

# SYSTEMS AND CONTROLS

## MANAGEMENT ASSURANCES

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE STATEMENT FISCAL YEAR 2007

SSA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. SSA conducted its assessment of 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 A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, SSA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

SSA also conducts reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, SSA can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions of the FMFIA as of September 30, 2007.

In addition, SSA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as 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, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that SSA's internal control over financial reporting was operating effectively as of September 30, 2007.



Michael J. Astrue  
November 7, 2007

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

SSA has a well established Agency-wide 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. SSA senior level executives are 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 being reported, or a statement indicating that such assurance could not be provided. This executive accountability assurance provides an additional basis for the Commissioner's annual assurance statement.

The Agency's Executive Internal Control (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. If a major control weakness is identified in the Agency, the EIC determines if the weakness should be considered a material weakness and thus submitted to the Agency head for final determination.

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.

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 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 Agency-wide review program for management controls in its administrative and programmatic processes. Locations chosen for review are selected by considering performance measures in selected critical processes and by using the experience and judgment of the regional security personnel. During FY 2007, SSA personnel and contractor conducted reviews at 215 Field Offices, 6 Program Service Centers (PSC) and 28 Hearings offices.

SSA continues to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). The DDSs perform annual security self-reviews using the guidelines and a review checklist. Additionally, SSA's Regional Offices (RO) and contractor perform independent security reviews 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 2007, SSA and the contractor conducted reviews of 25 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, and selected ROs, PSCs, and DDS's. 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 2007, SSA's contractor conducted a detailed review of SSA's Title 2 Redesign System and performed a risk and vulnerability assessment of SSA's National Computer Center. 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 Commissioner has determined that SSA's financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) for FY 2007. In making this determination, he considered all the information available, including the auditor's opinion on the Agency's FY 2007 financial statements, the report on management's assertion about the effectiveness of internal controls and the report on compliance with laws and regulations. He also considered the results of the financial management systems reviews and management control reviews conducted by the Agency and its independent contractor.

## **FINANCIAL STATEMENT AUDIT**

The Office of the Inspector General (OIG) contracted for the audit of SSA's FY 2007 financial statements. The auditor found that the basic financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The auditor also found that management fairly stated that SSA's internal control over financial reporting was operating effectively, and reported no instances of noncompliance with laws, regulations or other matters.

## **FEDERAL INFORMATION SECURITY MANAGEMENT ACT**

The *Federal Information Security Management Act* (FISMA) requires Federal agencies to conduct an annual self-assessment review of their Major Information Technology Systems Security Testing and Controls (ST&E) program, to develop and implement corrective actions 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 controls methodology was consistent with established FISMA requirements. SSA's OIG also performed an independent review of SSA's compliance with FISMA and concluded that SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on October 1, 2007.

## **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 government-wide and nine agency specific areas that need to be revamped to better serve the American people. OMB issued scorecard standards for success for each of the PMA initiatives. Information on the PMA and the scoring criteria may be found at [www.results.gov](http://www.results.gov).

One of the five government-wide targets is to improve financial performance by ensuring that agencies have accurate and timely financial information to manage cost and inform decision-making. Over the years, SSA has worked hard to improve its financial management. SSA attained a status score of "green" for the Improved Financial Performance PMA initiative as of the third quarter of 2003. SSA's achievement of "green" status was the culmination of efforts over more than a decade in implementing sound financial management practices. SSA has maintained its "green" status by continuing to receive an unqualified opinion on its financial statements with no material weaknesses cited by the auditors; having financial systems compliant with Federal law; and demonstrating to OMB that SSA uses accurate and timely information to manage the Agency. SSA continues to get beyond green by developing new initiatives that will enhance the existing financial and management information systems. These actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The Agency's goal is to maintain the "green" status and to achieve the milestones established for improvement.

#### **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. SSA maintains an inventory of twelve FMS that are categorized under the broad categories of Program Benefits, Debt Management, or Financial/Administrative.

SSA continues the long-term development of its FMS following a defined strategy. In the Program Benefits category, SSA is continuously involved in streamlining the systems and incorporating new legislative requirements. In the Financial/Administrative category, Social Security Online Accounting and Reporting System (SSOARS), a federally certified accounting system based on Oracle Federal Financials, was implemented as SSA's System of Record on October 1, 2003. Throughout FY 2007, SSA continued to exercise the Commercial Off-the-Shelf technology available in this software to integrate agency financial systems that traditionally integrate with SSOARS by providing real-time access to validate accounting information and fund availability. SSA contracted out some of the day-to-day maintenance of the system to Oracle on Demand, which is considered to be a first step in meeting the Financial Management Lines of Business requirements by OMB.

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