

Systems and Controls

Federal Managers' Financial Integrity Act

Federal Managers' Financial Integrity Act (FMFIA) Program

SSA has a well established agencywide management control and financial management systems program as required by FMFIA. The Agency accomplishes the objectives of the program by:

- Integrating management controls into its business processes and financial management systems at all organizational levels;
- Reviewing its management controls and financial management systems controls on a regularly recurring basis; and,
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

SSA has no FMFIA material weaknesses to report this year. Agency managers are responsible for ensuring that effective controls are implemented in their areas of responsibilities. For the first time, in FY 2004 the Agency's highest level executives were required to submit to the Commissioner of Social Security an annual assurance statement providing reasonable assurance that functions and processes under their areas of responsibility functioned as intended and that there were no major weaknesses that would require they be reported to the President and the Congress. This has enhanced executive accountability and provided an additional basis for the Commissioner's annual assurance statement included in the transmittal letter to this report.

When a major control weakness is identified in the Agency, it is considered by the Agency's Executive Internal Control (EIC) Committee to determine if the weakness should be considered a material weakness and thus submitted to the Agency head for final determination. The EIC committee, consisting of senior managers and chaired by the Deputy Commissioner of Social Security, ensures SSA compliance with the requirements of FMFIA and other related legislative and regulatory requirements. The Committee provides executive oversight of the management control program, addresses management control issues that have a substantial impact upon the Agency's mission, monitors the progress of actions to correct management control weaknesses, ensures SSA's critical infrastructure is protected and ensures the Agency has a viable continuity of operations plan. The Committee also provides recommendations for improvement in those areas to the Agency head.

Effective internal controls are incorporated into the Agency's business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls and the new or changed processes and systems are reviewed by management to certify that the controls are in place. The controls are then tested prior to full implementation to ensure they are effective.

The controls of the new or changed processes or systems are monitored to ensure they remain effective. Management control issues and weaknesses are identified through audits, reviews, studies and observation of daily operations. SSA conducts internal reviews of management and systems security controls in its administrative and programmatic processes and financial management systems. The reviews are conducted to evaluate the adequacy and efficiency of the Agency's operations and systems to provide an overall assurance that the Agency's business

processes are functioning as intended. The reviews also ensure that management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circulars A-123, A-127 and A-130. The reviews encompass SSA's business processes such as enumeration, earnings, claims and postentitlement events, debt management and SSA's financial management systems. SSA develops and implements corrective action plans for weaknesses found through the reviews and audits and tracks the corrective actions until the weaknesses are corrected.

Management Control Review Program

SSA has an agencywide review program for management controls in its administrative and programmatic processes. The Agency requires that a minimum of 10 percent of field offices (FO) be reviewed each fiscal year (FY). The FOs are chosen for review by considering performance measures in selected critical processes and by using the experience and judgement of the regional security personnel. During FY 2004, SSA's managers and contractors conducted reviews of 215 FOs and 5 Program Service Centers (PSC). During FY 2004, SSA's Office of Hearings and Appeals (OHA) initiated a management control review program conducting reviews of three of its field offices. During FY 2005, the Agency plans to expand this review program by conducting reviews of at least 28 OHA offices by SSA's managers or an independent contractor.

SSA has also taken great strides to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). During FY 2004, SSA has continued to improve the DDS Security Document which requires each DDS to prepare a security plan and, on an annual basis, perform a self review using the Security Review Checklist prepared by SSA. Additionally, SSA's Regional Offices (RO) perform an independent security review of the DDSs using this same review checklist. The ROs develop a 5-year review plan in which each State DDS is reviewed at least once to ensure adherence to SSA's policies. During FY 2004, SSA conducted reviews of fifteen DDS sites.

SSA contracted with an independent public accounting firm to review the Agency's management control program, evaluate the effectiveness of the program and make recommendations for improvement. Annually, the contractor reviews operations at SSA's central office, processing centers, five ROs, 25-30 FOs and selected PSCs. The contractor's efforts have indicated that SSA's management control review program appears to be effective in meeting management's expectations for compliance with Federal requirements.

