently

underway at Social Security to review the medical eligibility of disabled and blind SSI recipients and measure the related payment error.

We are currently reviewing the adequacy of the AFDC quality assurance system at the request of the Chairman of the Senate Finance Committee. Also we have established a Special Task Force on the Prevention of Fraud and Abuse which is presently reviewing Social Security's and other Federal agencies' systems for the prevention of and the handling of cases involving fraud and abuse.

WHAT IMPROVEMENTS ARE NEEDED?

We have recommended a number of legislative and administrative actions to improve the management and reduce the cost of social insurance programs. These actions cover a wide range of issues which could lead to improvements in the accuracy, timeliness and uniformity of eligibility decisions and payments to beneficiaries, more effective and efficient use of resources for carrying out program operations, and the strengthening of controls and other mechanisms for securing and protecting beneficiary records. While a number of these recommended actions are in the process of being implemented, more needs to be done.

For purposes of my testimony, I have grouped these actions under four headings--Old Age and Survivors Insurance, Disability Insurance, Data Processing Activities, and Privacy and Security.

OLD AGE AND SURVIVORS
INSURANCE

In view of mounting congressional and public concern over rising taxes to finance Social Security's trust fund programs, we intensified our review of the Old Age and Survivors Insurance program in July 1977. Our work has resulted in a number of reports, briefings, and congressional testimonies on ways to reduce program expenditures through improved program management or to eliminate unnecessary or wasteful legislative provisions.

The following are two of the more significant legislative issues which we have pursued or are currently pursuing:

--In September 1978 we reported to the Subcommittee on Social Security, House Committee on Ways and Means, that rounding Social Security payments to the nearest \$.01 instead of to the next highest dime would, if legislation was enacted, save \$386 million between 1980 and 1986.

--In February 1979 we testified before the Subcommittee on Oversight, House Committee on Ways and Means, on

problems with using the Social Security system for targeting money to student beneficiaries for school attendance.

The Social Security Act as amended provides for the payment of benefits to children aged 18 to 22 of entitled retired, disabled, and deceased workers, if they are attending school full-time and are not married. Payments of Social Security student benefits have rapidly grown from \$325 million in 1966, the first full year of operation to \$1.6 billion during 1978. The Social Security Administration estimates the program will continue to grow, reaching \$2.5 billion in 1982.

Social Security student benefits, like all Social Security benefits, are based on the entitled workers' earnings in covered employment. During the 1977 school year, annual benefit payments to students ranged from less than \$100 to more than \$4,000. The average annual benefit was about \$1,700.

We pointed out in our testimony that about seven out of every ten Social Security students could receive money from the Office of Education's Basic Grant program, considered to be the foundation or starting point for financial assistance. The Basic Grant program was not in existence when the Social Security student program began in 1965.

We found that more than 100,000 students expected to receive more in Social Security and Basic Grant benefits than their total cost of going to school. About 40 percent of these students received more in Social Security student benefits alone than their total educational cost for the year, with some students having excess benefits of more than \$2,200.

The Administration is proposing to phase out the payment of Social Security benefits to postsecondary students which would result in a savings of \$1.8 billion to the trust funds in fiscal year 1984. The results of our work to date support a phase out of these benefits.

In addition to these legislative matters, we have made the following recommendations to SSA which should result in substantial savings or improvements in program administration.

--In July 1978 we testified before the Subcommittee on Social Security, House Committee on Ways and Means, on the then pending Social Security agreement with Italy. We pointed out that very limited cost and benefit data was submitted to the Congress supporting this agreement. We also pointed out that experience with the Italian agreement would be useful in assessing

future agreements and the agency should set up specific procedures for measuring its impact on the Social Security trust funds.

--In December 1978 we reported to the Congress and in January 1979 we testified before this Subcommittee that the Social Security Administration could have earned about \$1.1 billion in interest for the years 1961 through 1979 if States had been required to make more frequent deposits of Social Security contributions as other employers are required to do. We pointed out that if requirements were not changed, the trust funds would lose an additional \$1 billion for the years 1980 through 1984 and significant amounts each year thereafter.

