

# ADMINISTRATIVE INTEGRITY OF THE SOCIAL SECURITY PROGRAM

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## HEARING BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY OF THE COMMITTEE ON FINANCE UNITED STATES SENATE NINETY-SIXTH CONGRESS

FIRST SESSION

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# ADMINISTRATIVE INTEGRITY OF THE SOCIAL SECURITY PROGRAM

MONDAY, APRIL 9, 1979

UNITED STATES SENATE,  
SUBCOMMITTEE ON SOCIAL SECURITY,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The subcommittee met, pursuant to notice, in room 2221 Dirksen Senate Office Building, Hon. Gaylord Nelson (chairman of the subcommittee) presiding.

Present: Senators Nelson and Wallop.

[The press release announcing this hearing and the opening statement of Senator Dole follow:]

[Press Release Mar. 23, 1979]

## FINANCE SUBCOMMITTEE ON SOCIAL SECURITY SETS HEARING ON ADMINISTRATIVE INTEGRITY OF SOCIAL SECURITY PROGRAM

Senator Gaylord Nelson (D., Wis.), Chairman of the Senate Finance Subcommittee on Social Security today announced that a hearing will be held on Monday, April 9, 1979, on the subject of the administrative integrity of programs administered by the Social Security Administration (SSA).

The hearing will examine the management of the social security programs and the question of what improvements in this area—legislative or administrative—may be necessary.

The hearing will begin at 10 a.m. and will be held in room 2221, Dirksen Senate Office Building.

Senator Nelson noted that the social security program provides a wide range of benefits to some 35 million retired and disabled workers, dependents, and survivors. This year 113 million persons will make social security payroll tax contributions. Social security benefits are payable in the event of the worker's retirement, disability, or death and are based on the worker's individual earnings history.

Thus, in addition to administering benefit payments totaling some \$110 billion per year, the Social Security Administration is charged with maintaining an accurate record of the annual earnings of persons who are now working or have in the past worked in jobs covered by social security.

Senator Nelson noted that, in view of the size and complexity of this program, there is a continuing need for SSA to carefully administer and review the program in order to avoid error and abuse which could result in losses of substantial sums of money. He also stated that, while it may not be possible to attain completely error-free administration of this or any other program, the importance of the social security program to the economic security of nearly all Americans requires that the Congress and the Administration attach the highest importance to reaching the maximum feasible level of program integrity. For these reasons, this hearing will examine the adequacy of existing efforts and consider the need for any legislative or administrative changes to bolster those efforts.

*Witnesses.*—Senator Nelson stated that the following witnesses have been scheduled to testify at the hearing: Hon. Stanford G. Ross, Commissioner of Social Security; and Gregory Ahart, Director, Human Resources Division, General Accounting Office.

*Written testimony.*—The Chairman stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be mailed with five copies by Monday, April 16, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

#### OPENING STATEMENT OF SENATOR DOLE

Mr. Chairman, the hearings today before the Subcommittee on Social Security represent an important exercise of the Finance Committee's oversight function with respect to the vast Social Security Administration. In my view, this Committee's continuing oversight of the Social Security system plays a vital role in assuring that the taxpayer's money is not being squandered and in assuring that the 39 million recipients of Social Security benefits are treated fairly.

Mr. Chairman, the American people are keenly interested in the management of their Social Security system. They are affected in a direct and personal way when the Social Security Administration delays benefit payments or makes some error in benefit computation. Virtually every Member of Congress has heard horror stories from constituents about their dealings with the Social Security Administration. Even though such problems may arise in only a tiny fraction of the staggering number of transactions handled by the Social Security Administration each year, we must constantly strive to improve the level of performance. An elderly or disabled person who has experienced the frustration of trying to correct an error made by the Social Security Administration may find little comfort in favorable statistics or error-free transactions.

Public confidence in the Social Security system is profoundly affected by reports of waste and mismanagement in the Social Security system. A number of Kansans have written me to convey their concern about the \$69 billion in wages that the Social Security Administration has been unable to credit to the proper employee accounts because of identification problems. Even more disturbing are the reports that more than \$2 billion a year may be lost by the Social Security Administration as a result of waste, administrative errors or mismanagement. Such stories probably directly contribute to the growing concern among Americans that they will never get benefits from Social Security.

In my view we must move decisively to restore public confidence in the viability and management of the Social Security system.

In that regard, it would seem far preferable to achieve cost savings through better management than to rely on cutbacks in benefits to accomplish budgetary objectives.

Mr. Chairman, I hope these hearings will reveal exactly how much is being misspent as a result of fraud, administrative error or mismanagement in Social Security programs. I also hope these hearings will shed some light on the specific steps that are or can be taken to address identified abuses and to achieve more efficient administration of the Social Security system.

Senator NELSON. The hearing will come to order.

The Finance Social Security Subcommittee is holding this hearing today to examine the administrative integrity of the social security programs. The subcommittee will focus on current management practices of the social security program and the questions of what improvements in this area—legislative or administrative—may be necessary, if any.

The social security old age survivors and disability insurance programs currently provide a wide range of benefits to some 35 million retired and disabled workers, dependents, and survivors. This year, 113 million persons will make social security payroll contributions. These contributions finance social security benefits which are payable in the event of a worker's retirement, disability, or death, and are based on a worker's individual earnings history.

During 1979, the Social Security Administration will administer social security benefit payments totaling over \$110 billion. In addition, the SSA is responsible for maintaining accurate earnings records for

persons covered by the system, insuring that adequate quality control measures are functioning properly to minimize waste and error, and for collecting overpayments as well as for disposing of thousands of disputed claims for benefits.

In recent months, some allegations have been made by various individuals and organizations charging that hundreds of millions of dollars in waste, error, and fraud exist in the various social security programs. This has resulted in reports that the social security system is not in a stable condition and that future benefits may be in jeopardy.

The Los Angeles Times, for example—and many other newspapers across the country—recently reported that more than \$2 billion was wasted and lost by the SSA annually through administrative errors and poor management.

The General Accounting Office has stated that no one really knows the extent of waste and error in the social security programs because SSA does not have quality assurance system in place. GAO has indicated to my staff that overpayments in retirement benefits alone amount to at least \$800 million a year.

A recent United Auto Workers' publication reported that the social security program is in a perilous situation and that the future stability of the trust funds is in question.

And, an Esquire magazine article asserted not long ago that Social Security was ripping off American workers, especially younger workers who are just entering full-time work.

These allegations are all too familiar to Members of Congress. Each day constituents write scores of letters to their Representatives in Congress, complaining about the increased social security taxes, disability benefits being paid to persons who are not in need of them, and about press reports which question the ability of the social security trust funds to meet future obligations.

In my judgment, social security is the most important and successful social program ever enacted by the Congress. The allegations of doom for social security simply cannot become a self-fulfilling prophecy. Congress has the responsibility to insure the program's fiscal stability as well as to insure that the program is properly managed. This is a responsibility that Congress has assumed in the past and will continue to fulfill in the future.

In 1977, the Congress enacted legislation to increase social security payroll taxes by \$227 billion in the 10-year period from 1978 to 1987. No one—neither the American public nor any Member of Congress—wanted to raise social security taxes, but this action was necessary to restore the program to a sound financial basis. This action demonstrated the commitment of the administration and Congress to the integrity of the social security programs. But it also created a situation in which the management and stability of social security has come under more intense scrutiny than ever before.

The purpose of this hearing is to determine what the facts are with respect to allegations that have been made about the system's management and stability, and to set the record straight on the current level of waste and error in the program, as well as the efforts being made to resolve whatever problems may exist.

The first witness this morning is Stanford G. Ross, Commissioner of the Social Security Administration.

Senator WALLOP. Mr. Chairman. I have a brief opening statement and would obviously like to associate myself with your remarks as delivered and add my welcome to Mr. Ross and Mr. Short, and their colleagues.

I have a special interest in the subject matter under discussion because last Thursday Senator Smith and I introduced what was labeled S. 908, the Social Security Fair Reporting Act of 1979. The primary thrust of the legislation is to provide a direct accounting on a yearly basis to wage earners throughout the country who have made contributions into the social security system.

The Social Security Administration is currently responsible for maintaining an accurate record of the wage and social security tax history of all people who have made contributions into the system. Yet, we were told that approximately \$69 billion of unposted earnings have accumulated in a suspense account since 1937, and we know that from 5 to 6 percent of the data that is being reported contains errors, and still another 1 percent is reported without names or social security numbers. It would seem that something must be done to increase the level of accuracy in the social security program. S. 908 will have the desirable effect of reducing error and thereby increasing accuracy of the data that the Social Security Administration is responsible for maintaining.

The bill would require SSA to prepare "W-2-like" forms for mailing to all persons who have worked in jobs covered by social security. The annual report would set forth the amount of wages and self-employment income for which the individual has been credited that year, and the amount of social security tax imposed and actually paid on those wages by the individual and his employers.

It would also state the total amount of wages and self-employment income for which the individual has been credited throughout his working career and the total social security taxes imposed and collected upon those wages.

Additionally, the report would state the surplus—or deficit—in the social security trust fund and will estimate the projected status of the funds for the next 2 years.

Each individual will also be informed of the number of quarters of coverage credited to his account and the number required for social security retirement benefits, survivor insurance benefits, and disability insurance benefits.

In the event an individual has questions, needs additional information, or wishes to correct his record, a toll-free telephone number would be maintained by the administration to answer these questions promptly and take necessary remedial action expeditiously. It would be most useful if our witnesses this morning would be able to comment on this proposal as they comment on the other questions that are before the committee, especially with respect to the extent to which such annual reports would assist in identifying and thereby correcting accounting errors in individual accounts; the mechanics of implementing the proposal; the feasibility of sending an annual accounting to each contributor; the cost of the proposal—would the cost decrease once the system was established and, if so, by what amount; the prospects for savings to offset the costs; and any alternative ways an accounting could be made to each individual about the status of his account.

In addition to your comments on these specific areas, any other comments are welcome. I am happy to be here this morning, Mr. Chairman, and I thank you for the opportunity to be able to speak.

Senator NELSON. Thank you.

Go ahead, Mr. Ross.

Mr. Ross. Thank you, Mr. Chairman and members of the subcommittee. I am grateful for this opportunity to appear before you today to discuss the management and integrity of our social security programs.

I brought with me today so that I would have them available to help answer your questions, Mr. Schutzman who is the Acting Associate Commissioner for Assessment; his Acting Deputy, Mr. McClernan; and Mr. Wheeler, who is in charge of our Office of Payment Eligibility Quality which is putting up this system to measure error which I will be describing in the course of my testimony.

What I would like to do, Mr. Chairman, is to have, with your permission, my entire statement entered into the record, then just summarize what I think are the major points, and then answer the questions that you and Senator Wallop or any other member of the subcommittee may have.

Senator NELSON. Your statement will be printed in full in the record.

Mr. Ross. Thank you, sir.

**STATEMENT OF STANFORD G. ROSS, COMMISSIONER, SOCIAL SECURITY ADMINISTRATION, ACCOMPANIED BY MR. SCHUTZMAN, ACTING ASSOCIATE COMMISSIONER FOR ASSESSMENT; MR. McCLERNAN, ACTING DEPUTY ASSOCIATE COMMISSIONER FOR ASSESSMENT; MR. WHEELER, ACTING DIRECTOR, OFFICE OF PAYMENT ELIGIBILITY QUALITY, SOCIAL SECURITY ADMINISTRATION**

Mr. Ross. As I see it, Mr. Chairman, one of the most important challenges that I face as Commissioner is the challenge to detect, understand, explain, and eradicate errors in our society's foremost social program. I became Commissioner last October of an agency whose management has been, and continues to be, the target of many critical reviews, as you noted in your opening remarks.

Those reviews were seriously undermining the confidence of the American public in the social security program. Accordingly, I have spent much of my time during the first 6 months of my stewardship assessing the management of this vast agency, and I believe it is important that all Americans know what I have found.

SSA basically gets its job done well. The fundamental integrity of our programs is not to be doubted. The social security system itself is sound and reliable. The burden of what I would like to do today is to supply the reasons for that conclusion.

I think the true measure of the impressive achievements of SSA requires an appreciation of the enormous and complex task assigned us. We routinely pay benefits every month to some 39 million aged and disabled persons, and their survivors and dependents, most of whom need these amounts to pay for basic living expenses. We administer the trust-fund-financed retirement, survivors', and disability insurance programs with expenditures totaling over \$100 billion in

1979. We administer the general-revenue-financed supplemental security income program with Federal expenditures totaling \$5.6 billion in 1979.

We share administration with the States of the aid to families with dependent children program which is financed through a combination of general revenues and State funds, with annual Federal expenditures totaling \$6.7 billion in 1979.

Senator NELSON. When you say in conjunction with the States you handle the AFDC payments, how long have you had that responsibility?

Mr. Ross. This was a product of Secretary Califano's reorganization at the beginning of 1977 to consolidate in one place in HEW all of the cash payment programs so that we could better learn what techniques worked and were effective in our total management of income maintenance at the Federal level.

Senator NELSON. How are the administrative costs of the AFDC program paid for?

Mr. Ross. The administrative costs of AFDC are handled separately in a separate budget that is financed from general revenues. The accounting is kept separate from the basic social security program where the administrative costs are part of the trust fund money.

Senator NELSON. The total cost of handling the AFDC program in cooperation with the States, none of it is paid for with social security trust funds?

Mr. Ross. That is correct, sir.

Senator NELSON. So one of the problems—I suspect that this is part of the problem—is increasingly Members of Congress are getting mail saying the problem with the social security program is that there are so many welfare programs in it. Until I realized you were administering the AFDC program, I was not certain to what these letters were referring.

Mr. Ross. I understand what you are saying.

Senator NELSON. It seemed to me it would have been wise, perhaps, to have created some kind of a department with an independent responsibility for the different needs. People see Social Security administering SSI funds and AFDC funds, then they assume that must be part of the social security program, do you not think?

Mr. Ross. There is that confusion. On the other hand, I have tried, as I go around the country speaking—and I know that Secretary Califano has—to make it clear that the Social Security Administration, as an institution of Government, has this broad income-maintenance responsibility that involves administering not just the basic social security programs, but also AFDC, refugee assistance, and U.S. repatriate programs. [American citizens who must be repatriated.] We also, of course, have the supplemental security income program; we have a portion of the black lung program. Overall, the budget that we administer is about \$130 billion for 1980, which represents almost a quarter of the Federal budget.

One of the ways I think we do get efficiency in income maintenance in the long run is to have one agency that specializes in these payment programs and works out methodologies and ways of keeping the costs down.

Now, overall, our administrative budget for all programs is about \$2.3 billion, which is roughly 2 percent of program costs. We believe that that ratio of expense to funds being handled is a very favorable

ratio, one that compares favorably with any financial institution, public or private, that exists in the world—so I think there are efficiencies that come from one agency running all of these programs.

Senator NELSON. I would not quarrel with that. I was just saying if there were some way in which you identified by a different name that part of the Social Security Administration that is technically handling these other programs, then maybe there would not be the confusion that there is.

Mr. Ross. Well, we do that to some extent. We have the AFDC managed by our Office of Family Assistance, which is a separate unit, so we do attempt to give some separate status to that program.