Financial Management Systems (FMS) Review Program

OMB Circular A-127 requires agencies to maintain an FMS inventory and to conduct reviews to ensure FMS requirements are met. In addition to pure financial systems, SSA also includes all major programmatic systems in this FMS inventory. Within a 5-year period, SSA conducts both a detailed review and a limited review of each system. An independent contractor conducts the detailed review at audit level standards including transaction testing and the system manager conducts the limited review.

During FY 2004, SSA's contractor conducted detailed reviews of SSA's Cost Analysis System, Property Accountability System and Travel Manager System. The contractor also conducted a vulnerability and risk assessment of SSA's National Computer Center and assisted systems managers in the certification and accreditation of SSA's general support systems and major application systems by performing risk-based vulnerability analyses, assessing the status of installed security controls and developing system security plans. The later effort was necessary in order for SSA to complete and submit its annual report required by the Federal Information Security Management Act (FISMA). The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations or Federal standards. However, SSA is addressing the weaknesses found and will monitor those until corrected.

Federal Financial Management Improvement Act

On June 28, 2004, the Commissioner determined that SSA's financial management systems were in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) for FY 2003. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2003 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 financial management systems reviews and management control reviews conducted by the Agency and its independent contractor and the progress made in addressing the weaknesses identified in the audit and review reports. That progress is discussed in the section below entitled "Financial Statement Audit."

Under Section 803(c)(2) of FFMIA, the determination for FY 2004 shall be made no later than 120 days after the earlier of (A) the date of receipt of an agencywide audited financial statement or (B) the last day of the fiscal year following the year covered by such statement. We expect to receive the final management letter report(s) for the FY 2004 audit in February 2005.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to conduct an annual self-assessment review of their information technology security program, to develop and implement remediation efforts for identified security weaknesses and vulnerabilities, and to report to OMB on the Agency's compliance. An independent contractor's evaluation indicated that SSA's self-assessment methodology was consistent with established FISMA requirements. SSA's Office of Inspector General (OIG) also performed an independent review of SSA's compliance with FISMA and concluded that, with the exception of procedural areas needing improvement, SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on October 5, 2004.

Financial Statement Audit

The OIG contracted for the audit of SSA's FY 2004 financial statements. The auditor found that the principal financial statements were fairly stated in all material respects and issued an unqualified opinion. The auditor also found management's assertion that SSA's systems of accounting and internal controls were in compliance with OMB's internal control objectives to be fairly stated in all material respects. Although the auditor identified a reportable condition involving internal controls in FY 2004, it was not identified as material weakness as defined by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02.

The reportable condition reads "SSA needs to further strengthen controls to protect its information." The auditor indicated that SSA had made significant progress in addressing information protection issues raised in prior years. The auditor particularly noted that SSA had improved physical security for the Disability Determination Services sites, continued to enhance continuity of operations activities, continued progress in implementing a program to monitor and control system user access requirements, and continued progress on implementing dataset naming standards.

Although the auditor noted significant progress in strengthening security controls, it also recommended that SSA continue its efforts to enhance information protection by continuing to implement the remaining portions of the Standardized Security Profile Project and through the establishment and refinement of procedures to ensure standard security configurations for distributed servers. SSA will continue to work with the auditor to make those improvements.

Financial Management

(Section 52.4(a), OMB Circular A-11)

Goals and Strategies

The President's Management Agenda (PMA) is a coordinated strategy to reform Federal management and improve program performance. The PMA outlines five governmentwide and nine agency specific areas that need to be revamped to better serve the American people. One of the five governmentwide targets is to improve financial performance by ensuring that (1) Federal financial management systems produce accurate, timely and useful information to support operating, budget and policy decisions and (2) agencies manage and reduce the extent of improper payments in Federal programs.

