



# SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## MANAGEMENT ASSURANCES

### Federal Managers' Financial Integrity Act Assurance Statement Fiscal Year 2018

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018.

The agency's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. Generally Accepted Accounting Principles. Management is also responsible for designing, implementing, and maintaining effective internal control over financial reporting. An entity's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

We performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Based on that evaluation, we concluded that, as of September 30, 2018 SSA's internal control over financial reporting is effective.

Nancy A. Berryhill  
Acting Commissioner  
November 9, 2018

### 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 observations 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.

For more information, please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report.

## **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 three-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2018, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

## **GOVERNMENT ACCOUNTABILITY OFFICE'S, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT**

In FY 2018, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO's standards.



## ENTERPRISE RISK MANAGEMENT

OMB Circular No. A-123 requires the agency to implement an Enterprise Risk Management (ERM) Strategy that incorporates our internal control system, strategic planning, and strategic review processes. We are in the beginning stages of implementing our ERM program by maintaining a risk profile, developing a framework document, and increasing risk awareness throughout the agency.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

### Federal Financial Management Improvement Act Assurance Statement Fiscal Year 2018

I have determined that the Social Security Administration's Financial Management Systems (FMS) are in substantial compliance with the *Federal Financial Management Improvement Act of 1996* for fiscal year (FY) 2018.

The Act requires Federal agencies to implement and maintain systems that comply substantially with: 1) Federal FMS requirements; 2) applicable Federal accounting standards; and 3) the Standard General Ledger at the transaction level.

In making this determination, I have considered all the information available to me, including the auditor's opinion on the agency's FY 2018 financial statements, the report on the effectiveness of internal controls over financial reporting, and the report on compliance with laws and regulations. I have also considered the results of the FMS reviews and management control reviews conducted by the agency and its independent contractor.

Nancy A. Berryhill  
Acting Commissioner  
November 9, 2018

For more information, please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report.

## FINANCIAL STATEMENT AUDIT

The Office of the Inspector General contracted with Grant Thornton, LLP for the audit of our FY 2018 financial statements. Grant Thornton found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

Grant Thornton also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2018, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2017 to January 1, 2018, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

Grant Thornton found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In this year's financial statement audit, Grant Thornton continued to cite three significant deficiencies identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, the reliability of information used in certain control activities, and accounts receivable with the public (benefit overpayments). We are committed to resolving these deficiencies as quickly as possible through our risk-based corrective action plans, and to strengthening our control environment.

For more information on the auditors' findings and our plans to correct the findings, please refer to the *Report of Independent Certified Public Accountants* section of this report.



## FEDERAL INFORMATION SECURITY MODERNIZATION 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. We submitted this year's report timely. 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 government-wide cybersecurity performance measures.

During FY 2018, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by the auditors in our prior year financial statement audit. The agency also expanded our Security Assessment and Authorization efforts by completing Authority to Operate assessments and certifications for new modern computing environments and systems.

We strengthened our anti-fraud and identity theft safeguards by implementing strong multi-factor authentication for the *my Social Security* website. We also implemented new Federal standards for email and internet security, and strengthened protections for our privileged user accounts. We established sanctions to enforce mandatory awareness training, and made it easier for our users to identify and report suspected phishing attacks. We enhanced our ability to detect attempted intrusions. The agency is constantly performing penetration and vulnerability testing and will continue to work with third parties and other Federal Government agencies to further assess our network defenses.

For the FY 2018 FISMA audit, Grant Thornton assessed our overall maturity at Level 2 – Defined, acknowledging improvements and maturity of our program with a Level 3 – Consistently Implemented rating in the Protect function and maintaining a Level 3 in the Recover function. Grant Thornton recognized that we made progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines, making incremental steps to reach the Department of Homeland Security goal of a Level 4 – Managed and Measurable program.

The agency will continue to pursue a comprehensive risk-based remediation plan to address the root-cause of the deficiencies, and further strengthen our information security program. As we continue to design and implement new security controls, it takes time for these controls to effectively mature. We remain vigilant in our efforts by evaluating risk, deploying security controls, and keeping abreast of the ever-evolving threat landscape to safeguard the personally identifiable information we have been entrusted with by every citizen and non-citizen. 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 nine 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 FY 2017, we continued to expand the functionality of the Social Security Electronic Remittance System to include the collection of programmatic debt. We completed the development phase and piloted the system in 20 field offices. Full system rollout to all field offices was completed in December 2017. We accept checks, money orders, and debit/credit cards for programmatic debt payments.



We currently have multiple systems that manage programmatic debts. In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System to help us better collect, store, monitor, and report our program debt activity. The primary goals of this initiative are to use modern technology to create an enterprise authoritative source of debt management data, increase collection opportunities, more efficiently address our overpayment workloads, and resolve compliance and audit issues.

In FY 2019, we will implement an online debt collection payment option for the public that uses the Department of the Treasury's Pay.gov portal. In FY 2020, we will develop a public-facing overpayment waiver application for implementation in FY 2021.

For the Financial/Administrative systems category, OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, 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, purchasing, 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 we have upgraded SSOARS to Release 12.1.3.

The agency submitted the required reports for the *Digital Accountability and Transparency Act of 2014* (DATA Act) for the fourth quarter of last fiscal year and the first, second, and third quarters of this fiscal year. The agency is continuing to engage with the DATA Act community in developing better data definitions. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

## **NATIONAL ANTI-FRAUD COMMITTEE**

The National Anti-Fraud Committee (NAFC), formed on April 3, 2014, provides a focal point for the agency's anti-fraud efforts. The NAFC is a visible demonstration of the agency's commitment to combatting fraud in its programs.

The NAFC's mission is to support national and regional strategies to combat fraud, waste, and abuse. The NAFC supports our goal to promote accountability to taxpayers by ensuring superior financial performance, budget management, and integrity in all payments, records, and processes.

As part of our efforts to prioritize initiatives and activities using a forward risk-based approach, the agency completed a comprehensive Disability Fraud Risk Assessment (DIB FRA). The assessment enables us to align our anti-fraud activities toward the assessed risks.

The NAFC directs our fraud risk management activities at the agency level by determining the levels of risk tolerance and the amount of investment we will commit to mitigate the identified risks. The Office of Anti-Fraud Programs coordinates all agency level activities related to the administration and execution of the NAFC and the DIB FRA.

The NAFC identified nine risks to address in FY 2018, appointed mitigation leads, and developed a strategy for reporting progress and status. The risk owners provide quarterly updates to the NAFC on the status of the mitigation actions. The NAFC will continue to monitor progress and recommend corrective action as appropriate to ensure our mitigation development activities achieve our stated objectives and our goal of establishing a mitigation plan for each selected risk.