Senator NELSON. You say that your overhead costs for administering all of the programs you administer is about 2 percent?

Mr. Ross. Yes, sir.

Senator NELSON. How does that compare with what the Social Security overhead percentage costs were 20 years ago?

Mr. Ross. It is about the same. Historically, it has been at about 2 percent of program costs.

Senator NELSON. From the beginning?

Mr. Ross. Pretty much; yes, sir.

Senator NELSON. I have one more question. How many people are employed by the Social Security Administration?

Mr. Ross. We have somewhat over 80,000 people located in almost 1,400 district offices and communities across the United States, 10 regional centers, and our Baltimore headquarters.

In addition to these full-time people, we engage a number of part-time and temporary people, roughly maybe as many as 10,000, so that total number of staff years during the year would be approximately 90,000. Plus we finance 100 percent of the disability program which means that at the State level, another 10,000 State employees are fully paid for by us. So that overall, you get close to 100,000 staff person-years involved in our administration of these programs, quite apart from AFDC which is a State program and administered there.

Just to finish explaining some of the tasks, we handle over 58 million transactions every month to process beneficiary claims and post wages and in addition to that routine, if you will, functioning, we stand prepared in emergencies to help our beneficiaries. For example, if recent events at the Three Mile Island Nuclear Power plant had developed into a situation requiring evacuation of the entire Harrisburg area, we had action plans ready to get monthly benefits to displaced social security beneficiaries.

It is this kind of service to the public, both in the routine cases and in the extraordinary cases that has guided and motivated this agency historically and with which, I feel, we have done a creditable job.

However, at the same time that we take credit for our achievements, let me be quick to add that SSA is moving to correct problems that we have and to become more efficient and effective in handling the taxpayers' dollars. It is my belief that we should not be afraid to discuss our shortcomings openly. The American public should know our weaknesses as well as our strengths, and the public should also know what we can and are doing to do a better job.

I believe this sense of openness and candor is something that must be present when you are dealing with one of the important agencies of Government that so deeply affects the entire American public.

One of the things that Secretary Califano and I did to try to improve our service to the public is that in January we reorganized the Social Security Administration. We put in a functional organization that will allow us to pursue our mission much more effectively.

Central elements have changed; for example, we consolidated fragmented systems offices into a single office of systems. An Associate Commissioner reporting to me will bring thrust and drive to our attempt to improve our computer and telecommunications processes, which is one of the ways in which you handle jobs as complicated and far-reaching as ours.

The second major aspect of our reorganization was to focus on operating policy in a way that will bring more coherence to our programs and enhance the relationship with our field operations. The real heart of the SSA organization is in the district offices that deal with the public. It is absolutely vital that the public that comes into personal contact with us in those district offices get a feeling of reliable, compassionate, and sensitive service, and that is an aspect that we are emphasizing in the reorganization.

Third, we brought together a number of fragmented quality assurance and other assessment type of activities into our own inspector general type operations. We now have a single office that pulls all of these activities together, and we hope that this will give additional thrust to our ability to ferret out mistakes and put in procedures to do an even better job in the years ahead.

One of the things that we did immediately following the reorganization was to charge the new Associate Commissioner for Assessment to construct a much more effective set of quality control systems designed to provide basic data on error rates.

The major aspect of this effort is the full implementation of a quality assurance system for the retirement, survivors, and disability insurance programs. This new system will give us the potential to pinpoint program errors and assist us in developing appropriate actions to correct them.

Similar quality assurance systems were installed previously for the SSI and AFDC programs and facilitated dramatic improvements and performance. In SSI, error rates have dropped from 11.5 percent in 1975 to the present 4.6 percent.

Senator NELSON. From 11.5 percent to 4 percent?

Mr. Ross. To 4.6 percent. We have halved it, if you will; more than halved it—not that we are content to stay at 4.6, but all the indications are that we are moving down the amount of error in the supplemental security income program.

Senator NELSON. What amount of that is related to State administration?

Mr. Ross. That is a federally administered program. There is a State supplementation which we also administer, but that is an overall error rate for the program.

Senator NELSON. Do you check on the State's supplementation?

Mr. Ross. Yes; in those States that we administer that portion also, sir.

Senator NELSON. The States are not responsible for any of the error, you are saying, in the SSI program?

Mr. Ross. That is correct, because the error rate that we report on

includes those States where we administer the State supplementation, and we have to stand behind our administration of the State aspects also.

Senator NELSON. All right.

Mr. Ross. The first full results of the new system in the retirement and survivor insurance program will not be available until later this year. The data for the disability insurance program and the impact of the earnings test will become available during the following year.

The difficulty and time involved in constructing this type of system is not to my liking, but is inherent in this type of activity to make this system reliable and useful, we must move carefully to make certain that it considers all of the complex nuances involved in the program.

However, let me be clear that we are not sitting still pending final results. We have been taking actions that should produce improvements.

I have launched Project Accuracy, the purpose of which is to live up to social security's traditional goal—the right amount to the right person on time—and this effort consists of a number of steps to achieve three things: to prevent payment errors whenever possible; to detect mistakes quickly when they do occur—this is highly important when you are dealing with economically vulnerable people, as we are, who have difficulty returning overpaid funds or who face undue hardship if benefit amounts are erroneously low—and third, to recover or settle payment errors swiftly.

What I would like to do now is to review with you what we do and do not know about the scope of error in the basic retirement, survivors and disability insurance programs.

The basic fact is that at present, we do not know with precision the extent of errors in these programs. This is an unacceptable situation and one of the reasons that we have put so much emphasis on the quality assurance system which I mentioned. Only when this basic data is available on a regular basis can we truly monitor our performance and fully identify those actions that will correct deficiencies.

The current state of our knowledge is reflected in some recent estimates, in some varying reports, which show a wide range of possible error rates. Thus the HEW Inspector General, in a report released recently, concluded that the error in these programs could range anywhere from \$173 million to \$866 million annually.

Senator NELSON. What is the definition of the kind of error that would be included within that \$173 million to \$866 million?

Mr. Ross. That would be error that involves erroneous payments; it does not fully take into account our ability to collect overpayments—

Senator NELSON. That is what I was going to ask. Are these errors for which there has been no reimbursement, or are you just counting—

Mr. Ross. Those would be payment error before you get the corrective action.

Senator NELSON. All right, but that is not a net loss to the fund?

Mr. Ross. That is not a net loss, and that is one of the important points, Mr. Chairman, which is that there are ways to bring that down.

For example, our belief is that in the basic social security program we collect back perhaps a half or more of overpayments so that the net error would be less than half.

Senator NELSON. Well, what is the most common one? The most common one that I see from my constituents is some person who, I would assume almost always, has a dependent who is now no longer a dependent and the person receiving benefits for the dependents does not realize that the dependent is no longer eligible and draws a check for 3 more months or 6 more months. Or they were dependent in college and then got out—is that the most common?

Mr. Ross. Yes. I would say that the majority of errors are caused by changes in beneficiary status or characteristics which are not reported to us.

Senator NELSON. So to get at that point, there may be a better—I do not know what the methodology for correcting it is—but it is not mistakes being made by employees of social security since there is no way they are going to know about a change of status and eligibility for a payment except being notified by the beneficiary, is there?

Mr. Ross. That is correct, sir.

The one thing we can do, and I have described it in my testimony, we have launched a number of projects to do a better job of educating beneficiaries to the things that they must report to us in a timely fashion. I think that we do have the burden of doing the best job we can to educate individual members of the public on when they must come back to us with changes in status or characteristics so that we can get the payment [rolls] corrected.

We do not regard the fact that it is a beneficiary caused error as an excuse for not trying to improve performance. We think we can do a better job on helping beneficiaries to help us to make this system run better.

Senator NELSON. Is overpayment the major part of the so-called error, or whatever?

Mr. Ross. Yes, it is, sir.

I was just going to refer to a pilot study which we have recently completed which surprised us with some preliminary data on what the major causes of error are. We did a test involving 3,000 cases primarily to do a serious trial run on this overall quality assurance program that we are implementing and in which we are investing a great deal of resources.

Because it was a trial run, the measurement techniques do not meet rigorous statistical standards. However, it was a serious pilot study and the data, with those qualifications, is helpful to tell us where the problems are and where we can get working on corrective action even pending the full operation of the system.

This pilot study identified an 0.5-percent rate of overpayment errors and an 0.08-percent rate of underpayment errors.

Senator NELSON. 0.08?

Mr. Ross. 0.08.

Senator NELSON. Less than 1 percent on underpayments.

Mr. Ross. On underpayments—less than one-tenth of 1 percent.

Senator NELSON. And one-half of 1 percent of all payments are overpayments?

Mr. Ross. Yes.

Senator NELSON. Of the total dollars, is that it?

Mr. Ross. If that percentage were applied to all of our payments in 1979 it would represent \$445 million in overpayments and \$72 million in underpayments, and this is on a base of almost \$90 billion of benefit payments in these programs in 1979.

Senator NELSON. And did you say a few moments ago that you collect back 50 percent of overpayments?

Mr. Ross. We believe that is right; at least that amount.

Senator NELSON. So instead of—what was it, \$400 million in overpayments?

Mr. Ross. Yes, sir. It would come down to more like \$200 to \$250 million. That might be net error, if you follow out these numbers and, indeed, that is the amount in the Inspector General's report that is our target for corrective actions to produce cost savings, roughly \$250 million.

Senator WALLOP. Excuse me, Mr. Chairman. His hindsight is much greater than you would suggest by your pilot study. The Inspector General's hindsight of his forecast is much greater than—

Mr. Ross. His figures, as well as GAO's figures, are based on extensions and speculations of the data we have, so that the data I am giving you is really the basis of the Inspector General's speculations, just as it is the basis of mine.

There really is not an independent data base that is available, apart from what is in our records.

Senator WALLOP. Would the reporting suggestion that Senator Schmitt and I and others are talking about have any effect on providing that data base?

Mr. Ross. The matter of posting of earnings is one that has concerned me, and with your permission, I would like to have inserted into the record a statement I released on posting of earnings which I think contains the numbers and some further detail that was mentioned in your statement.

[The statement referred to follows:]

#### STATEMENT BY STANFORD H. ROSS, COMMISSIONER OF SOCIAL SECURITY

One of my first priorities as Commissioner of the Social Security Administration was to review the agency's performance in posting individuals' earnings to their correct name and social security number. These are the records which determine a worker's entitlement to benefits under the program. They are vital to the efficient operation of the social security system.

My basic finding is that SSA's performance in crediting these earnings is excellent. A national rate of better than 99 percent accuracy has been reached, which I believe is a remarkable achievement. The American public can be confident that we are keeping accurate track of their earnings records.

I have found that the agency accurately credits all earnings that are reported with a correct social security number and name. Problems arise when employers or the self-employed report incomplete or inaccurate information. Over the years about 5 percent of the earnings items submitted to the Internal Revenue Service and subsequently to the Social Security Administration by employers have an incorrect social security number or name, and an additional 1 percent have no number or name. The name and social security number on the earnings report must agree with our records before the item will be credited. This 6 percent equates to about 6 million items per quarter.

The Social Security Administration is able to correct all but 2.6 percent of the items incorrectly reported by employers and the self-employee through the use of modern computer technology. The remaining 2.6 percent must be manually corrected by asking the employer or self-employed individual to furnish the correct social security number or, if necessary, the wage earner's address, thereby enabling us to contact the person directly.

After additional corrections are made from this procedure, the remaining 1.4 percent improper reports are recorded in a "Suspense File" where they are readily accessible. They are never destroyed. They are available, for example, if a person advises us that all of his or her earnings have not been posted. This file is then checked as part of the effort to complete someone's earnings record.

Social security deals in large volumes. For example, this year it will pay out more than \$100 billion to some 35 million beneficiaries. This figure represents almost one quarter of the entire Federal budget. It has paid \$768 billion in benefits from 1937 through 1977.

In the area of earnings reports, the numbers are truly mind-staggering: Since 1937, when social security began, employers have submitted over 10 billion individual earnings items involving \$9.7 trillion in wages and self-employed income. The Social Security Administration has properly credited all but 142 million of these 10 billion items reported since 1937. While these items represent almost \$69 billion in wages, they also represent only the seven-tenths of one percent of wages for which we have received inadequate documentation which we were unable to correct. Usually these incorrect wage reports are for short-term and transient labor, such as restaurant workers or carwash employees. Even with these incomplete reports, social security has properly credited 99.3 percent of all wages.

A very significant change took place in the reporting system for wages earned in 1978 and subsequent years. Employers now report annually, rather than quarterly, eliminating an enormous amount of paperwork for them. I am convinced that the introduction in 1978 of this new annual wage reporting system will enable us—employers and the Government—to further improve the accuracy of wage reporting. Nevertheless, I am concerned to find that .7 percent of all wages had been reported with incorrect information that could not be credited to any specific individual. Accordingly, I have initiated a five-point action plan to further improve performance in this area:

1. SSA contacted the news media and asked their help in publishing stories to emphasize to employers and employees the importance of making sure that W-2 forms contain accurate information.

2. Through improved computer processing routines we have identified 6.4 million unposted wage items from previous years that were 1 digit social security number errors. This involves \$3 billion in unposted wages which are now being posted.

3. Similarly in March-April 1979, we will credit an additional 1.2 million unposted items from previous years that involved errors in the surname. This involves about \$560 million in unposted earnings.

4. SSA is currently designing a computer system to aid in the correct identification of erroneously reported earnings items.

5. We are doing a statistical analysis, using the records of earnings from 1937 to 1955. In general, most benefit payments calculated for claims filed today do not use monies in the computation that were earned prior to 1956 to establish the correct benefit amount. With this study as a basis, recommendations will be made in April about reducing our inventories in the suspense file.

As a result of these five actions, I am confident the Social Security Administration will overcome reporting errors to the maximum extent possible to come as close as possible to 100 percent accuracy in posting individuals' earnings.

Mr. Ross. We have instituted, with the help of GAO, a number of actions to try to improve our performance in this area. We are presently at 99.3 percent accuracy in that area. We hope that—

Senator WALLOP. At what point?

Mr. Ross. 99.3 percent. That \$69 billion figure represents all of the accumulated unposted earnings since the beginning of the program in 1937; we maintain them in a suspense account, and we find ways to reconcile some of that when beneficiaries come in and complete their earnings records.

But, beyond that, we have instituted some new computer methodologies and other steps to try to come as close to 100 percent accuracy as we can.

Senator WALLOP. Excuse me. I am a little lost and on new ground. The 99.3 percent figure is related solely to the posting of earnings?

Mr. Ross. Yes, sir.

Senator WALLOP. Other errors are outside that?

Mr. ROSS. Yes. The other errors, which I am going to talk about now, are strictly on the payment side—as opposed to the posting of earnings.

This pilot study identified to us where these payment errors were. A good number involved late notification of a beneficiary's death.

Another major cause of error is where students receiving benefits were not in full-time school attendance. Now, we have already instituted a program to deal with the student problem and we are, this spring, requiring verification that students are enrolled full time. We will do matching of our student rolls against the Office of Education's rolls. We feel we already have put in an action program that will help us save perhaps \$50 million or more in the student benefit area.

