

SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT FISCAL YEAR 2013

Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act (FMFIA)*. We assessed the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*. Based on our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013 was operating effectively and that we found no material weaknesses in the design or operation of the internal controls.

Our financial statement auditors found that we made significant progress in strengthening controls over our information systems to address the material weakness cited last year. In this year's financial statement audit, the material weakness was reduced to a significant deficiency. However, in accordance with the *Federal Information Security Management Act (FISMA)*, we are reporting that the Office of the Inspector General cited the remaining deficiency in our information systems controls as a significant deficiency under FISMA. FISMA requires that we report this finding as a material weakness under FMFIA and an instance of a lack of substantial compliance with the *Federal Financial Management Improvement Act (FFMIA)* if related to financial management systems.

We do not agree that the significant deficiency rises to the level of a material weakness under FMFIA. We do not believe the identified deficiency adversely affects our ability to meet the internal control objectives of FMFIA as noted by the assurances provided in this statement. We also believe the identified finding does not affect our ability to meet the FFMIA requirements to maintain financial systems that substantially comply with Federal financial system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining deficiency and build on our progress to date.

In accordance with the requirements of OMB Circular No. A-123, Appendix A, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, safeguarding of assets, and compliance with applicable laws and regulations governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2013.

We also conduct reviews of financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2013.



Carolyn W. Colvin
Acting Commissioner
December 9, 2013

Agency Federal Managers' Financial Integrity Act Program

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

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

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

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

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

We identify management control issues and weaknesses through audits, reviews, studies, and observation of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and financial management systems. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123, A-127, and A-130.

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

Management Control Review Program

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

Financial Management Systems Review Program

OMB Circular No. A-127 requires agencies to maintain a financial management systems inventory and to conduct reviews to ensure financial management systems meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2013, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

Federal Financial Management Improvement Act

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2013. In making this determination, she considered all the information available, including the auditor's opinion on our FY 2013 financial statements, the report on management's assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. She also considered the results of the management control reviews and financial management systems reviews conducted by the agency and our independent contractor.

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

Financial Statement Audit

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2013 financial statements. The auditor found we present fairly the basic financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America for Federal entities.

Our financial statement auditors found that we made substantial progress in addressing the material weakness cited last year. In this year's financial statement audit, Grant Thornton cited a significant deficiency in our information systems controls in its opinion on internal control over financial reporting. We concur with the recommendations. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

Grant Thornton also found deficiencies in our calculation, recording, and prevention of overpayments that, when aggregated, it considered a significant deficiency and provided recommendations to remediate the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

OIG reported Grant Thornton's finding of significant deficiency as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by OIG and reported it in accordance with OMB Memorandum M-14-04.

Federal Information Security Management Act

FISMA requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. This year's report is due by December 2, 2013. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using OMB's performance measures. During FY 2013, we strengthened our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. For the FY 2013 financial statement audit,

Grant Thornton identified a significant deficiency in SSA's information systems. This is an improvement from the material weakness identified in the FY 2012 financial statement audit. However, our OIG cited the auditors' finding as a significant deficiency under FISMA.

Financial Management Systems Strategy

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

Annually, we review and update our financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of 12 financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative, and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we continue to enhance our systems to recover program debt. We developed the External Collection Operation (ECO) system to select and refer our delinquent program overpayments to the Department of the Treasury (Treasury) for recovery through the Treasury Offset Program (TOP), for credit bureau reporting, and for Administrative Wage Garnishment. Since 2010, we have worked to improve the ECO system through a three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. Phase III, implemented in September 2013, allows us to collect delinquent debts by offsetting eligible State payments through TOP. We are now working to improve our ECO system through the ECO modernization project. Upon full implementation, this project will enable ECO to select and refer individual delinquent debts to Treasury for offset via TOP.

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

We implemented SSOARS, a federally certified accounting system based on Oracle Federal Financials, as our System of Record on October 1, 2003. Since that time, we have implemented a number of software improvements. SSOARS consists of core accounting, payables, and receivables, and produces management information reports. In addition, SSOARS provides real-time integration with administrative and programmatic systems.

To provide functionality necessary to comply with new Treasury reporting requirements, in FY 2013, we continued implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) in SSOARS. We are on schedule to fully implement GTAS in December 2013.

Building on our previous use of Web Services technology, we completed the national rollout of the Case Processing and Management System (CPMS). CPMS transmits purchase orders and invoices to SSOARS for Medical Experts, Vocational Experts, and Verbatim Hearing Reporters. These obligations support our Office of Disability Adjudication and Review and our overall disability hearings process. This interface enables us to post obligations to SSOARS in real-time and significantly reduces the number of invoices we must process manually, approximately 5,500 per month before CPMS rollout.

We implemented a new Miscellaneous Receipt Gateway Web Service, which allows for both real-time and batch file processing of miscellaneous receipts. This Web Service processes nightly inbound batch files received from electronic *Freedom of Information Act* requests. The implementation of the Miscellaneous Receipt Gateway Web Service brings us into compliance with the SSOARS initiative to have all of the existing interfaces follow a common gateway architecture to ensure consistency, security, improved productivity, and more control over inbound and outbound interfaces.

We also completed the upgrade of the Electronic Document Management System (EDMS). The new EDMS software, Version 8, provides new functionality, such as: (1) improved Optical Character Recognition, which reads key data fields on invoices automatically and reduces the time required to register invoices; (2) email integration allowing acceptance of emails with attachments as an alternative to scanning; (3) new Invoice Prioritization based on agency rules such as prompt pay due date and small business accelerated payments; and (4) an Auto Assignment capability that automatically selects the correct examiner to process the invoice. The electronic workflow capabilities in this release allow us to better integrate with Treasury's Internet Payment Platform, one of several areas where we continue to embrace automated solutions that are common across the Federal Government.

Finally, we began replacing the outdated and unsupported technology used for the SSOARS Financial Information System (FIS). SSOARS FIS is used agency-wide to access the spending data recorded in SSOARS. The new technology will feature: (1) improved security using our Active Directory; (2) faster access to the homepage for new users; (3) fewer forms, tabs, and links for easier navigation; and (4) simplified report queries with user-configurable forms.

We plan to replace the SSOARS infrastructure with state-of-the-art servers that will consolidate software programs and consume less energy. We also plan to implement a new subsystem to collect administrative fees and programmatic debt in all field offices, and it will fully integrate with SSOARS and Treasury systems that track collection activity.

This page was intentionally left blank