New regulations were published in the Federal Register on November 20, 1978, but under law are not effective until July 1, 1980. While these regulations will partially correct the problem, they are still too liberal and will not maximize interest income to the trust funds.

--In December 1978 we reported to the Secretary, HEW, that \$6.1 million in duplicate payments were made to Social Security beneficiaries because the agency's detection systems were either not fully operational or too restrictive, and the agency was not taking

follow-up action. While the \$6.1 million affected only about 2,350 beneficiaries, the individual cases of abuse can be rather startling. For example, a family of 3 persons received a total of \$26,000 in duplicate disability payments over a 4-year period, and the improper payments went undetected because of a minor misspelling of the father's first name and because the checks were being sent to 2 different zip code locations.

--In January 1979 we reported to the Congress on improvements needed in the recovery of overpayments made to Old Age, Survivors, and Disability Insurance beneficiaries. While Social Security collects most of the overpayments made to these beneficiaries by offsetting their benefits, a total of \$234 million is owed by others who were overpaid and were subsequently removed from the benefit rolls before repayment could begin. These persons represent a very difficult recovery problem. We made recommendations to improve Social Security's management of collection activities which should result in more efficient and effective recovery methods. I might add that we have also reported on the need for the Social Security Administration to improve its overpayment collection practices for its cash assistance programs.

--In our February 1979 testimony before the Subcommittee on Oversight, House Committee on Ways and Means we also pointed out that the Social Security Administration is making overpayments to ineligible student beneficiaries.

The Social Security Administration relies primarily on students to provide timely and accurate reports of their school attendance. To verify attendance and evaluate the reliability of student reporting, we examined high school and postsecondary school records for a sample of students in Los Angeles County and upstate New York.

We determined that many students were ineligible for payments because they had dropped out of school or attended only part-time. Nine percent of the payments made to the students in our upstate New York sample and 19 percent of the payments to students in our Los Angeles sample were made to ineligible students. The Social Security Administration was not aware of most of these improper payments.

We also determined that 86 percent of the sampled students who attended school part-time or dropped out did not notify Social Security as required. Further,

at least 31 percent of the sampled students who were no longer attending school full-time, incorrectly reported that they were full-time students. For example, a student reported after the school year ended that he had been attending school; however, the school records showed that he had dropped out several months before the end of the school year. Consequently, the student was paid about \$1,700 in benefits to which he was not entitled.

The Social Security Administration was notified of our findings during our review and is taking corrective action by

- (1) measuring the nationwide magnitude of payments to ineligible students, (preliminary results indicate annual payments to ineligible students of over \$100 million),
- (2) revising its student reporting form to require school verification, and
- (3) obtaining other verifying data from the Office of Education on students receiving Social Security benefits.

--In March 1979 the Commissioner informed us of a number of actions which he had started directed at problems we brought to his attention on the operations of Social Security's field offices. We pointed out to the Commissioner and his staff that Social Security needed to redirect its priorities to assure that its 1,300

field offices are better managed thereby improving their performance and productivity.

Some of the specific areas which we pointed out that required improvement include the need for

- (1) better controls over the volume and accuracy of communications and forms impacting on field offices;
- (2) adequate field testing of new procedures before being implemented;
- (3) providing field offices with improved capability to make computations with computers rather than manually; and
- (4) improving field office work flow and layouts.

--In March 1979 we briefed Social Security officials regarding our preliminary findings that the agency had made approximately \$50 million in overpayments during the years 1974-1976 to beneficiaries who had income that should have reduced their benefits. We found that the Social Security Administration had not completed actions or had never initiated actions to fully identify and collect these overpayments.

--In April 1979 we briefed the staff of the Subcommittee on Social Security, House Committee on Ways and Means on our review of foreign Social Security beneficiaries, pointing out that in fiscal year 1978 over \$600 million was paid to Social Security beneficiaries

residing in foreign countries. Some beneficiaries have only worked in this country a short period of time; others have never lived in this country; and others appeared to have worked in this country illegally, but all were accorded full coverage under the Social Security program. We expect to issue a report on this matter in the near future.