Now, another major problem—

Senator NELSON. May I ask a question?

Mr. ROSS. Yes, sir.

Senator NELSON. Is my memory wrong on this? I had thought the Social Security Administration thought they lost very much more on that, on people who were—well, for example, who got paid through the summer and intended to start college in the fall and did not start. Therefore, they would not have been eligible for the summer payments. Is that correct?

Mr. ROSS. That is one of the problems, yes, sir. If the student does not go to school, the summer payments then become an overpayment.

Our overall figure from our latest study is that the amount of error in this program, which now pays \$1.6 billion a year in student benefits, is about \$150 million. Our first thrust at it, we hope, will save about \$50 million. We will not stop there; we will continue to try to improve, and we have some action plans that we think will close the gap on the errors in dealing with students.

The disability insurance program is another area where we know we have errors which require that we improve. The major source of payment error occurs when beneficiaries fail to notify us of successful returns to work. But the problems in the DI program run much deeper and have led us to conclude that we need to restructure the entire administrative system in order to get higher quality initial determination decisions, and we have been working with the Social Security Subcommittee of the House Ways and Means Committee on these matters. The Ways and Means Committee is going into a markup of that bill today and tomorrow, and we hope that out of that legislative change and the complementary administrative change we will be making, we will be able to run a much tighter and more efficient disability insurance determination process.

Senator NELSON. This subcommittee will be conducting hearings on that after the House's actions. Are you satisfied that the disincentives have been removed from the system in the proposal that the House will be acting on?

Mr. ROSS. I am satisfied that if the subcommittee bill basically follows the lines that it is, it makes very good progress on providing incentives for rehabilitation and going back to work and also for helping to hold down the number of people that go on the disability rolls. I think that it has real progress in it.

But, of course, you will have to make your own judgments when we come over here following the House action on whether we have gone

far enough, not too far—there are no easy answers in that area, and I would not propose to prejudge the feelings of this committee on some of the very difficult problems that we have.

One of the problems we have is that, over the years, the program has become more and more complex. At one time, in the early days, the retirees' basic benefit involved a simple computation applied to the worker's average monthly wage. The beneficiary might well, in days gone by, be able to understand enough to compute his or her own benefits.

That simplicity has given way over the years to an extremely complex series of computation methods and interacting conditions that make benefit computations highly error prone. I believe that today it is doubtful that any beneficiary would have the knowledge and sophistication required to compute his or her own benefit amount.

Thus, beneficiaries are even more dependent on the accuracy of our efforts and our responsibilities are enlarged. To meet that challenge, we are bending every effort to improve our accuracy so that the public can have a feeling of confidence and can avoid the frustration that comes from not getting the right amount on time.

I lay out in my testimony, and will not repeat it here, some critical examples of how the programs have developed with overlays of computation methods, one on the other; and one of the things I am trying to stimulate is a review in today's world of this complexity to see if we cannot come up with legislative and administrative actions which would allow a reduction of this complexity without unduly disadvantaging beneficiaries.

I really think that it behooves us all in the executive branch as well as the legislative branch to try to see if there are not ways to simplify our programs so that they will be more understandable to the public and less error prone in terms of administration.

Finally, Mr. Chairman, I would like to say that the HEW position is—and the Secretary has emphasized this throughout all of our programs—is that it is terribly important to try to run them as efficiently as possible, because the program dollars saved can then be used by the program for the benefit of the vulnerable people of our society. We believe that by being efficient managers we are showing compassion for the people served by our programs. Only when the integrity of the programs earns support from the American people as a whole, will we have the kind of public support that continues to support these massive social programs, and we hope that we can continue to work together with you to improve these programs and insure the support of the American people.

I thank you and I will be glad to answer your questions. Before I do, I would like to address the one point of Senator Wallop's suggestion which I have been doing something on. I also share the belief that, if the taxpayer who pays into this system every year could receive some tangible example of our concern in that individual taxpayer's interest in this program, there would be much broader support for these programs.

Therefore, I have put together a team being directed by the Deputy Commissioner for Programs, Mr. Robert P. Bynum, to study the feasibility and cost of supplying an annual notice to each taxpayer.

It requires some study. There certainly must be a balance of how much information you can supply. You do not want it to be so much

that it would be overwhelming. You want to pick out the most important things. You want to see what the tradeoffs are on costs. But I hope, in a relatively short time, to have the kind of work completed which will allow us to address very specifically how this might be done.

I note in this respect that I have done enough work to know that some other countries do this. For example, West Germany, which has an advanced social security system, does this and I recently reviewed their form. Theirs was about nine pages of computer print-out. My overall feeling was this was too elaborate, much more than would be appropriate in the United States, but I think it is very important to the long-term future of a program like this to communicate well with the people who are paying in currently.

Senator WALLOP. I would appreciate that, and I know the committee and the Congress would. It would also be useful to have your comments on the reporting requirements in S. 908 in light of the requirements that apply to the private sector's retirement programs. Which of the information would you deem essential to the average person covered by the social security program?

It may be that we find that we are requiring too much information there too, not that I want to, in any way, get into that now. It may well be we are requiring more than is required of these private sector plans. Also, it may well be that we are adding to the cost of the administration of those plans with some deterioration in the net benefit whoever the retirees may be.

I welcome your comments on that.

Let me ask you one other question, if I may. You speak of the complexities that exist now as opposed to the retirement computations in earlier days of the program. Is there something that the Congress should be doing to simplify?

Mr. Ross. We have a number of proposals which I mentioned in my testimony which we would like to bring before your subcommittee to attempt to help us, but even beyond that, I think that we have to do more if we can. I think that over the years, the general feeling has been that it was far better to preserve equity to the last degree than to worry about the complexity caused by that equity. I think that same phenomenon has happened in other parts of our law, like the tax laws, which is a field that I delved in before I took this job.

I think particularly at this point in time we would do well to take another look at whether equity and complexity can perhaps be better balanced and whether some of the ornate aspects of our computations could not be simplified in the interests of better public understanding, because I think that is a key aspect.

Appropos of that, I wanted to indicate to you that even pending this work on an annual notice, we are doing something this spring which has not been done in a good number of years. We are going to prepare a free, simple explanation of social security and get it into the hands of all high school students in America who are about to enter the job market so that when they get that first paycheck and see that large deduction of taxes to finance this system, they know what it is they are buying with that, and what they are getting. We are similarly going to move to get that kind of information, with the help of unions and corporations, into the hands of young workers; because our information, to the extent we have it, is that particularly in these younger groups, we are having a crisis of confidence.

They see all this tax money coming out of their paychecks. They do not quite know what they are getting for it in social security. We really believe that getting young people in this country to understand the importance of this system, what their particular interest is in it, what they stand to get from it, is absolutely vital to the continued viability of these programs.

Senator WALLOP. Mr. Chairman, could I just ask one more question in a related area?

State worker's compensation programs such as the one in Wyoming, have been put in place to provide a certain amount of compensation for workers who are injured on the job. In exchange for that, employees give up many of their rights to sue their employer.

One really embittering case related to workmen's compensation and disability payments came to my attention during my campaign. I saw a man who had worked 25 years without a time-loss accident—he was a miner. He fell off a high wall in an iron mine and damaged his leg to the point where he could not walk, and it qualified him for disability payments.

He settled with the State workers' compensation committee. Because he did not lose his leg—he only lost the use of it—they settled for about half—about \$3,700—since at that time, the figures were around \$7,500 for the loss of the limb, which seems a minimal sort of compensation. Even though they settled at about \$3,700, a significant amount was deducted out of each of his disability payments as an offset.

It seems to me that that is a gross inequity to that worker, and certainly to the employers who feel that they are providing something that that person will have should he ever have a totally disabling accident.

I wondered if you cared to comment on how we might equitably go about addressing that?

Mr. Ross. Well, there is an offset provision between the disability program and the workers' compensation program. We have not been reviewing it during the House consideration of disability reform. There is an attempt to interrelate the benefits in a way which prevents benefits under the two programs from mounting to the point where the combined benefits are high in terms of the income that is being replaced.

We certainly could review that with this—

Senator WALLOP. This really was not a piece of income; this was a cash award, the loss of the use of the limb, he received in lieu of damages he might have won in a lawsuit. It just seemed so inequitable that he and his employers (he worked for one company) had paid all his life, and he had given up many rights that he would otherwise had possessed had he not been under workers' compensation, to find that these moneys were used, in effect, to support the stability of the disability trust fund. I know that it is in trouble, but I do not think that that is quite the way we meant to go at it.

Mr. Ross. I think this provision goes back to the 1960's. It is not an attempt so much to save program costs as it is an attempt to prevent a piling on of benefits that would raise the total benefits to an inappropriate level.

I would be glad to try to review that particular case to see whether that offset provision is working properly.

Senator WALLOP. I thank you.

Senator NELSON. On that point of making an annual report, one of the big complaints on ERISA is all the paperwork that goes in to make the computation to send it out to the employee every single year. How much of that is responsible for the large number of dropouts in private pension programs, I do not suppose anybody is certain about, but it is something about which to be concerned.

It seems to me you ought to look at whether all the paperwork that would go in to sending an annual report for 45 years to somebody is worth it—if you start out at age 20 and work until 65. Is it really worth the effort? Is there adequate benefit received for sending out 45 annual reports to an individual?

I think it is important that people understand what they will be getting in benefits upon retirement. You could put out bulletins. For example, people are startled when you tell them that if they were covered by social security at the maximum rate the first day of social security coverage—I have forgotten the year; it is 1936, was it not?

Mr. Ross. 1937.

Senator NELSON. 1937.

If you were covered on the first day at the maximum rate all your life, working life, right up through 1976 and retired and you had paid the maximum on the maximum base, at the end of the second year of your retirement you and your spouse would have received more dollars than you put into the system.

When I tell people that, they just cannot quite believe it is so. Of course, these are inflated dollars, but the fact of the matter is that because of the indexing, their benefits, total benefit in 2 years in totals dollars, are greater than the total dollars they put in in the 40 years they were covered by the system.

I think it is important that people understand this issue, the contribution question, that they understand the indexing question, because there is no private pension plan that I know of—maybe a rare, exotic one here and there—that is indexed. If you were on a private pension plan, retired at an adequate income for you and your spouse in 1968, you are on welfare today. It is just as simple as that. There is no other way, unless you had other income.

If that was just adequate to cover your expenses in 1968, 10 years later you are on welfare if it is a private pension plan.

I think that needs to be explained.

I think that maybe I would agree with Senator Wallop and I would agree with you that it is very important to understand the system and what it does and that there is not any other system anyplace in this country that you can put your dollars in and match the retirement benefits. There is just not such an animal, and all the insurance people will tell you so.

As a matter of fact, in my State, they have integrated social security with the Wisconsin retirement plan, and people also had an option. There was a risk capital investment type alternative, and you could take that gamble in the marketplace and have a third, or whatever it was, of your money, put into more risky investments in the market, whatever the percentage was, in order to get a higher return.

Well, those people are all suffering now. Anyone who retired in 1970, from that day on lost out because of the status of the market.

Now, maybe that would not be so if you are aged 30 and 30 years later the market may be in great shape, as it was from 1950 to 1970.

But this is not understood.

Next, it may well be you ought to be looking at sending out—and I suggested this to IRS and Labor on ERISA—maybe it makes more sense to make up a booklet that is available which identifies the methodology for determining your final rate of earnings, and then just have a chart that if your final rate of earning after  $x$  number of years and you retire today, you would receive this much retirement benefit today. We cannot say anything about 10 years from now, because you do not know the inflation factor.

So people can look and see that if they were covered for 30 years now at such-and-such a final rate of earning, their retirement today would be this for an individual; if they had a dependent spouse, it would be this. So that people can go down the chart and come roughly within what it is they would get. Now, that is important for the 20- or 25-year-old to know—not that it will tell that person what they will get 40 years later, and there is no sense in trying to make a judgment. They probably would be—you might be able to sell the program on the grounds that they are probably going to get a retirement benefit of \$250,000 a year in the year 2050, or \$300,000. At a 4-percent inflation rate, you are going to be up there.

Well, if you told them that, maybe they would stay in the program.

Mr. Ross. They would also wonder about their Government that is going to tolerate that much inflation over that period, I am afraid.

Senator NELSON. Well, but the maximum rate, when they started in 1937, was \$3,000, and at \$3,000, 95 percent of all the people of this country had their total income covered—it was 90 or 95; I have forgotten. So if you had said to somebody that, you know, in many of the skilled trades and so forth they are bringing in \$30,000 a year, if you had told somebody that in 1937 that that is what it was going to be, they would have thought you were crazy.

But I think you can do something about putting out charts that explain these facts without going through the tremendous business of sending out 110 million computations a year. Now, we are trying to get rid of some paperwork around here and when we got rid of the quarterly form, the first recommendation of the Paperwork Commission, their estimate was that this saved an amount of paper coming into Washington equivalent to 10,500 feet—2 miles of paper, all of it unnecessary, since the only thing that is necessary is at the end of the year earnings is properly credited. You did not have to have the name of the person and the amount credited to him four times a year. Once a year was enough.

So I would be a little leery about doing something much more elaborate than was necessary there by adding to administrative costs and paperwork. If you had your charts and you wanted to say, well, at age 50 you can request what yours will look like at age 55 or 60, or you automatically give it to everybody starting at age 55, that might make a little more sense.

But I do not think it is of much value other than a chart saying what the program is and what it does, I do not think it is very meaningful for anybody who has got 35 or 40 years to go before they retire.

Let me ask you a question. You saw the newsstories in the Los Angeles Times about the \$2 billion social security waste.

Senator WALLOP. Mr. Chairman, before we go into that, I would hope that we would not irretrievably make up our minds that this would be horrendously difficult before we receive the report that the Social Security Administration is going to submit. If it is that horrendously difficult, then we ought to begin looking for some appropriate alternatives. But somehow or other, I feel there might be a common ground in there which satisfies both the Social Security Administration and the people covered by the social security system.

Senator NELSON. I assume your legislation was referred to this committee.

Senator WALLOP. That is why I say I hope we do not make up our minds irretrievably.

Senator NELSON. Well, if you are going to ask us to be fair, you are changing the rules.

How soon will your studies be completed?

Mr. ROSS. I hope to have something done this month, sir.

Senator NELSON. Well, why don't you let us know when you have something ready and take a look at the bill that was introduced. We will then schedule some hearings. We will be glad to do that.

Anyway, you saw that story saying \$2 billion in social security waste. Have you read it, and do you have any comments to make?

Mr. ROSS. Yes; I have read that story, and I do have some comments to make on it. Also, I wrote a reply to the Los Angeles Times, which I would, with your permission, like to insert into the record.

Senator NELSON. It will be received for the record.

[The material referred to follows:]

THE COMMISSIONER OF SOCIAL SECURITY,  
Washington, D.C., March 23, 1979.

The EDITOR,  
The Los Angeles Times,  
Los Angeles, Calif.

