

# Report Summary

Social Security Administration Office of the Inspector General

May 2010



## Objective

To respond to Senator Charles Grassley's request for an audit of the Social Security Employees' Activities Association, Inc. (EAA).

## Background

EAA is a tax-exempt, nonprofit company that provides benefits and services for its members. Since its incorporation, EAA management created five additional corporations to carry out various Social Security Administration (SSA) employee-related activities.

In July 2008, SSA contracted with a public accounting firm to audit EAA-related corporations. EAA limited the auditors' access to personnel and financial records. As a result, SSA directed the firm to stop the audit. In 2008, SSA terminated agreements that allowed EAA to operate fitness and child care facilities on SSA property in Baltimore, Maryland.

To view the full report, visit <http://www.ssa.gov/oig/ADO/BEPDF/A-06-10-11028.pdf>

## ***Congressional Response Report: The Social Security Employees' Activities Association, Inc. (A-06-10-11028)***

### **Our Findings**

Balances reported on EAA and its five related entities' financial statements for FYs 2006 through 2008 were generally valid and supported. We identified various reporting or internal control-related issues that required attention, including inter-entity loans totaling \$390,240 that appeared unlikely to be repaid and could potentially jeopardize EAA's tax-exempt status. We also found EAA subjected itself to potential Internal Revenue Service (IRS) tax liabilities and penalties because it classified a worker as an independent contractor without justification and subsequently failed to report the worker's compensation to the IRS. Further, an SSA general schedule employee's primary duties consisted of serving as president of the EAA and managing the day-to-day operations of EAA and its related entities. This arrangement appeared to violate Federal conflict-of-interest law and regulations and occur with the approval of SSA management for more than 20 years.

### **Our Conclusion**

Although EAA did not comply with certain provisions of agreements negotiated with SSA, we also found that SSA did not enforce the provisions. SSA has recently taken several significant actions affecting EAA operations. SSA terminated the Memorandum of Understanding (MOU) that allowed Secur-A-Kiddie Center to operate daycare centers on SSA property in Baltimore, Maryland, and replaced Secur-A-Kiddie Center as the daycare center provider in August 2008. In December 2008, the EAA president's SSA supervisor formally re-assigned him to duties unrelated to EAA activities. Effective January 2009, SSA no longer allowed EAA to conduct vendor activities on SSA property. SSA also terminated the MOU allowing EAA to manage fitness centers on SSA property and replaced EAA as the fitness center operator in March 2009.