

SYSTEMS AND CONTROLS

Management Assurances

Federal Managers' Financial Integrity Act Assurance Statement Fiscal Year 2015

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, 2015 was operating effectively, and we found no material weaknesses in the design or operation of the internal controls.

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, 2015.

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, 2015.



Carolyn W. Colvin
Acting Commissioner
November 9, 2015

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 of this report 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) 2015, 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 2015. In making this determination, she considered all the information available, including the auditor's opinion on our FY 2015 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 of this report for more information.

Financial Statement Audit

The Office of the Inspector General (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2015 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 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.

Beginning this year, Grant Thornton also identified exceptions related to redetermination interviews and documentation it considered a significant deficiency. We will implement the necessary risk-based corrective actions to ensure consistent processing of redeterminations.

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

Federal Information Security Management Act

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, 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 was due by November 13, 2015. 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 2015, we continued to strengthen 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 2015 FISMA audit, Grant Thornton determined that we established an information security program and practices that were generally consistent with FISMA requirements. Grant Thornton found that, overall, we successfully met the FISMA metrics in the areas of Continuous Monitoring, Plans of Action and Milestones, Remote Access Management, Contingency Planning, and Contractor Systems. In the areas of Configuration Management, Identity and Access Management, Risk Management, Incident Response and Reporting, and Security Training, our auditors found we met the majority of metrics, but cited several findings.

As a result of the deficiencies noted above, Grant Thornton identified a significant deficiency under FISMA. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

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, for credit bureau reporting, and for Administrative Wage Garnishment. We implemented the ECO Address Verification project in February 2015. 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.

In FY 2016, we will begin planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently.

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.

In December 2014, we completed the nationwide rollout of 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. Our SERS credit card machines are equipped with the latest Chip-and-PIN capability.

SERS is fully integrated with SSOARS and Treasury systems that track collection activity. We are currently exploring expanding SERS functionality to collect payments for other types of services we provide.

We completed the replacement of outdated and unsupported technology used for the SSOARS Financial Information System (FIS). We use SSOARS FIS agency-wide to access the spending data recorded in SSOARS. The new technology features:

- 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 began to replace the SSOARS infrastructure with state-of-the-art servers that will consolidate software programs and consume less energy. We have acquired all new hardware. We are configuring the hardware for the SSOARS move to the new National Support Center in Urbana, Maryland in calendar year 2016.

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). In FY 2014, we 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;
- Serving as an advisory board for the newly established Office of Anti-Fraud Programs (OAFP);
- 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.

On November 24, 2014, the Acting Commissioner approved the establishment of OAFP. An Associate Commissioner-level office, OAFP's mission is to more efficiently and effectively detect, deter, and mitigate fraud, waste, and abuse of our programs. OAFP provides oversight and accountability for the agency's anti-fraud activities, working closely with the NAFC.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention. On September 16, 2015, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2016 priorities and initiatives.