DEAR SIR: Your March 12 article, "Social Security Annual Waste Put At \$2 Billion," was a confusing and essentially misleading story. It mixed annual and cumulative figures. For example, the article cited a four year cumulative figure for overpayments in the Supplemental Security Income (SSI) program, and then apparently used that figure to reach a \$2 billion annual total. It confused legislatively mandated procedures and administrative shortcomings. For example, rounding off benefits to the next highest ten cents is not an administrative book-keeping procedure since it is mandated by law.

Certainly better management can lead to less waste. My first effort when I became Commissioner six months ago was to look at the way social security was administered and to initiate improvements. Thus, I reorganized the agency to emphasize key functions and directed a number of changes to tighten program operations.

There are a few basic points which should be brought to the public's attention. First, the agency basically has a good record and does its work effectively. Nearly 35 million people receive a social security check each month and 4.2 million receive supplemental security income payments. Nearly all of these checks are delivered on time and in the right amounts to the right persons. Second, the amount of errors we are dealing with is relatively small and the sources are complex. For example, the incorrect payments often result from a beneficiary not advising us of changes which affect eligibility or payment amount. Such errors may relate to the complexity of the program without individual or agency fault.

To take another example, the article talks about error rates, but it does not mention recovery efforts. Overpaid social security and supplemental security income payments are not necessarily lost when the checks have been endorsed and the money spent. Overpayments can generally be recovered by adjusting current or future benefits. In the Old-Age, Survivors, and Disability Insurance program, in particular, the great bulk of the total overpaid amount is recovered in this fashion.

Finally, I would like to assure your readers that the Social Security Administration is working hard to correct program deficiencies and that they can be confident that we are doing everything possible to make certain that their social security contributions are being disbursed as accurately and effectively as possible.

Sincerely,

STANFORD G. ROSS.

Mr. Ross. What I pointed out in my letter was that the article was essentially a misleading story and confusing to the public. Certainly there is no one in the Social Security Administration that acknowledged that number because, as I said in my testimony, we do not have at this point in time a quality assurance system which would allow us to have such a number.

I also felt that in the article there was a mixing of apples and oranges, if you would. There was a mixing of annual and cumulative figures, and figures from procedures that were mandated by legislation—such as the rounding of benefits to the next highest 10 cents—which have nothing to do with administration of the program because the law requires that we do it that way.

I think that there are specific things from GAO reports and our own studies which point out items where we can save money, and we are moving to do that.

I think the important point which we are trying to work on is to clear up some of the confusion caused by these stories that add up a lot of disparate things and are not placed in any kind of context which the public can understand.

Senator NELSON. Well, do you or the GAO know of any basis for the \$2 billion figure?

Mr. Ross. No; I do not, other than that they are adding a lot of partial things together and making some speculation.

Senator NELSON. I notice that the story does say, for example, it is standard bookkeeping policy to round off benefit checks to the nearest dime, instead of the exact amount. It appears to be saying that this costs about \$84 million a year. Is that the right figure?

Mr. Ross. I think the L.A. Times article says \$64 million.

We have a legislative proposal on that, Mr. Chairman.

Senator NELSON. This is mandated by statute. It has nothing to do with inefficiencies, but at the time the law was—

Mr. Ross. I do not think it was in the original statute. At one point in time, we computed benefits to the penny and paid that amount. It was put in at a time when, for administrative convenience, the Congress wanted us to do rounding, but with the philosophy that nobody should be hurt by the rounding, the rounding was always a rounding up.

We have prepared a legislative proposal to provide for normal rounding, up or down, to the nearest dollar, and that would save a considerable amount of money.

Senator NELSON. What do you mean to the nearest dollar? Do you mean at 51 cents, you would make it a dollar?

Mr. Ross. Right, and at 49 cents you would round it to the dollar below.

Senator NELSON. Well, then somebody who is lucky enough to come off at 51—

Mr. Ross. There will be a few winners and losers of amounts less than 50 cents.

Senator NELSON. If a person lives for 30 years—

Mr. Ross. Then it ought to even out. That is correct.

Senator NELSON. Well, I suppose, given the fact that the retirement benefits are indexed for inflation, everybody is going to go through a cycle of being rounded off as a gainer part of the time and as a loser part of the time. Is that correct?

Mr. Ross. I would think that statistically that is the way it would work.

Senator NELSON. With the indexing for inflation, it would just about have to be so, would it not?

They could not be lucky enough to end up with every indexing at 51 cents?

Mr. Ross. Yes. The amount of savings that are involved in this legislative proposal is based on the fact that now you are always rounding up so that you are almost always giving everybody a little bit extra.

Senator NELSON. Would it be a high administrative cost to simply give the identical amount due?

Mr. Ross. No, we could go back to an exact—

Senator NELSON. You mean, by computer, could you do that?

Mr. Ross. We could go back to the exact amount, but I think people themselves would just as soon have a little bit of rounding, and also it is not just us. It is the banks that have to cash the checks—I mean, there is a certain amount of paperwork created for everybody by not rounding.

Senator NELSON. Would that be a net savings?

Mr. Ross. Yes, sir.

Senator NELSON. Of what amount?

Mr. Ross. Our proposal for a regular rounding provision would save \$15 million in calendar year 1980 and by calendar year 1984 would involve \$107 million.

This is an example of how, in a program like this where you are dealing with so many millions of beneficiaries, even pennies when you multiply by millions, involve very considerable amounts of money.

Senator NELSON. Well, that is savings against what the cost now is?

Mr. Ross. That is right.

Senator NELSON. You are eliminating the \$64 million loss in overpayments?

Mr. Ross. Yes, sir.

Senator NELSON. I see.

So it would amount to \$100 million and what by 1984?

Mr. Ross. \$107 million is our figure.

Senator NELSON. Well, Mr. Ross, I think that is all I have. We may have some questions to submit in writing.

Senator Danforth has asked me to submit a question to you, which is: "Are any of the social security trust funds holding certain low-yield bonds known as flower bonds, i.e., bonds issued prior to March 4, 1971, which, if held at death, may be redeemed at par value in order to pay estate taxes?"

"If yes, what is the current fair market value of those bonds; what are the dates of maturity"?

Mr. Ross. Yes, sir. There are some of those bonds being held by the trust funds. They were purchased some time ago, at least 10 years ago, when interest rates were in the 3 to 4 percent range and which, at that time, was the going rate.

The Treasury Department does the investment of the trust fund moneys, some of it in special obligations, debt obligations, authorized by law exclusively for the trust funds. The Secretary of the Treasury is also one of the trustees of the trust funds, and it is true that if those bonds were sold today they would be worth less than what was paid for them. But, on the other hand, interest rates fluctuate, values fluctuate, and at the time they were bought, it seemed like a prudent investment.

Senator NELSON. How much money?

Mr. Ross. I do not have a total figure for how much of those bonds we have. We are currently, I know, investing in bonds where the going rate is around 9 percent, so they would be, since their interest rate was in the 3-to-4 percent range, their value would be substantially below what it—

Senator NELSON. Could you supply for the record—

Mr. Ross. We would be glad to supply information for the record—

Senator NELSON. Of what the current market value is and the dates of maturity.

Mr. Ross. Yes, sir.

[The information to be furnished follows:]

Prior to March 4, 1971, the U.S. Treasury issued to the public several series of bonds which, if held by an individual at death, may be redeemed at par value to pay estate taxes. Some of these bonds are held by the old-age and survivors insurance (OASI) and disability insurance (DI) trust funds. None is held by the hospital insurance or the supplementary medical insurance trust funds.

The maturity dates of these bonds range from February 15, 1980, to November 15, 1998. Due to daily fluctuations, the market value of public-issue bonds will vary over a short period of time. As of April 9, 1979, the total market value of the "flower" bonds held by the trust funds was \$1.9 billion, of which \$1.7 billion was held by the OASI trust fund and \$0.2 billion was held by the DI trust fund. The total market value of \$1.9 billion represented only about 6 percent of the \$30.4 billion in total invested assets of the OASI and DI trust funds, combined, as of the end of January 1979. The information for each series held by the trust funds is shown in the attached table.

"FLOWER" BONDS HELD BY THE OASI AND DI TRUST FUNDS

[By date of maturity and coupon rate]

Maturity date	Coupon rate (percent)	Par value (in thousands)			Current market value per \$100 of par value <sup>1</sup>
		OASI	DI	Total	
Feb. 15, 1980.....	4	\$153,100	\$30,250	\$183,350	95 <sup>3</sup> / <sub>8</sub> %
Nov. 15, 1980.....	3 <sup>1</sup> / <sub>2</sub>	449,450	.....	449,450	92 <sup>3</sup> / <sub>8</sub> %
June 15, 1983.....	3 <sup>1</sup> / <sub>2</sub>	60,200	.....	60,200	82 <sup>3</sup> / <sub>8</sub> %
May 15, 1985.....	3 <sup>1</sup> / <sub>2</sub>	25,700	.....	25,700	78 <sup>3</sup> / <sub>8</sub> %
Do.....	4 <sup>1</sup> / <sub>2</sub>	78,023	20,795	98,818	81 <sup>3</sup> / <sub>8</sub> %
Feb. 15, 1990.....	3 <sup>1</sup> / <sub>2</sub>	556,250	10,500	566,750	77 <sup>3</sup> / <sub>8</sub> %
Aug. 15, 1992.....	4 <sup>1</sup> / <sub>2</sub>	33,000	80,800	113,800	77 <sup>3</sup> / <sub>8</sub> %
May 15, 1994.....	4 <sup>1</sup> / <sub>2</sub>	91,300	68,400	159,700	77 <sup>3</sup> / <sub>8</sub> %
Feb. 15, 1995.....	3	70,170	.....	70,170	77 <sup>3</sup> / <sub>8</sub> %
Nov. 15, 1998.....	3 <sup>1</sup> / <sub>2</sub>	552,037	5,000	557,037	77 <sup>3</sup> / <sub>8</sub> %
Total.....		2,069,230	215,745	2,284,975	

<sup>1</sup> From the Apr. 9, 1979, issue of the Wall Street Journal. Figures represent the bid price.

Senator NELSON. His other question is, would it be beneficial for the trustees of the trust funds to sell those bonds to the public rather than to continue to hold them?

Mr. Ross. I will ask the Treasury to specifically address that latter question also.

Senator NELSON. We will let you take this piece of paper with you. [The following was subsequently supplied for the record.]

The Treasury Department does on-going analyses on the advisability of selling these bonds at the current market value and reinvesting the proceeds at current interest rates. To date, the studies have been inconclusive. If it could clearly be determined that the trust funds would benefit from the sale of the bonds, it is our understanding that the Treasury Department would sell them. However, whether or not the trust funds would benefit in the long run, there would be an immediate decline of about \$0.4 billion in the assets of the trust funds if all the bonds were sold at the market value shown in the previous table. Partial or complete recoupment of this loss through reinvestment of the proceeds at a higher interest rate would take several years.

Senator NELSON. How much of the trust funds are, in fact, invested at any one time in bonds?

Mr. Ross. Our current trust fund reserves are around 30 percent of annual program costs, and as a rough figure, we earn about as much interest on those as 2 percent of annual program costs. The interest tends to be in the same amount roughly as our administrative budget, so it would be \$2 to \$2.5 billion a year that is earned on the bonds that we hold.

Senator NELSON. Given that about the same amount of money is going out of the fund as is coming in—in fact, 2 years ago more was going out than was coming in—how can you have any significant bond investments with a term longer than a matter of weeks or months?

Mr. Ross. The funds do have to be available to handle contingencies, but based on predicting cash flows of tax revenues and expenditure levels you can manage the money in a way where you can invest at least some of this in longer term amounts. You do have to be careful, though, about liquidity and ability to meet the benefit payment obligations as they come due.

Senator NELSON. Just so that I have it clear in my own mind that the concept a few years ago, anyway, from 1970 or so on, was that you would maintain in the funds not less than 75 percent of 1 year's payout and not more than 150 percent. Is that correct?

Mr. Ross. It may have been. The goal now is more modest.

Senator NELSON. Well, it was at about 150 percent when they did this.

You invest on the theory that some percentage of the fund will not be drawn upon and therefore ought to be drawing interest, is that it?

Mr. Ross. Yes. It is also a cash flow problem. The tax moneys come in at certain times; benefit payments are at other times. Even if you can get that money invested for what would be a relatively short period of weeks or months, the earnings are substantial.

Senator NELSON. I was not thinking of that so much. Obviously to withdraw, you would maximize the interest you could get, even if it is weeks or days or what have you. I am thinking if you were certain that under no circumstances would the fund ever get below 50 percent of 1 year's payout you could afford to have 40 percent of it in long term.

Mr. Ross. Yes.

Senator NELSON. All right. Thank you very much.

Mr. Ross. Thank you, Mr. Chairman. I have to go to the Ways and Means markup, so I will leave my Associate Commissioner, Mr. Schutzman here, if you have more questions and if things come up with the GAO witnesses, we will be glad to supply additional material for the record.

Senator NELSON. All right. Thank you, Mr. Ross.

[The prepared statement of Mr. Ross and responses to Senator Nelson's questions follow:]

STATEMENT OF STANFORD G. ROSS, COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman and Members of the Subcommittee, I am grateful for this opportunity to appear before you today to discuss the management and integrity of our social security programs. I welcome the scrutiny of your Subcommittee for it gives me a chance to clarify the standards of integrity to which I am holding the Social Security Administration (SSA), to report on the current state of SSA's management, and to discuss the actions I have taken to improve our performance.

I also welcome your help, Mr. Chairman, in the pursuit of a formidable challenge: the challenge to detect, understand, explain, and eradicate errors in our society's foremost social program. My own belief is that success in meeting this challenge is as important as any other I face as Commissioner.

I became Commissioner last October of an agency whose management has been the target of many critical reviews. Those reviews were seriously undermining the confidence of the American public in the social security program. Accordingly, I have spent much of my time during the first six months of my stewardship assessing the management of this vast agency. It is important that all Americans know what I have found. SSA basically gets its job done well, the fundamental integrity of our programs is not to be doubted, and the social security system itself is sound and reliable.

The true measure of the impressive achievements of SSA requires an appreciation of the enormous and complex tasks assigned to us.

We routinely pay benefits every month to some 39 million aged and disabled persons and their survivors and dependents, most of whom need these amounts to pay for basic living expenses;

We administer the trust fund financed Retirement, Survivor and Disability Insurance (RSDI) programs with expenditures totaling \$102 billion in 1979;

We administer the general revenue financed Supplemental Security Income (SSI) program with expenditures totaling \$5.6 billion in 1979;

We share administration with the States of the Aid to Families with Dependent Children (AFDC) program, financed through a combination of general revenues and State funds with annual Federal expenditures totaling \$6.7 billion in 1979;

We handle overall the expenditures of approximately one-quarter of the Federal budget, some \$130 billion in fiscal year 1980;

We handle over 58 million transactions every month to process beneficiary claims and post wages;

We log 308 million wage items every year to workers' social security accounts in amounts totaling \$750 billion; and

We stand prepared in emergencies to help our beneficiaries. Thus, if the recent events at the Three Mile Island nuclear power plant had developed into a situation requiring evacuation of the entire Harrisburg area, we had action plans ready that would have gotten displaced social security beneficiaries their monthly payments.

