

SYSTEMS AND CONTROLS

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT FISCAL YEAR 2014

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, 2014 was operating effectively, and 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 significant deficiency cited last year. However, in accordance with the *Federal Information Security Management Act* (FISMA), we are reporting that Grant Thornton, LLP 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, 2014.

We also conduct reviews of 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, 2014.



Carolyn W. Colvin
Acting Commissioner
November 10, 2014

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

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

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

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

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

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

We identify management control issues and weaknesses through audits, reviews, studies, and 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 that our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

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

MANAGEMENT CONTROL REVIEW PROGRAM

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

FINANCIAL MANAGEMENT SYSTEMS REVIEW PROGRAM

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a five-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2014, 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 2014. In making this determination, she considered all the information available, including the auditor's opinion on our FY 2014 financial statements, the report on management's assertion about the effectiveness of internal controls, and the report on compliance with laws and regulations. She also considered the results of our management control reviews and financial management systems reviews conducted by our independent contractor.

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

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2014 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.

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.

Please refer to the *Auditor's Reports* section for more information on the auditors' findings and our plans to correct the findings.

Grant Thornton reported its finding of significant deficiency in information systems controls as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by Grant Thornton and reported it in accordance with OMB Memorandum M-15-01.

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 November 14, 2014. 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 2014, 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 2014 financial statement audit,

Grant Thornton identified a significant deficiency in our information systems and cited this 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 Address Verification project and the ECO Modernization project. The ECO Address Verification project will verify the address of newly selected delinquent debtors before sending the ECO pre-offset notice. This project will allow us to reach a larger percentage of our debtors on our initial attempt to notify them of a potential offset of a Federal or State payment. The ECO Modernization project will enable ECO to select and store debts at an individual debt level rather than at the record level and ensure that we are referring all of our eligible delinquent debt to Treasury for collection.

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

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and SSOARS has been upgraded to Release 12.1.3, the most recent release of the software. To provide functionality necessary to comply with new Treasury reporting requirements, in FY 2014 we completed implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System in SSOARS.

We implemented a new subsystem, the Social Security Electronic Remittance System (SERS), to collect administrative fees in all field offices. SERS fits our agency's vision to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are prevalent throughout the banking and retail sectors. SERS is fully integrated with SSOARS and Treasury systems that track collection activity. The phased rollout of

SERS to the field offices is underway, and we plan to complete the full nationwide rollout by the end of the December 2014.

Finally, we continued to replace 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:

- Improved security;
- Faster access to the homepage for new users;
- Fewer forms, tabs, and links for easier navigation; and
- Simplified report queries with user-configurable forms.

We expect to complete the implementation in December 2014.

We plan to replace the SSOARS infrastructure with state-of-the-art servers that will consolidate software programs and consume less energy. We acquired a portion of this new hardware and expect to complete the full acquisition in time for the SSOARS move to the new National Support Center in Urbana, Maryland.

NATIONAL ANTI-FRAUD COMMITTEE

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). On April 3, 2014, the Acting Commissioner approved and signed a charter that reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

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

Since inception, the NAFC has met regularly to discuss our various anti-fraud initiatives and strategies. On September 18, 2014, the NAFC co-chairs hosted a National Anti-Fraud Conference. The goal of the National Anti-Fraud Conference was to establish and maintain synergy among the NAFC and RAFCs to jointly combat fraud, waste, and abuse. Discussions involved ways the NAFC, RAFCs, and OIG communities can collaborate and partner on important initiatives, communicate lessons learned, and use our resources effectively.

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