In addition to these activities, we have seven major assignments underway, one of which is for the Subcommittee on Oversight, House Committee on Ways and Means. We expect to be very active in evaluating legislative and administrative improvements in the Old Age and Survivors Insurance program for the next several years.

DISABILITY INSURANCE

I would like to briefly highlight some of our work in the disability area. Since May 1976, we have issued five major reports, testified at Congressional hearings on two occasions and at present have two major reports nearing completion. Because of similarities in the disability decision making process under this program and the SSI program, some of our work covers both programs.

We have issued two reports which discuss issues involving large potential savings that could be realized in the Disability Insurance and SSI programs.

--In April 1978 we reported to the Secretary of HEW on Social Security's activities related to assessing the continued medical eligibility of disabled SSI recipients. Many of these recipients were converted from the State rolls when the SSI program began in January 1974. We selected two samples (one contained 402 cases and the other 175) of SSI disabled recipients and asked the Social Security Administration to evaluate the recipients' continued eligibility for benefits. Of the 402 cases, only 152 (38 percent) had sufficient medical evidence in Social Security's files to support a disability decision. Twenty-four percent of the 152 cases were not disabled as defined by appropriate State disability criteria and 17 (10 percent) of the 175 recipients for whom current medical evidence was obtained were no longer disabled. The Social Security Administration has since studied disabled recipients converted in the State of Washington and found that close to 20 percent were no longer medically eligible. If these results are indicative nationally, the payment of disability benefits to ineligible recipients could amount to several hundred million dollars annually. We might add that the procedures for monitoring the Disability Insurance program are similar to those used for the SSI program.

Therefore, payments to beneficiaries who are no longer disabled could also occur under the Disability Insurance program and go undetected.

We recommended that the Social Security Administration establish appropriate mechanisms for systematically reviewing the total disabled recipients' caseload so that persons no longer disabled can be removed from the rolls.

--In May 1976 we reported to the Chairman, Subcommittee on Social Security, House Committee on Ways and Means, on improvements needed in the rehabilitation program for beneficiaries receiving disability insurance benefits. The Social Security Amendments of 1965 established the rehabilitation program for the purpose of returning beneficiaries to work, thereby terminating their benefit payments and reducing trust fund outlays.

We concluded that HEW claims of trust fund savings were significantly overstated and, at best, the rehabilitation program had only been marginally successful. As a result of our work, the amount of trust funds available to the program for fiscal year 1977 was reduced by 10 percent, or about \$29,400,000. We proposed a statutory amendment be enacted to freeze the amount of trust funds available to the program at the current level until such

time as HEW can demonstrate that additional funds could be used effectively. Under existing financing provisions, program expenditures would increase to about \$200 million annually by 1980. Retaining the program at its current level would provide an increasing amount of annual trust fund savings which we estimate could reach \$100 million by 1980.

--In our August 1978 report to the Subcommittee on Social Security, House Committee on Ways and Means, we pointed out that under the present Federal/State contractual arrangement, the Social Security Administration is limited in the amount of direct managerial control it can exercise over the activities of the State agencies making disability decisions. This, along with other uncorrected weaknesses in the disability determination process reported by us earlier in 1976, provides no assurance that a reasonable degree of uniformity and efficiency will be achieved in the ever growing, very costly disability programs.

We recommended that the Secretary of HEW, develop, for consideration by the Congress, a plan for strengthening the disability determination process by bringing it under complete Federal management so that the Social Security

Administration can acquire the control needed to properly manage the programs.

At this time, we have two ongoing reviews in the disability area which were requested by the Chairman, Subcommittee on Social Security, House Committee on Ways and Means. The first of these reviews concerns an evaluation of how the system for purchasing medical evidence is working. The second is concerned with the adequacy of the system used to reimburse the State agencies for indirect costs incurred in carrying out their work under the disability programs.

DATA PROCESSING ACTIVITIES

The various programs administered by the Social Security Administration generate a huge automated recordkeeping workload, much of which is processed on 21 large-scale electronic data processing systems--15 at headquarters and 1 in each of the 6 program service centers around the country.