To carry out these tasks, SSA has over 80,000 people located in almost 1,400 district offices in communities across the United States as well as 10 regional centers and our Baltimore headquarters. We are one of the largest Federal agencies. Our operating expenses in fiscal year 1980 will be about \$2.3 billion, roughly 2 percent of the program amounts we handle. We believe this ratio of administrative costs to total expenditures compares favorably with any organization, public or private, in the financial area.

At the same time as we take credit for our achievements, let me be quick to add that SSA is moving to correct problems that we have and to become more efficient and effective in handling the taxpayer's dollars. We are not afraid to discuss our shortcomings openly. The American public should know about our weaknesses as well as our strengths. They should also know that we can and will do better. In fact, let me outline several steps we have taken already to improve our performance.

In January, Secretary Califano and I reorganized SSA. The new organization will allow us to pursue our mission much more effectively. Central elements of change are a consolidated Office of Systems which will overcome the serious fragmentation we found in that area of our operations, a centralized focus for operating policy to bring more coherence to our programs, a new assessment capability with SSA's own Inspector General-type operation, and an enhanced relationship with our field operations to improve staff services to the real heart of the SSA organization—the district offices.

As part of this reorganization, I charged the new Associate Commissioner for Assessment to construct a much more effective set of quality control systems designed to provide basic data on error rates. The major aspect of this effort is the full implementation of a quality assurance system for the Retirement, Survivor and Disability Insurance programs. This new system will give us the potential to pinpoint program errors and assist us in developing appropriate actions to correct them. Similar quality assurance systems were installed previously for the SSI and AFDC programs, and facilitated dramatic improvements in performance. In SSI, error rates have dropped from 11.5 percent in 1975 to the present 4.6 percent. In AFDC, the percentage has been sliced from 16.5 percent in 1973 to 8.1 percent. The first full results of this new system in the Retirement and Survivor Insurance (RSI) program will not be available until later this year. The data for the Disability Insurance (DI) program and the impact of the earnings test will become available during the following year.

The difficulty and time involved in constructing this type of system is not to my liking, but is inherent in this type of activity. To make this system reliable and useful we must move carefully to make certain it considers all of the complex nuances involved in the RSDI program. However, let me be clear that we are not sitting still pending final results. Our current, fragmented accounting systems give us a number of clues about the source of various errors in our programs. In addition, the General Accounting Office has assisted us in identifying sources of error and formulating actions that will reduce error. We are grateful for GAO assistance and fully expect to continue our cooperative relationship as we move toward improved management and reduction in errors.

We have been taking actions that should produce improvements. I have launched "Project Accuracy"—the purpose of which is to live up to Social Security's traditional goal: the right amount to the right person on time. This effort consists of a number of steps, both administrative and legislative. The thrust of this effort is threefold, to:

- Prevent payment errors where possible;
- Detect mistakes quickly; and
- Recover or settle payment errors swiftly.

The major emphasis of Project Accuracy is to prevent erroneous payments from occurring at all. An emphasis on prevention is critical because most of our payments are to economically vulnerable people who have difficulty returning overpaid funds or face undue hardship if benefit amounts are erroneously low. We believe the most important actions we can take are to do everything possible to keep payment errors from happening in the first place. However, when they do occur, they must be detected as promptly as possible and corrected swiftly if we are to be responsible caretakers of public funds. With both hard work and your help with the legislative aspects of our efforts, I am confident we will make progress.

Another area where we have made inroads recently is in the student benefit program. This \$1.6 billion a year program, which makes cash payments to some 900,000 young people, has been marked by inadequate reporting and monitoring systems. Nearly complete results from our latest analysis show that there are as much as \$150 million in annual overpayments in the student benefit program. Recognizing the scope of this problem, Secretary Califano and I earlier this year instituted a systematic verification and computer matching process that we believe could lead to over \$50 million in savings within a short period of time.

The above steps are a sample of the type of actions that we have taken already and will continue to pursue. I hope I am conveying to the Subcommittee a sense of the way I view my job as Commissioner. I intend to be ever vigilant in the identification of weaknesses in our management, systematic in developing action plans to address those problems, and aggressive in pushing our plans through to completion. I know that the American people are entitled to no less than a maximum effort.

Before being more specific about our corrective plans of action and the ways that you can assist us through legislative action, let me review what we do and do not know about the scope of errors in the RSDI program.

The basic fact is that at present we do not know with precision the extent of errors in the RSDI programs. This is an unacceptable situation and one of the reasons that we have put so much emphasis on the quality assurance system mentioned earlier in my testimony. Only when this basic data is available on a regular basis can we truly monitor our performance and fully identify those actions that will correct deficiencies.

The current state of our knowledge is reflected in recent estimates by several different reports that show wide ranges in RSDI error rates.

The HEW Inspector General recently concluded in his second annual report on fraud, abuse and waste that the error in the RSDI programs could range anywhere from \$173 million to \$866 million annually;

The GAO has not projected a comprehensive RSDI error rate. GAO, using data provided by SSA, reported \$536 million in RSDI overpayments for the period between January to July 1978. Most of these overpayments resulted from the earnings test which are overpayments that appear in the first three months of the year. This condition indicates that the estimate cannot be doubled to get a reading on total identified overpayments in 1978. The data we supplied GAO for their half-year figure reflects identified overpayments of some \$685 million for the entire year.

The inconsistency and wide variations in these reports illustrate the gaps in the information available about the extent of our errors.

While it will be next year before our RSDI Quality Assurance system is fully operating, I do want to share with the Subcommittee some preliminary data that we have gathered from a test of 3,000 cases in the RSI program, using the new quality assurance procedures.

I want to make clear that the numbers I am discussing here only measure a part of the RSDI system. The Disability Insurance program and the errors resulting from the annual earnings test were not part of this pilot study. Also, while this was a serious trial run, its main function was to test our quality review methods and procedures and therefore does not reflect proven measurement techniques or meet rigorous statistical standards. Nevertheless, the data is helpful in sketching a part of the problem that faces us, and gives us a basis for further corrective action—steps that I have already initiated.

The pilot run in the RSI program identified a .5 percent rate of overpayment errors, and a .08 percent rate of underpayment errors. If, in fact, a .5 percent error were applied to the whole of RSI payments in 1979, it would represent \$445 million in overpayments and \$72 million in underpayments. While these numbers sound unacceptably high, one must keep in mind that the RSI program alone will pay some \$89 billion in benefits in 1979. And while we are making no claims to the statistical validity of the pilot at this time, I think it is fair to say that its results certainly should assure the public that the management of these programs is under control.

Let me stress again that these figures did not measure overpayments produced by the earnings test. And we do have clues from our accounting systems that the earnings test could be a very significant source of overpayments because the test requires beneficiaries to give us projected earnings for an entire year. If, after the year has elapsed, earnings exceeded estimates, benefits paid over that year will have been in erroneously high amounts. We can and do, however, adjust future benefits to recover overpayments that occurred.

The results of the pilot study also help us identify the major sources of error. The pilot revealed that a large portion of the excess payments were concentrated in cases where SSA received late notification of a beneficiary's death and where students receiving benefits were not in full-time school attendance.

The major source of underpayments related to incorrect benefit computations. In addition, underpayments occurred in cases where wives and widows who claimed benefits before reaching age 65 were entitled to higher benefits upon reaching age 65. They either failed to file the appropriate claim or neglected at the time of their initial claim to supply the information that would automatically trigger the higher payment at age 65. Consequently, these beneficiaries were receiving payments in amounts lower than that to which they were actually entitled.

As mentioned earlier, we have already moved to tighten the management of the student benefit program. In light of the above results, we are now developing action plans that address all of the major causative factors identified thus far.

In the DI program, we know of course that we have some problem with errors, and we also know that present disability determination methods permit quite varied results. The major source of payment error occurs when beneficiaries fail to

notify us of successful returns to work. But the problems in the DI program run much deeper and have led us to conclude that we need to restructure the entire administrative system in order to get higher quality initial determination decisions.

One last important point must be made about our overpayments in the RSDI program. The numbers which I have cited today and any which are produced in the future can seriously distort the true story of SSA's performance. Data from our accounting systems gives us strong indications that well over half of our overpayments in the RSDI programs are collected. And, with the launching of "Project Accuracy," and the strengthening of our collection systems, we will do even better.

This important point about collection rates gives a much different perspective to our initial error rate figures—all error does not involve dollar loss because it is in effect corrected. And this is only one of several critical variables that need to be understood in order to fully appreciate the meaning of any error figures we produce. My own belief is that the American public as a whole, as well as each of us individually, need to understand error rates in Government programs in a much more fundamental way. A simple citing of an error rate or the corresponding dollar figure can seriously misrepresent the state of affairs.

A context is always necessary, as well as an appreciation of the various forces and objectives at play. Let me illustrate with the social security experience.

Total size of an agency should always be kept in mind when making judgments about the magnitude of a dollar error rate. This context has seldom been given in the stories I have seen about overpayments in SSA. A 0.5 percent error in a checking account with a \$100 balance translates into 0.50 cents. That is hardly an amount any of us would agonize over in an attempt to correct. Yet, that same error rate applied to the \$100 billion RSDI program leaves us with an unacceptable \$500 million.

When it comes to SSA, there is deep concern, which we share, with any motion that there may be half a billion dollars of errors. That concern is justified, but should be tempered as well, by an appreciation of the sheer size of the numbers that exist in SSA. And, as you all know, total program expenditures will only increase over time.

Program complexity is also a key factor. Complexity in legislative provisions inevitably predetermines administrative error, and SSA programs have become more and more complicated over time as Congress has seen fit to expand and elaborate these programs. Our programs require verification of a wide assortment of factors in the life of each beneficiary before we can determine correct payment amounts.

At one time, a retiree's basic benefit involved a simple computation applied to a worker's average monthly wage. Dependent and survivor beneficiaries were given a percentage of the basic benefit. A beneficiary might well in days gone by been able to understand enough to compute his or her own benefit. That simplicity has given way over the years to an extremely complex series of computation methods and interacting conditions that make benefit computations highly error prone. It is doubtful that any beneficiary today would have the knowledge and sophistication required to compute his or her own benefit amount. Thus, beneficiaries are even more dependent on the accuracy of our efforts and our responsibilities are enlarged.

This change over the years has come about primarily because the Congress added provisions requiring new computation methods or allowing beneficiaries more options which affect their benefits. Moreover, as the new provisions were added, the old ones were retained in the law to give the beneficiary the benefit of whichever method or option provided the higher payment.

In addition, each new beneficiary class added to the rolls (such as divorced mothers, remarried widows, and disabled widows, each with different eligibility requirements) has brought new complexity. As these new classes were added, grandfather clauses were included to maintain the level of benefits payable to beneficiaries on the rolls who might otherwise have been adversely affected—most such clauses are still applicable. Further, with the additional classes of beneficiaries, the program was also liberalized to permit dual, triple, and even quadruple entitlements. In each of these situations, individual computations are necessary and then the interrelationships among them must be assessed to determine the proper benefits payable. We are reviewing from the standpoint of today's world whether the complexity produced by the layering of computation provisions over the years could not be reduced without unduly disadvantaging beneficiaries.

The simplest claims situation now requires a minimum of three computations to identify the one most beneficial to the claimant. A typical example would be a

male wage earner retiring at age 65. We have to compute his potential benefits using all of his earnings since 1937, and again using all earnings since 1950. With the provision in the 1977 amendments for indexed earnings, we also must compute his potential benefit based on indexing his earnings since 1950.

At the risk of belaboring my point about complexity, I would like to take you through perhaps the most complex case, a widow's benefit computation. Certainly some widows' cases can be as simple as the retiree case outlined above. Many are far more complex. If a widow has earned social security coverage, we must make the three computations described above based on what she has earned in her own right, as well as perform similar computations on her deceased husband's account. Then, we will pay her own benefit plus the difference if the widow's benefit is higher.

If she is under age 65 we must consider reduction of her benefit amount on both accounts at different reduction rates. If there are applicable annual benefit rate increases, we must also determine the number of months before age 65 she will actually receive benefits in order to determine the reduction rate that applies just to the benefit increase. Since she can also be a widow more than once, other computations may be necessary for any other such accounts.

Is she disabled? If so, a different reduction rate for benefits payable  $\epsilon$ , a lower age may be in order. Are delayed retirement credits in order? The widow's rate can be 100 percent of the deceased worker's rate including his delayed retirement credits but cannot exceed what he would have gotten had he lived. Had he drawn reduced benefits, for instance, her benefits would have to be reduced as well. There are a number of other complicating factors to consider but the foregoing fairly well outlines the exercise we go through to determine the right amount to the right person.

In addition to this overwhelming set of computations, changes in any of these factors require an adjustment in the benefit amount or may bring continued eligibility into question. Some of these factors we can monitor but for many of them we must rely on the beneficiary to notify us of changes in circumstances. This complex set of eligibility and reporting requirements results in three-fourths of the errors we identify stemming from failures of beneficiaries to report changes. We are taking action to recontact categories of beneficiaries most likely to change circumstances.

I am not saying that errors due to program complexity are tolerable. However, I raise the issue to illustrate that the complex nature of our programs makes the effort to prevent errors from occurring an enormous challenge. We consider an important element of our overall look at program management to be an assessment of where complexity can be reduced by legislation or administrative changes in the interest of both better public policy and reduced proneness to error.

Making this challenge even more monumental is the pace and degree of change in the Social Security Act. For example, the Social Security Amendments of 1977 challenged us to quickly accommodate our operations to a number of major changes:

- Indexing and decoupling radically revised our computation methods;
- Changes affecting the retroactivity of benefits required alteration of benefit computations;
- Enactment of two different earnings tests for young and old beneficiaries required additional computations;
- The change from a monthly to an annual earnings test required a major systems restructuring; and
- The change from quarterly to annual wage reporting required an additional major systems restructuring.

Further enriching this picture are the conflicting objectives that are often being balanced in SSA programs. Equity of treatment, adequacy of benefits, protection against abuse, program efficiency, due process, administrative convenience—all of these goals are at stake in the legislative and judicial process and the balancing can lead to situations where overpayments will definitely occur. Overpayments that result from conflicting objectives cannot fairly be termed payment "errors." The overpayment does not occur because of an error on the part of SSA or the beneficiary. One illustration of this phenomenon is the earnings test discussed earlier, which virtually guarantees the occurrence of erroneous payments by basing payment amounts on beneficiary estimates of earnings for an upcoming year.

An additional illustration of conflicting objectives leading to predetermined payment errors can be found in situations where a change in a beneficiary's circumstances requires suspension or termination of benefits. In the interest of due process we currently must give the beneficiary enough prior notice of the im-

pending suspension or termination of benefits for the individual to appeal the action. In these situations, an overpayment will occur in at least one month. If the individual requests a redetermination or appears before an Administrative Law Judge or carries an appeal to the courts, additional months and, in some cases, years of overpayments will occur. The courts have ruled we must continue to pay benefits until a final decision has been rendered.