OMB issued scorecard standards for success for each of the five PMA initiatives. In order for an agency to be considered in the "green" category (which is the best) for the "Improved Financial Performances" initiative, they must satisfy the following core criteria:

- FMS meet Federal FMS requirements and applicable Federal accounting and transaction standards as reported by the agency head.
- Accurate and timely financial information.
- Integrated financial and performance management systems supporting day-to-day operations.
- Unqualified and timely audit opinion on the annual financial statements and no material weaknesses on internal controls reported by the auditors.

SSA's status for the "Improved Financial Performance" initiative is green and we have also been rated green for "progress" on OMB's latest scorecard. The Agency's goal is to maintain the green status and to achieve the milestones established for improvement.

Financial Management Performance

A major challenge facing SSA is to maintain the green status in financial management in the PMA and green status in progress. We achieved that status due to our integrated financial and performance systems that allow SSA managers to routinely assess financial and performance information to make day-to-day decisions. That status is also due to the Agency receiving an unqualified opinion on its financial statements with no material weaknesses cited by the auditor; having financial systems compliant with Federal law; and demonstrating to OMB that SSA uses accurate and timely information to manage the Agency.

SSA considers it a matter of great importance to improve the administration of the Supplemental Security Income (SSI) program. We have developed a corrective action plan approved by OMB to improve the management and integrity of the program and many of the actions have been completed. The improvements made were sufficient to cause the Government Accountability Office to remove the SSI programs from its high-risk list in FY 2003. We are continuing our efforts to improve management by improving prevention of overpayments, increasing overpayment detection and increasing collection of debts. For more information on this effort see the Improper Payments discussion in the Highlights of Financial Position section of the PAR and in the Appendix.

SSA has completed the first year of use of its new web-based accounting system, the Social Security Online Accounting and Reporting System (SSOARS). It was implemented on October 1, 2003 as SSA's system of record. SSOARS is a commercial off-the-shelf Joint Financial Management Improvement Program certified financial accounting system. SSOARS encompasses the Agency's core accounting functions, such as general ledger, funds control, budget execution, accounts receivable, accounts payable and reporting. Our next challenge is to provide for the interfaces of selected administrative systems with SSOARS and that activity has begun with the completion of feasibility studies for that interfacing.

SSA continues to meet the challenges of timely and accurate financial reporting. During this year, SSA produced quarterly financial statements and submitted them to OMB by the established target dates and met the required delivery date for the FY 2004 PAR, including the annual financial statements, 45 days after the ending of the fiscal year. We will continue to improve our procedures for assembling, analyzing and reporting financial information on a timely basis. The accuracy of our data has been confirmed by eleven successive unqualified, or clean, opinions on our annual financial statements and the receipt of our sixth consecutive Association of Government Accountant's Certificate of Excellence in Accountability Reporting for the Agency's FY 2003 PAR.

Financial Management Systems Framework

SSA's FMS inventory is reviewed annually and is updated to reflect the most recent status as a result of systems modernization projects. Accordingly, the FMS inventory may change from year to year depending on the progress made in modernization projects. In FY 2004, SSA utilized the following active FMS:

Program Benefits

- Title II System
- Retirement, Survivors and Disability Insurance (RSDI) Accounting System
- Supplemental Security Income (SSI) Records Maintenance System
- Earnings Record Maintenance System
- Social Security Number Establishment and Correction System

Debt Management

- Debt Management System (DMS)
- Recovery of Overpayments, Accounting and Reporting System (ROAR)

Financial/Administrative

- Social Security Online Accounting and Reporting System (SSOARS)
- Cost Analysis System (CAS)
- Supply System
- Property Accountability System
- SSA Streamlined Acquisition System

SSA continues the long term development of its FMS following a defined strategy. In the Program Benefits category, SSA is almost continuously involved in streamlining the systems and incorporating new legislative requirements. The major effort in this category is to eventually subsume the RSDI Accounting System into the umbrella Title II System. The goal in the Debt Management category is to have a single DMS incorporating both RSDI and SSI debt programs. The major project in the Financial/Administrative category was the roll out of SSOARS on October 1, 2003