Social Security uses these systems to carry out most of its basic responsibilities and program functions--such as maintaining hundreds of millions of Social Security records including Social Security numbers, master payment records, and life-time earnings records. In conjunction with these systems, the agency maintains a nationwide telecommunications network to permit rapid data exchange between field offices,

program service centers and headquarters, thereby speeding claims processing and benefit records updating.

Acquisition and maintenance of most of these systems are funded out of Social Security trust funds. Because of the vital role these systems play in day-to-day agency operations, we have, on an ongoing basis, reviewed and monitored data processing and telecommunications activities.

--In November 1976 we reported to the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, the results of a review he requested concerning Social Security's computer facility needs. During our review, we found strong indications that certain data processing systems were significantly underutilized and noted questionable operating practices and procedures causing this apparent underutilization. We thus questioned whether the Social Security Administration's plan for acquiring and installing 4 additional large-scale computer systems during each of fiscal years 1977 and 1978 could be justified in light of these deficiencies.

As a result, the Social Security Administration suspended its computer acquisition plans and hired

consultants to study agency computer usage patterns and practices in detail so that actual agency computer needs could be determined. The agency reprogrammed \$29.4 million appropriated for fiscal year 1977 computer acquisitions, and included no funds in its fiscal year 1978 appropriations estimate for acquiring additional computer systems. We estimated this equipment would have cost at least another \$28.7 million.

--In June 1977 we reported to Congressman William Armstrong on the results of our preliminary analysis of Social Security's long-range planning effort for redesigning all its systems and processes. In our report, we commented on the history, objectives, scope, projected costs and benefits, and status of this project, which was still in its early stages at the time of our review.

We are currently performing a major review for the Chairman, House Committee on Government Operations, of Social Security's total systems development plans and its proposals for upgrading its telecommunications network. In carrying out this comprehensive audit, we are again examining the agency's major long-range systems redesign project, as well as several other individual projects aimed at upgrading current systems and data processing operations, a selected number of data processing equipment and systems acquisition proposals

associated with these projects, and the impact of Social Security's recent reorganization on its system development plans. Total estimated costs of these agency activities are well in excess of \$500 million.

We plan to issue a series of reports to the Chairman on the results of this work. Although our review is still in the early stages, it has already produced direct cost savings. Our analysis of the first in a series of individual data processing equipment acquisition proposals resulted in the cancellation of the action just prior to contract award, saving the expenditure of over \$1.3 million annually in lease costs.

Partly as a result of our work in this area, Social Security is presently implementing a major structural reorganization which has great potential for bringing about substantial additional savings in the management of its data processing and telecommunications activities.

Early in 1978 we started reviewing the Social Security Administration's system for posting earnings to individual workers' accounts. These are the records which determine entitlement to, and amount of, Social Security benefits. During July, August, and December 1978, we met with agency officials to discuss the problem of significant amounts of unposted earnings that result from incorrectly reported

names and social security numbers, and to demonstrate a computer method for posting additional unposted earnings to individuals' accounts.

By letter dated August 23, 1978, the Acting Commissioner acknowledged the feasibility of the posting technique we developed and agreed to incorporate it into agency posting operations.

In early November 1978, the Chairman, House Committee on Government Operations expressed his extreme concern to the Secretary of HEW, regarding the magnitude of unposted earnings and the potential impact on benefit payment accuracy. The Chairman was referring to the size of Social Security's "Suspense File". This file contains about 142 million of the 10 billion earnings items reported since 1937. While these unposted items represent seven-tenths of 1 percent of the \$9.7 trillion in wages and self-employed income reported since 1937, they also represent almost \$69 billion in wages.

On February 28, 1979, the Commissioner of Social Security issued a public statement expressing his concern that almost \$69 billion in reported wages could not be credited to any specific individual, and outlining a five-point action plan to further improve performance in this area.