Another factor that complicates our functioning as an organization is the fact that we are a government agency operating within an executive branch in a governmental structure as a whole. We often do not control our own resources and are required to function under less than adequate conditions. For example, we presently have pending at GSA some 472 requests for action on space affecting our district offices. This means that over one-third of these community offices where we deal with the public are in less than satisfactory condition, some in horrible condition. This in turn affects the public's perception of the services we deliver as well as the morale of our own employees.

As part of the President's anti inflation program personnel ceilings imposed on the government across the board impinge on us. Private organizations of our size and importance do not face this kind of extra constraint in performing its basic mission.

Let me be clear that we do not point out these matters to complain or to excuse any shortcomings we may have. From the standpoint of the public we serve, we are "government" whatever our position within the entire governmental structure. But we do mean to point out that there are resource limitations on our operations which do impinge directly on the quality of our service to the public.

Finally, we must all pursue the concept of an irreducible minimum. How close to perfection can all of us expect to reach? Beyond a certain point, the cost of preventing error may greatly exceed savings possible or may require intrusions into the personal lives of Americans which the public will find unacceptable. We certainly have not reached that point in SSA programs, but it is important that the American people not be misled into believing that zero error rates are attainable or always desirable. The point is we will always have some errors in these kinds of programs, but at a level acceptable to the public.

All these elements of context must be kept in mind. But, as I have indicated to you previously, we believe there are many ways that we can improve our performance. I touched on a few changes in the earlier portion of this statement. Let me discuss in more detail several of the administrative steps that we have taken to reduce our errors.

First, the Secretary and I have proposed significant changes in the disability determination process that will improve the accuracy of our decisions in the DI program. These changes do not require legislation and we are moving to implement them administratively.

We will begin a Federal review of allowances at the initial State decision stage before those decisions are implemented and before benefits are paid.

We will provide applicants whose claims are denied initially an opportunity for a face-to-face informal conference with a decision maker who will reconsider the case.

At the hearing stage, we will use Social Security Administration personnel to present and defend the Government's case in a hearing before an Administrative Law Judge. This move to a more traditional adversary system will help protect the Government's interests and permit the ALJ to serve in a more purely judicial role.

We will establish an SSA Review Board to review appeals by claimants, as the present Appeals Council does, and to review ALJ allowances on its own motion. This will reduce the number of incorrect allowances at the hearings level.

In addition we are now experimenting with an expansion of our procedures to reexamine DI beneficiaries for continuing disability. We currently schedule all DI claimants who fall into specified categories of disablement from which we believe there is potential for recovery, for periodic medical reexamination. This represents just over 20 percent of all new claims. We are conducting a pilot project to test the feasibility of expanding the categories of disablement for which we would schedule reexaminations.

Another aspect of our Project Accuracy involves a feature of the DI program which allows disability insurance beneficiaries trial work periods during which they can attempt to return to work without losing benefits. SSA notifies the beneficiary when the trial period has elapsed to see if the work effort was successful and benefits should be suspended. If the work effort has been successful but the beneficiary fails to respond to the notification, any benefit beyond the trial work

period results in an overpayment. Beginning this month, SSA will suspend benefits if the beneficiary does not respond to the notification that the trial work period has elapsed, assuming it has been successful.

Third, to address overpayments in the student benefit program we have initiated a systematic certification process that will require students to provide semi-annual verification of full-time school attendance. Further, we have begun plans to check our student records against those kept by the Basic Education Opportunity Grant (BEOG) program for additional information that might alter a student's entitlement to social security benefits such as only part-time enrollment status or marriage.

Fourth, we will begin to contact young widows receiving benefits to determine if they have remarried. Perhaps as many as 3 percent of these beneficiaries, whose benefits by law should be terminated upon remarriage, neglect to inform SSA of changes in status. We believe that by periodically recontacting young widows and widowers, we will increase the likelihood of prompt reports of remarriage which will lead to a reduction in overpayments to these beneficiaries.

The fifth area involves cases when overpaid beneficiaries go off the rolls, receiving no further benefit checks from which the overpayments could be recovered. In these cases SSA generally arranges a payment plan with which the former beneficiary is expected to comply without billing or regular reminder. We are in the process of modifying our overpayment collection process to provide a centralized automated monthly billing system—in place of our current manual process controlled at the district office level—for situations which involve collection of overpayments by installments. We believe that by regularly billing former beneficiaries who have agreed to return overpayments in installments, we will improve recovery.

Sixth, since a majority of payment errors occur because recipients forget or are unaware of their responsibilities for reporting changes in circumstances, we believe we can prevent a large share of payment errors by better educating beneficiaries about reporting requirements. We are issuing new instructions to SSA employees who have personal contact with beneficiaries. These instructions emphasize the importance of informing beneficiaries about the requirements to report work activity and other circumstances that may change beneficiary status, particularly:

- Disabled beneficiaries who return to work;
- Student beneficiaries who lose student status;
- Beneficiaries whose earnings may exceed the limitation;
- Young widowed beneficiaries who remarry; and

Wives and widows who may be entitled to higher benefits when they reach age 65.

In addition to these initiatives already underway, we will be proposing two legislative changes which would assist us in improving our record on payment accuracy in the RSDI programs. Our continuing review of the structure and operation of these programs will undoubtedly produce a number of other legislative recommendations in the future.

First, we are recommending improved integration between the social security disability insurance program and the SSI program to eliminate a problem that results when a retroactive social security payment is made for months in which SSI benefits have already been paid. Under present law, we cannot retroactively adjust the SSI payment except in the quarter during which the retroactive social security benefit is paid. A legislative change will make it possible to recover overpayments beyond the current quarter.

Second, we are proposing a modification in the earnings test that would decrease the incidence of overpayments in situations when beneficiaries are on the rolls for only a portion of the year. Under present law, properly paid benefits can become overpayment later in the year if a beneficiary is terminated and subsequently has substantial earnings. An example is the student who graduates and goes to work. The legislative change would apply a monthly earnings test only to that part of the year for which the person is eligible to receive benefits.

Secretary Califano and I recognize we have a major responsibility to taxpayers who finance our programs, and to program beneficiaries, most of whom rely on monthly payments from SSA as their principal source of income, to pay the appropriate person the right amount on time. We are committed to continuing review and improvement of SSA programs and the way they are administered. Inaccurate payments and management waste are intolerable and only serve to undermine public support for our programs and disrupt beneficiaries.

We believe it is absolutely vital to the future of income support in this country to demonstrate that social programs for the vulnerable of our society can be run

efficiently. Compassion for the people served by our programs will be shown by efficient management that preserves the integrity of the programs and earns support from the American people as a whole. I am confident Mr. Chairman, that we share the same goals for program integrity and that we can continue to work together to improve our programs and ensure their support from the American people.

#### RESPONSES OF SSA TO QUESTIONS BY SENATOR NELSON

##### VALUE OF UNNEGOTIATED BENEFIT CHECKS

*Question.* How many social security checks remain unnegotiated in a year's time? What is the cumulative total of social security checks which have never been cashed? What is the dollar value of these checks? If a limitation were placed on the length of time a social security check could be cashed, say six months for example, what would be the dollar value of the immediate savings the trust funds would realize? What would be the dollar value of the savings which could be expected each year in the future? This limitation would not, of course, affect entitlement rights of any beneficiary to his or her benefits.

*Answer.* Based on a statistical sample, SSA estimates that approximately 100,000 social security benefit checks have remained unnegotiated for at least 3 years in each of the last few years. It is necessary to estimate by statistical sample, because the system used by the Treasury Department cannot readily provide specific information on count and amount values for unnegotiated social security checks. We also estimate that 1.2 million social security benefit checks that are at least 3 years old will remain unnegotiated at the end of 1979; the dollar value of these checks is approximately \$181 million. At the end of 1980, the additional value of checks outstanding for over 3 years would be about \$20 million. This amount would increase each year since the number and amount of checks issued increase each year.

It would be difficult to estimate the savings that would result from a 6-month limitation on the life of a check since many people hold their checks 6 months or longer. If the checks were voided after 6 months, many beneficiaries would simply ask for their checks to be reissued.

##### LUMP-SUM DEATH BENEFIT

*Question.* The President recently proposed the elimination of the \$255 lump-sum death benefit. Under the current program, the primary means by which the social security program is notified of the death of a social security beneficiary is by way of an informal system under which local funeral directors notify the local social security office of a death in order to receive payment of the lump-sum death benefit as an offset to funeral expenses. What impact would elimination of the lump-sum death benefit have on social security program costs, in light of the connection which exists between the benefits and notification of a death?

*Answer.* It is true that funeral directors have been helpful in reporting the deaths of social security beneficiaries and in referring persons who might be eligible for survivor benefits to SSA offices. However, we do not believe that there will be a significant increase in the number of unreported deaths as a result of eliminating the lump-sum death payment.

In addition to notifications by funeral directors, SSA learns of beneficiary deaths through reports by relatives and prospective beneficiaries and through returned checks. (When checks are not deliverable because of the beneficiary's death, the Post Office returns them to Treasury, which in turn notifies SSA).

SSA is exploring other means of learning about beneficiary deaths. One possibility is using automated records of death which State Departments of Vital Statistics will shortly be providing to the Public Health Service. These records would be useful for verification, but they would not be available sufficiently timely that they could be used as a substitute for other reports.

##### BENEFICIARY FAILURE TO CASH CHECKS

*Question.* What system exists for the Treasury Department to notify the Social Security Administration if a beneficiary fails to cash a check or checks.

*Answer.* There is, at present, no system which can tell us the numbers or the amounts of the unnegotiated checks. Under present law, unnegotiated social security checks remain an obligation of the trust funds even though such checks have not been negotiated and, in fact, may never be negotiated. These unnegotiated benefit check amounts then go to the general revenue funds of the Treasury.

HEW is exploring the idea of a legislative change with Treasury and OMB which would credit the OASDI trust funds for amounts of benefit checks that remain unnegotiated for a lengthy period of time.

#### ADMINISTRATIVE WASTE IN SOCIAL SECURITY PROGRAMS

*Question.* Do you know whether the Los Angeles Times is correct in its allegations that there is over \$2 billion wasted or lost annually by the Social Security Administration? How accurate is this figure?

*Answer.* The figures given by the Los Angeles Times are misleading. The figures in the article are a mix of annual figures and cumulative figures, and include as well some amounts which the courts have ruled must be paid as a matter of due process to the beneficiaries (e.g., benefits that are paid to an SSI beneficiary pending appeal of an agency decision that disability has terminated). A copy of the SSA response to the Los Angeles Times is attached.

The quality data we presently rely on tell us, basically, how good our claims process determinations are, but the data do not tell us the level of payment error. For this reason, we have developed a quality assurance system which will determine the rate of continuing payment error in the retirement and survivors and disability programs. The quality assurance system will help to identify and prevent cases of error and will, for the first time, give us an accurate statement of the payment error rate. In the supplemental security income and Aid to Families with Dependent Children programs, similar quality assurance systems have helped us to greatly reduce payment errors over the last few years.

Attachment.

THE COMMISSIONER OF SOCIAL SECURITY,  
Washington, D.C., March 23, 1979.

To the Editor,  
*The Los Angeles Times,*  
*Times Mirror Square, Los Angeles, Calif.*

DEAR SIR: Your March 12 article, "Social Security Annual Waste Put at \$2 Billion," was a confusing and essentially misleading story. It mixed annual and cumulative figures. For example, the article cited a four year cumulative figure for overpayments in the Supplemental Security Income (SSI) program, and then apparently used that figure to reach a \$2 billion annual total. It confused legislatively mandated procedures and administrative shortcomings. For example, rounding off benefits to the next highest ten cents is not an administrative book-keeping procedure since it is mandated by law.

Certainly better management can lead to less waste. My first effort when I became Commissioner six months ago was to look at the way social security was administered and to initiate improvements. Thus, I reorganized the agency to emphasize key functions and directed a number of changes to tighten program operations.

There are a few basic points which should be brought to the public's attention. First, the agency basically has a good record and does its work effectively. Nearly 35 million people receive a social security check each month and 4.2 million receive supplemental security income payments. Nearly all of these checks are delivered on time and in the right amounts to the right persons. Second, the amount of errors we are dealing with is relatively small and the sources are complex. For example, the incorrect payments often result from a beneficiary not advising us of changes which affect eligibility or payment amount. Such errors may relate to the complexity of the program without individual or agency fault.

To take another example, the article talks about error rates, but it does not mention recovery efforts. Overpaid social security and supplemental security income payments are not necessarily lost when the checks have been endorsed and the money spent. Overpayments can generally be recovered by adjusting current or future benefits. In the Old-Age, Survivors, and Disability Insurance program, in particular, the great bulk of the total overpaid amount is recovered in this fashion.

Finally, I would like to assure your readers that the Social Security Administration is working hard to correct program deficiencies and that they can be confident that we are doing everything possible to make certain that their social security contributions are being disbursed as accurately and effectively as possible.

Sincerely,

STANFORD G. ROSS.

**ROUNDING SOCIAL SECURITY BENEFITS TO THE NEAREST HIGHER DIME**

**Question.** In calculating the alleged \$2 billion figure, the Los Angeles Times included the costs of rounding social security benefits to the nearest higher dime. Is it correct to include this in a figure of administrative waste as a practice which is determined administratively? Are the Social Security Administration computers equipped to handle exact amounts down to the nearest cent? How much would be saved if Social Security recorded exact earnings and calculated exact benefits to the nearest cent?

**Answer.** Under present law, we round social security benefits to the next higher 10 cents at each step in the calculation of the monthly benefit amount. This results in slightly higher benefits than would otherwise occur. It is incorrect to classify these additional amounts as administrative waste because current provisions of the Social Security Act require that the benefits be rounded in this manner.

We have recommended legislation to change the Social Security Act so that we could round the benefit amounts at each step of the calculation to the nearest dollar, rather than to the next higher 10 cents. Our computers could certainly be programed to round benefits to the nearest cent. We think the dollar rounding provision would be preferable, though, since it would greatly facilitate those benefit calculations that are not made by computer. The savings under the dollar rounding proposal are equivalent to the savings that would be generated by rounding to the nearest cent.

Assuming that rounding to the nearest dollar would apply to benefits of all new beneficiaries effective January 1980, and to all current beneficiaries beginning with the June 1980 benefit increase, the OASDI program saving would be:

	<i>In millions</i>
Calendar year 1980.....	\$15
Calendar year 1981.....	45
Calendar year 1982.....	69
Calendar year 1983.....	89
Calendar year 1984.....	107

The long-range saving would be 0.01 percent of the taxable payroll.

**REPLACEMENT CHECKS**

**Question.** How many replacement checks are issued each year? How many of these replacement checks turn out to be improperly claimed?

**Answer.** In the OASDI programs, about 160,000 replacement checks are issued each year, or between 13,000 and 14,000 each month. These checks are generally issued on the basis of an allegation that a check was either lost, stolen, or never received. In the 20 percent of these cases, the replacement checks are improperly claimed; that is, the checks were in fact received. Most of the overpayments caused by people receiving a second check are recovered through reductions in future benefits.

**ERROR RATES FOR STUDENT BENEFITS**

**Question.** What is the error rate for student social security benefit payments? What is the dollar value of this error rate? What is the main cause of error in student social security benefits?

**Answer.** The Social Security Administration pays \$1.9 billion a year to some 900,000 students. Nearly complete results from our latest analysis show that there are as much as \$250 million in annual overpayments in the student program. The main cause of error is inadequate reporting by beneficiaries of their student status and lack of good monitoring systems. We have taken a number of steps to reduce errors in student benefits, including a systematic certification process that will require semiannual verification of full-time school attendance.

**DUPLICATE SOCIAL SECURITY CHECKS TO STUDENTS**

**Question.** How many duplicate social security checks are issued to students each year? How many of these duplicate payments are recovered?

**Answer.** A duplicate payment occurs when a beneficiary receives more than one check each month based on two different earnings records. For example, if a person who is receiving widow's benefits files for retirement benefits and does not report the other benefit, a duplicate payment may occur, although we have safeguards that make this possibility rare.

We do not keep records of duplicate payments by benefit category (such as student benefit) and therefore cannot tell you how many student duplicate payments are made. However, there are very few duplicate payments for all benefit categories; in 1977, the number was 943.

#### EARNINGS RECORDS

*Question.* How many earnings records are the Social Security Administration unable to assign to the earnings history of the person whose actual earnings they are? At the end of each year what is the value of earnings which remain unassigned or "posted," as the Social Security Administration refers to it?

*Answer.* "Unposted" earnings items are reports of wages that are reported to SSA by employers with incorrect or incomplete identifying information. Thus, we may not be able immediately to credit the wages to the record of the person who earned them, and these earnings credits are held in suspense until we can identify them. A relatively small percentage of earnings items remain unposted: 99.3 percent of all earnings items received for the years 1937-1977 have been correctly posted.

The amount of unposted earnings for any one year is not constant, since it continues to decrease as earnings discrepancies are resolved; however, for the past 10 years, the average yearly unidentified earnings were \$3.3 billion.

The \$69 billion amount that was reported in the press as being the total amount for 1937-1977 that was as yet unposted provides a good example of this dynamic process. Since March 1979, when that figure was reported, we have reduced those unposted earnings by more than \$3 billion.

Beginning with the 1978 tax year, employers report wages on a yearly rather than quarterly basis, and this should reduce part of the problem of unposted earnings. Employees will be able to check one form, the W-2, and determine if their earnings have been correctly reported for the year. In addition, we are conducting public information campaigns and improving our computer processes in order to further reduce unidentified earnings. (Additional information is provided in the attached statement.)

Attachment.

#### DISABILITY STATUS OF BENEFICIARIES

*Question.* How many disability beneficiaries are receiving benefits they are not entitled to on a disability basis?

*Answer.* We will be able to supply this information once the quality assurance system for the disability insurance program is fully implemented, but we cannot provide the information at the present. The new system will give us the potential to pinpoint program errors and assist us in developing appropriate actions to correct them. Similar quality assurance systems were installed previously for the SSI and AFDC programs, and facilitated dramatic improvements.

What we now use to measure performance is a system that tells us the accuracy rates of the State disability determination units that make the initial determinations on disability claims. We currently measure State performance against an accuracy goal of 90 percent. As of December 1978, the national accuracy rate was 93 percent, and 46 of the individual States met or exceeded the 90 percent goal. This was a significant improvement from December 1977, when the national accuracy rate achieved was just 86 percent.

The accuracy rate for initial determinations, though, is higher than 93 percent, because the performance system measures some errors that do not change the decision. Only 2 to 3 percent of State allowed disability claims which review are reversed by the Social Security Administration.

#### ANNUAL REVIEW OF DISABILITY BENEFICIARIES

*Question.* If the Social Security Administration required an annual review of each disability beneficiary in an effort to determine whether the medical criteria which establish what physical ailments are of sufficient severity to be considered a disability are still being met, what would the savings be due to these determinations?

*Answer.* If fully implemented, assuming we performed a full review of every disabled worker every year, the reduction in benefit payments would be more than offset by the administrative cost.

An annual review of all 3 million disability cases is not cost effective because half of all disability beneficiaries are permanently disabled and reviewing such

cases annually simply would not be productive. Reviewing nonpermanent cases every three years as in H.R. 3236 would have the same long range program savings as an annual review of all 3 million cases, but would have a substantially lower administrative cost. The savings for the H.R. 3236 provision are as follows:

(Dollar amounts in millions—fiscal years)

	1980	1981	1982	1983	1984
<b>Periodic review of disability determinations:</b>					
Total benefit payments.....	-\$5	-\$30	-\$70	-\$109	-\$168
Administrative costs.....	+31	+40	+42	+43	+45
<b>Total (minuses indicate savings).....</b>	<b>+26</b>	<b>+10</b>	<b>-28</b>	<b>-66</b>	<b>-123</b>

The long-range saving would be 0.03 percent of taxable payroll.

I would mention that our current continuing disability process works toward removing from the rolls beneficiaries who are not entitled. Briefly, this process works as follows:

All cases involving impairments which are expected to improve are reviewed, usually 1 year after entitlement. Such nonpermanent disability cases are either terminated on review or reviewed further, where appropriate, at a later time. In addition to the regular process, we are looking at about 1,650 cases a month which are considered to be permanently impaired. Also, we are about to begin a pilot study of a process under which a sample of disability cases will be reviewed monthly to ensure the integrity of the disability rolls. Of course, anyone returning to work is also investigated for possible termination.

Thus, we are focusing our attention on the cases with the most potential for removal from the rolls, a more productive use of limited resources, in our judgment, than a routine reexamination of every case.

#### STATE ADMINISTRATION OF DISABILITY DETERMINATION PROCESS

*Question.* Is there lack of uniformity in the way the States apply the rules of the disability insurance program? Why does this lack of uniformity exist?

*Answer.* People who apply for disability benefits are entitled to have their claims decided in a uniform manner regardless of which State agency processes those claims. Improving our track record in achieving a uniform determination system is of prime concern to the Secretary and me, and it is a goal which we are aggressively addressing. Some evidence has indicated wide variation among the States on rates of allowances, in rates of error and deficient documentation in initial decisions.

To remedy these problems, we have proposed legislation (which is included in H.R. 3236 as approved by the House Ways and Means Committee) which will grant clear authority to establish procedures and performance standards for the State disability decisionmaking process. States would be given the options of continuing to administer the program or of turning administration over to the Federal Government. When a State elected to continue administering the program but later failed to comply with the regulatory standards, SSA would be authorized to take over direct administration.

In addition, we propose to substantially increase preadjudicative review of State agency decisions, which is also included in H.R. 3236. We have increased the use of consultative examinations in making disability decisions, and are studying the question of whether further increases would be useful. We are putting into place a comprehensive quality assurance system for the disability program which will tell us where and how to make improvements.

#### UNREPORTED EARNINGS OF DISABILITY BENEFICIARIES

*Question.* Now that social security no longer gets wage information on a quarterly basis, it will take you somewhat longer to determine unreported earnings of disability beneficiaries. Quarterly wage reports are still made to many States for unemployment compensation purposes. Are you entering into arrangements for obtaining that data for purposes of monitoring the disability rolls?

*Answer.* It is true that under annual reporting there can be a longer period of time between the point that a disabled beneficiary begins work and the point that SSA processes and cross-checks the earnings information for unreported work activity. To compensate for this lag, we are experimenting with a number of

alternatives. These include: a mass mailing in August 1978 to all beneficiaries on the rolls except those with a trial work period in progress; and revisions to notices and other public information to emphasize the importance of voluntary beneficiary reporting. Because of these initiatives, we have not entered into arrangements for obtaining State unemployment compensation data.

#### LOW YIELD BONDS HELD BY THE OASDI TRUST FUNDS

**Question.** Are any of the social security trust funds holding certain low yield bonds known as "flower" bonds (i.e., bonds issued prior to March 4, 1971, which, if held at death, may be redeemed at par value in order to pay estate taxes. If yes, what is the current fair market value of those bonds? What are the dates of maturity? Would it be beneficial for the trustees of the trust funds to sell those bonds to the public rather than continue to hold them?

**Answer.** Prior to March 4, 1971, the U.S. Treasury issued to the public several series of bonds which, if held by an individual at death, may be redeemed at par value to pay estate taxes. Some of these bonds are held by the old-age and survivors insurance (OASDI) and disability insurance (DI) trust funds. None is held by the hospital insurance or the supplementary medical insurance trust funds.

The maturity dates of these bonds range from February 15, 1980, to November 15, 1998. Due to daily fluctuations, the market value of public-issue bonds will vary over a short period of time. As of April 9, 1979, the total market value of the "flower" bonds held by the trust funds was \$1.9 billion, of which \$1.7 billion was held by the OASI trust fund and \$0.2 billion was held by the DI trust fund. The total market value of \$1.9 billion represented only about 6 percent of the \$30.4 billion in total invested assets of the OASDI and DI trust funds combined, as of the end of January 1979. The amount of each series held by the trust funds is shown in the attached table.

The Treasury Department does on-going analyses on the advisability of selling these bonds at the current market value and reinvesting the proceeds at current interest rates. To date, the studies have been inconclusive.

Attachment.

#### "FLOWER" BONDS HELD BY THE OASI AND DI TRUST FUNDS

(By date of maturity and coupon rate)

Maturity date	Coupon rate (percent)	Par value (in thousands)			Current market value per \$100 of par value <sup>1</sup>
		OASI	DI	Total	
Feb. 15, 1980.....	4	\$153, 100	\$30, 250	\$183, 350	95 <sup>3</sup> / <sub>8</sub> %
Nov. 15, 1980.....	3 <sup>1</sup> / <sub>2</sub>	449, 450	-----	449, 450	92 <sup>3</sup> / <sub>8</sub> %
June 15, 1983.....	3 <sup>1</sup> / <sub>2</sub>	60, 200	-----	60, 200	82 <sup>1</sup> / <sub>2</sub> %
May 15, 1985.....	3 <sup>1</sup> / <sub>2</sub>	25, 700	-----	25, 700	78 <sup>1</sup> / <sub>2</sub> %
Do.....	4 <sup>1</sup> / <sub>2</sub>	78, 023	20, 795	98, 818	81 <sup>1</sup> / <sub>2</sub> %
Feb. 15, 1990.....	3 <sup>1</sup> / <sub>2</sub>	556, 250	10, 500	566, 750	77 <sup>3</sup> / <sub>8</sub> %
Aug. 15, 1992.....	4 <sup>1</sup> / <sub>2</sub>	33, 000	80, 800	113, 800	77 <sup>3</sup> / <sub>8</sub> %
May 15, 1994.....	4 <sup>1</sup> / <sub>2</sub>	91, 300	68, 400	159, 700	77 <sup>3</sup> / <sub>8</sub> %
Feb. 15, 1995.....	3	70, 170	-----	70, 170	77 <sup>3</sup> / <sub>8</sub> %
Nov. 15, 1998.....	3 <sup>1</sup> / <sub>2</sub>	552, 037	5, 000	557, 037	77 <sup>3</sup> / <sub>8</sub> %
<b>Total.....</b>		<b>2, 069, 230</b>	<b>215, 745</b>	<b>2, 284, 975</b>	

<sup>1</sup> From the Apr. 9, 1979, issue of the Wall Street Journal. Figures represent the bid price.

Senator NELSON. Our next witness is Mr. Gregory Ahart, Director of the Human Resources Division of the GAO. Your statement will be printed in full in the record. You may present it however you desire, and if, for the record, you would identify your associates.

Mr. AHART. Thank you, Mr. Chairman.

On my right is Michael Zimmerman, the Assistant Director of the Resources Division, who is responsible for all of our work at the Social Security Administration; and on my left, in order, are Mr. Gus Johanson and Mr. Dan Glades, who are on Mr. Zimmerman's staff.

I do have a rather lengthy statement I would like to submit it for the record. What I would like to do is take about 15 minutes and try to highlight the more salient points in it and then respond to any questions that you might have.

Senator NELSON. Go ahead.

**STATEMENT OF GREGORY J. AHART, DIRECTOR, ACCOMPANIED BY MICHAEL ZIMMERMAN, ASSISTANT DIRECTOR; GUSTAVE JOHANSON, SUPERVISORY AUDITOR; AND DANIEL BLADES, SUPERVISORY AUDITOR—ALL OF HUMAN RESOURCES DIVISION, GENERAL ACCOUNTING OFFICE**

Mr. AHART. We appreciate your interest, Mr. Chairman, in our activities in evaluating the programs managed by the Social Security Administration and also your concern over the media reports that billions of dollars are misspent in these programs.

We, as you know, have had a long interest in the efficient use of public funds and, over the past few years, have undertaken major efforts to identify weaknesses and point out improvements needed in the social security programs.

Because of our understanding of the subcommittee's interest, we are limiting our testimony largely to matters relating to the old age, survivors, and disability insurance programs, and the management functions supporting these programs.

Considering the magnitude of these programs, as brought out in prior testimony and your opening statement, and the management tasks that they involve, it is reasonable to expect some problems, and, as was pointed out by the Commissioner, even small problems can translate into large dollar amounts. So I would stress that the thrust of our work is not to condemn the management of the programs, but to constructively criticize and foster needed improvements, both legislatively and administratively.

Despite the media reports that over \$2 billion annually is wasted or lost through administrative errors and poor management, overall accurate figures of the total amount are not available. The HEW Inspector General's last annual report states that it would be speculative to use any figures relating to the social security social insurance programs until the measurement systems which we will discuss briefly, and the Commissioner discussed, are developed.

We agree with this position.

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 which, if properly implemented, could provide an estimate of misspent funds. Of the five largest programs, the Office has ongoing comprehensive quality assurance systems, covering only two—SSI and AFDC—and these account for less than 10 percent of the total funds spent. The Office is carrying out a pilot test for a quality assurance system of the old age and survivors' insurance program and it plans to begin pilot testing the system for the disability insurance program next month.

We have reviewed the SSI quality assurance system and reported our findings in May 1978. One of the principal weaknesses noted was

the fact that the medical aspects of disability and blindness are not reviewed or reported on by the system.

I might point out that about half of the recipients of this program are either blind or disabled. Based on this and the results of other work that we performed in this area, we do not consider the SSI quality assurance system a reliable source for estimating the magnitude of waste in this program.

No efforts are presently underway at Social Security to review the medical eligibility of disabled and blind SSI recipients and to measure the related payment error.

Turning now to 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 securing and protecting beneficiary records. While a number of these recommended actions are in the process of being implemented, more needs to be done.

I have grouped these actions under four headings: First, the old age and survivors insurance program. We intensified our review of this program in July 1977. Two of the more significant legislative issues which we have pursued, or are currently pursuing, are first the rounding problem, which was discussed in the Commissioner's testimony, or with the Commissioner, where if you paid to the nearest penny instead of to the next higher dime, it would save about \$386 million between 1980 and 1986.

Senator NELSON. May I interrupt you? On that point, Mr. Ross made the point that the cost of the \$64 million that it cost the fund is not a management inefficiency question at all in social security, but is due to the fact that the Congress mandated that benefit computations be rounded off at the highest dime. So the criticism of the agency for this factor, Mr. Ross says, is ill founded. Do you agree with that?

Mr. AHART. Yes; I would agree with that. It is a matter of legislative mandate and can be changed only through a legislative action.