PRIVACY AND SECURITY

Social Security records constitute a valuable national resource that must be safeguarded against alteration, destruction, abuse, or misuse. To assure the Congress, the public and the beneficiaries that these records are properly safeguarded, adequate management support and an aggressive security program must be maintained. Because the files contain private personal information necessary to support present and future Social Security benefits, on several occasions members of Congress have expressed concern about procedures used to protect this data and requested that we look at them.

--In November 1977 we reported to Congressman John E.

Moss the results of our review of a series of questions he had raised regarding the privacy of beneficiary information being exchanged among Federal agencies. We concluded that the exchange of beneficiary information did not violate the Privacy Act of 1974 and was useful in properly administering various benefit paying programs; however, we were concerned that security of the beneficiary data being exchanged may not be adequate. We recommended that Social Security prepare a risk analysis to determine what security measures may be needed to protect the data that it provides to other Federal agencies.

--In February 1978 we reported to the Acting Commissioner of Social Security on security problems at the central computer facility in Baltimore, Maryland. We found that although the administration had spent about \$500,000 to install a new security system, the central computer facility was still not secure. Unauthorized personnel had access to the computer room and tape vault. Magnetic tapes, disk packs, and other property could be removed without proper authorization, and blank and valid Social Security cards could be taken from the computer facility without questions.

Adequate security procedures had not been established, and Social Security had not made an in-depth study of its security needs with respect to the central facility. We recommended that (1) security guards be positioned to have full view of their assigned area, (2) the security system be modified to allow only one temporary authorization badge to a person at any given time, (3) emergency exit wiring and exits be secured to prohibit tampering. Further, to improve overall security procedures, we recommended that Social Security: (1) complete a formal risk analysis to determine security procedures needed at

the central computer facility, (2) perform background checks on employees who work within the central computer facility, and (3) establish proper security for the central computer facility based on the risk analysis.

--In June 1978 we reported to Congressmen John E. Moss and Charles Rose, on the results of our review of security procedures used to protect beneficiary records at Social Security field offices, and private insurance companies. We found that records maintained in automated data banks and files were not properly safeguarded against alteration, destruction, abuse, or misuse. We found that Social Security did not have an ongoing centrally directed program to protect its records. Further, we found the following types of telecommunications system design and management problems concerning security of automated records:

- (1) Ability to create as well as query beneficiary files from most terminals.
- (2) Failure to use audit trail features within the system.
- (3) Failure to always lock terminals during non-working hours.

As a result the Social Security Administration has experienced instances where:

- One SSA employee sold information to a company that was in the business of locating missing persons.
- Two SSA employees fabricated 14 different beneficiary accounts and processed them for payment. A total of over \$55,000 was paid on these accounts before the employees' actions were discovered.
- An employee of a private insurance company which acts as a carrier for Medicaid and Medicare payments reissued several checks that had been previously returned due to the death of the beneficiary. The checks were reissued in another name by the employee and forwarded to various post office boxes for later retrieval.

We recommended that security weaknesses identified in our report be corrected and that Social Security continue to pursue an active and aggressive security program.

At the requests of Congressmen Charles Rose and Robert F. Drinan, and Senator Max Baucus, we are reviewing the actions taken by Social Security to implement the recommendations contained in our previous reports and other security matters related to records maintained by Social Security.

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Our work at Social Security over the past few years has underscored the need for the agency to establish an effective organization of its own to independently carry out ongoing performance evaluations and operational reviews. In this

regard, the functional reorganization of Social Security announced on January 5, 1979, effective on January 15, 1979, established the Office of Assessment to handle these overview responsibilities. This new office is charged with providing independent, objective, and continuing evaluations of all Social Security component performance. This includes quality assurance, program integrity, systems review and security, personnel security, and field assessment, as well as surveys and evaluations.

Social Security has scheduled full implementation of its reorganization by July 1979. We believe the Office of Assessment--if used to its fullest potential--should provide the agency with the basic tools it needs to identify operational weaknesses and needed legislative improvements such as those we have described today. Its activities, supplemented by the continued efforts of our own audit staff, and the Inspector General's staff, should assure continued improvements in the Social Security Administration's delivery of services to the American people. Mr. Chairman, this concludes our statement. We will be glad to answer any questions you or other members may have.