Senator NELSON. Now, you heard the testimony of Mr. Ross suggesting that benefits be rounded to the nearest dollar, and when I raised the question, he made the observation that it also has implications of extra work and paperwork at the banking level and the individual level and that he thought it would be better to do it to the nearest dollar rather than the nearest penny.

What is your observation with respect to this question?

Mr. AHART. I think the important thing is here to have the rounding go in both directions, Mr. Chairman, so that it is not always in the upward direction. Whether you round it to the nearest dollar or the nearest penny, over a period of time, the individual should get at least some sort of equity.

I think going to a dollar instead of a penny has to do with administrative problems. I think it is probably tied into some other things that social security would like to do also to simplify the benefit changes when changes do take place. But so long as you are rounding up as well as down I think you overcome the problem which is now in the present law.

Senator NELSON. Would you guess it would be correct, considering that nobody is ever stuck at 51 cents or 49 cents permanently since every adjustment in the indexing of the retirement benefit changes the dollar amount, that beneficiaries ought to be coming down about half the time to the nearest bottom dollar or the nearest higher dollar. Would that be correct?

Mr. AHART. I would guess over time it would work out with your annual cost-of-living adjustments and the other things that do cause changes in the benefit amount, it should balance out for the most part with the individual beneficiary. There is no guarantee of that. It would be to some degree like rolling dice. Sometimes you can roll seven passes in a row, and they might get the benefit of the rounding up several times. But in the overall and from the standpoint of the impact on the trust funds, it should balance out.

Senator NELSON. The Commissioner was saying by 1984 he would be saving over \$120 million or \$140 million a year. Would you agree with that?

Mr. AHART. I think their figures are pretty close to the figures that we independently came up with, Mr. Chairman.

Senator NELSON. Go ahead.

Mr. AHART. The next legislative item, in February 1979, we testified on problems of using the social security system for targeting money to student beneficiaries for school attendance. We pointed out that about 7 out of every 10 social security students could receive money from the Office of Education's basic educational opportunity grant program. The basic grant program was not in existence when the social security student benefit program began in 1965.

We found that more than 100,000 students expected to receive more in social security and basic grant benefits than the total cost of going to school. About 40 percent of these received more in social security benefits alone than the total educational cost for the year, with some students having excess benefits of more than \$2,200.

Senator NELSON. \$2,200.

Mr. AHART. \$2,200.

Senator NELSON. In 1 year?

Mr. AHART. Their benefits in 1 year were in excess of the costs of going to school, total cost of going to school, including room and board, tuition fees, books, and transportation.

Senator NELSON. What is the maximum a student can receive?

Mr. AHART. I think they can get as high as \$4,000 in a year's time. The ranges we found are the benefits—some of them got as little as \$100 up to a total of about \$4,000.

Senator NELSON. What factor determines the amount of the benefit?

Mr. AHART. That is one of the problems we have with the student benefit program. It is tied in, as all social security benefits are, to the wage earnings experience of the primary beneficiary, so that if the student happens to be the son or daughter of the low-wage person who has minimum years of coverage, the amount they get to go to school is tied into that benefit amount, the primary insurance amount, as opposed to any educational cost that a student might incur.

So the amount is totally independent of the cost for the student to actually go to school.

Senator NELSON. And, of course, like all the others, there is no means test, so somebody could be the dependent of a wealthy person who retired at age 55 and still draw student benefits, is that correct?

Mr. AHART. That is correct—or age 65. He could become disabled at age 55.

Senator NELSON. Well, yes, 62 I suppose. Well, on the other hand, you could have the deceased's spouse who had entitlement benefits, so it could be as early as 55, could it not?

Mr. AHART. It could be earlier than that on deceased or disabled beneficiaries.

The administration is proposing to phase out the benefits to post-secondary students which would result in a savings of about \$1.8 billion to the trust funds in fiscal year 1984. The results of our work to date supports a phaseout of these benefits.

The basic point is that if you need student assistance, there are much more efficient ways to do it and it would save the trust fund money.

Senator NELSON. You say more than 100,000 students are expected to receive more in social security and basic benefits than their total cost of going to school. How many is that in a particular year?

Mr. AHART. This was matched up for 1 particular year, 1977. This is really a conservative figure, Mr. Chairman, because the only ones we matched were where we had a student beneficiary under social security who was also receiving a basic grant from the Office of Education. It does not include those who got only a social security benefit. There might be many others out there who are getting more than the total cost of going to school solely from the social security benefit.

Senator NELSON. How many students covered each year are receiving benefits from this program each year?

Mr. AHART. The current number is between 800,000 and 900,000.

Senator NELSON. 800,000 to 900,000. And the total cost of the program annually is what?

Mr. AHART. About \$1.6 billion at the present time.

Senator NELSON. Go ahead.

Mr. AHART. We have also made some recommendations to SSA which would result in substantial savings or improvements in program administration.

In July 1978 we testified on the then pending social security agreement with Italy. We 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 trust funds.

Senator NELSON. What agreement was this?

Mr. AHART. This was the totalization agreement which was the first totalization agreement that we have entered into with a foreign country. It is a fairly common technique among the Western European countries so that, in effect, people that have coverage under one social security system can make their benefits portable. For example, if you had 9 years under our system and 9 years under the Italian system, you might not be eligible for benefits under either system, because you did not have enough quarters of coverage.

But if you put those together and have each country pay a proportional amount, then the person does have coverage under both systems.

That is the thrust of this agreement.

Senator NELSON. Did you have any criticism of it?

Mr. AHART. Well, basically our problem with it—and we testified on this before one of the committees—was that with this country's having no experience in this type of agreement and not having really good data on how many people in this country might have coverage under the Italian system and how many over there might have coverage under ours; there was not a very good basis for determining how much it is going to cost or what the administrative cost would be and so on.

We think it will be valuable for the administration to watch this one closely so that as much experience as possible can be gained for evaluating future proposals, for example, with Canada or Mexico or other countries that might have an interest in entering into this type of agreement.

Senator NELSON. This only involves a case in which a person has accumulated credits in both countries?

Mr. AHART. Yes.

Senator NELSON. Go ahead.

Mr. AHART. In December 1978, we reported that social security 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. New regulations were published in November of last year, but are not effective until July 1, 1980. These regulations are still too liberal and will not maximize interest income to the trust funds.

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

In January 1979, we reported 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 by offsetting benefits, a total of \$234 million is owed by persons who were overpaid and were subsequently removed from the benefit rolls before repayment could begin. We made recommendations which should result in more efficient and effective recovery methods.

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

These are cases that happen because social security relies primarily on students to provide timely and accurate reports of their school attendance. We determined that many students were ineligible for payments because they had dropped out of school or they attended only part time. We also determined that 86 percent of the sampled students who attended school part time or dropped out did not notify social security as they are required to do.

At least 31 percent of the sampled students who were no longer attending school full time incorrectly reported that they were full-time students.

Senator NELSON. Do you mean 31 percent of the students you sampled were not telling the truth about their attendance?

Mr. AHART. Thirty-one percent of those included in our sample who were no longer attending school full time. In other words, they had dropped out of school but they reported to Social Security that they were in school, so yes; they were lying.

Senator NELSON. That is almost one-third of them.

Mr. AHART. Thirty-one percent of the students in that particular category; yes.

Social Security is taking corrective action on this problem by getting better verification basically from schools and better informing the students of their obligations.

In March 1979, the Commissioner informed us of a number of actions which he had started directed at problems that we brought to his attention on the operations of Social Security's field offices. We pointed out specific areas that required improvement. These included the need for first, better controls over the volume and accuracy of communications and forms impacting on field offices; second, adequate field testing of new procedures before being implemented; third, providing field offices with improved capability to make computations with computers, rather than manually; and finally, improving field-office workflow 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 1974-76 to beneficiaries who had income that should have reduced their benefits. We found that Social Security had not completed or had never initiated actions to fully identify and collect these overpayments.

In April 1979, we briefed the staff of the House Subcommittee on Social Security on our review of foreign social security beneficiaries. 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 develop and issue a report on this matter in the near future.

The second area I would like to talk about would be to briefly highlight some of our work in the disability insurance program. Because of similarities in the disability decisionmaking 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 activities relating to assessing the continued medical eligibility of disabled SSI recipients. We selected two samples—one contained 402 cases and the other 175—of disabled recipients, and we asked Social Security to evaluate the recipients' continued eligibility for benefits. Of the 402 cases, only 38 percent had sufficient medical evidence in the files to support a disability decision. Twenty-four percent of these cases were not disabled as defined by appropriate criteria. Ten percent of the 175 recipients in the other sample for whom current medical evidence was obtained were no longer disabled.

Social Security has since studied disabled recipients converted in the State of Washington to the SSI program and found that close to 20

percent were no longer medically eligible. If these results are indicative nationally, of course, we are talking about a lot of money.

We should point out that the procedures for monitoring the disability insurance program are similar to those used in the SSI program, and therefore, we might have similar problems in the disability insurance program.

We recommended that Social Security establish appropriate mechanisms for systematically reviewing the total disabled recipients' caseload.

In May 1976, we reported on the improvements needed in the rehabilitation program for beneficiaries receiving disability insurance benefits. The Social Security Amendments of 1965 established the program for the purpose of returning beneficiaries to work, thereby reducing the trust fund outlays.

We concluded that HEW claims of trust fund savings were significantly overstated and, at best, the 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 million.

In an August 1978 report, we pointed out that under the present Federal/State contractual arrangement, Social Security is limited in the amount of direct managerial control it can exercise over the activities of State agencies making disability decisions. We recommended that the Secretary develop, for consideration by the Congress, a plan for strengthening the disability determination process by bringing it under complete Federal management.

At this time, we have two ongoing reviews in the disability area. The first 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 in the disability programs.

The third area I would like to discuss briefly is the data processing activities. As you know, the various programs administered by Social Security generate a huge automated recordkeeping workload, much of which is processed on 21 large-scale electronic data processing systems.

In conjunction with these systems, the agency maintains a nationwide telecommunications network to permit rapid data exchange between and among 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 trust funds. We have, on an ongoing basis, reviewed and monitored data processing and telecommunications activities.

In November of 1976, we reported on Social Security's computer facility needs. We found strong indications that certain data processing systems were significantly underutilized and noted questionable operating practices and procedures causing this apparent underutilization. We questioned whether Social Security's plan for acquiring and installing four additional large-scale computer systems during each of fiscal years 1977 and 1978 could be justified in light of these deficiencies.

Social Security suspended its computer acquisition plans and hired consultants to study usage patterns and practices in detail.

In June 1977, we reported 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 work.

We are currently performing a major review of Social Security's total systems development plans and its proposals for upgrading its telecommunications network. We plan to issue a series of reports on the results of this particular review. It is still in the early stages, but 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.

Early in 1978, we started reviewing the Social Security's system for posting earnings to individual workers' accounts. We met with agency officials to discuss the problem of significant amounts of unposted earnings and for demonstrating computer methods for posting additional unposted earnings.

The Acting Commissioner acknowledged the feasibility of the posting technique we developed and agreed to incorporate it into the agency posting operations.

I would like to turn finally to the areas which a lot of people have an interest in, and that is the privacy and security aspects of these systems.

Social Security records constitute a valuable national resource that must be safeguarded against alteration, destruction, abuse, or misuse. To assure that these records are properly safeguarded, adequate management support and an aggressive security program must be maintained. On several occasions, Members of Congress have expressed to us concern about procedures used to protect this data and have requested that we look at them.

In November 1977, we reported the results of our review of a series of questions regarding the privacy of beneficiary information being exchanged among Federal agencies. We concluded that the exchange did not violate the Privacy Act of 1974 and was useful in properly administering various benefit-paying programs. However, we were concerned that the 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 on security problems at the central computer facility in Baltimore. Although the administration had spent about \$500,000 to install a new security system, the central computer facility was still not secure and Social Security had not made an in-depth study of its security needs.

We made several recommendations to upgrade security in this regard.

In June 1978, we reported on the results of our review of security procedures used to protect beneficiary records at Social Security field offices and at private insurance companies. We found that records maintained in automated data banks and files were not properly safeguarded against alteration, destruction, abuse, or misuse.

Again, we recommended that the 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.

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 reorganization of Social Security announced last January established the Office of Assessment to handle these overview responsibilities.

Social Security has scheduled full implementation of its reorganization this July. We believe that 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 staff and the Inspector General's staff, should assure continued improvements in the administration's delivery of services to the American people.

That hits the highlights of the statement, Mr. Chairman, and we would be pleased to respond to any questions you may have.

Senator NELSON. Thank you very much for your very helpful testimony.

Mr. Ross, in his testimony, commented on the tremendous size of the program, which is by far and away, the largest program involving the most people of any in the private sector in the country, and stated that, like any program, it needed improvements and so forth and so on.

However, he went on to say that there was about a 2-percent overhead cost of administration—well, his own testimony will speak for itself, but my paraphrasing would be that he went on to say that neither in the private sector nor elsewhere was there a better administered program.

Would you agree with his testimony on that?

Mr. AHART. Well, we have not made a comparison, of course, between the administration of that program and the private sector. As I pointed out in my statement, when you get into a program that is this massive in terms of money amounts, the number of transactions involved, it is a difficult management task to keep it error free, and obviously it is impossible to get it totally error free.

I think I would like to join the Commissioner's statement that despite the level of administration that has been achieved—and obviously, most people get their checks, they get them on time, and so on—that his people and our people and everyone still needs to work at whatever improvements we can make to bring that level higher than it is.

Senator NELSON. Well, I guess anybody would agree with that. He stated, as I recall, that the overhead administrative costs were 2 percent, and had been from the beginning, that that was—however he said it—a very commendable achievement. Would you agree with that?

Mr. AHART. Well, again, I really do not have any way to measure, Mr. Chairman, whether that should be 2 percent or 1.5 percent or 3 percent, so I really do not have any basis of comparison for that to say whether it is a lot of accomplishment or not.

Mr. ZIMMERMAN might have some comments on that.

Mr. ZIMMERMAN. I think that we have looked at enough of the management activities, Mr. Chairman, to feel that while the agency is doing a commendable job of delivering services to the public, there are a number of instances that we have reported on where their activities could be improved. Right now we are working closely with Social Security and looking at the services provided in the district offices to see if they can be done in a more efficient manner.

As Mr. Ahart says, there is always room for improvement, even in a program as big as this, and we all recognize that.

Senator NELSON. Thank you very much. We may have some questions to submit to you after we have gone through the record that you can answer in writing.

We appreciate your taking the time to come today and present your testimony. Thank you.

[The prepared statement of Mr. Ahart follows:]

STATEMENT OF GREGORY J. AHART, DIRECTOR, HUMAN RESOURCES DIVISION

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:

(1) The accuracy of the waste and fraud reports presented in the media, and

(2) 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 prob-

lems 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 some time 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 sizable 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:

(1) 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.

(2) 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 were 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 post-secondary 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 over payments 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 lifetime 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 were 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 our \$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 nonworking 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 Congressman 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.

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.

[Whereupon, at 12 noon, the subcommittee recessed, to reconvene at the call of the Chair.]

