SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE STATEMENT FISCAL YEAR (FY) 2011

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 No. 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, 2011 was operating effectively and found no material weaknesses in the design or operation of the internal controls.

SSA also conducts reviews of its financial management systems in accordance with OMB Circular No. 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, 2011.

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 No. 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, 2011.

Michael J. Astrue
Commissioner
November 7, 2011

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established agency-wide management control and financial management systems program as required by 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 submit an annual statement to the Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and 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 Commissioner's annual assurance statement.

Our Executive Internal Control committee, consisting of senior managers and chaired by the Deputy Commissioner, 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 the agency head for final determination.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. The user requirements include the necessary controls, and management reviews the new or changed processes and systems to certify the controls are in place. We 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 our 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 Circular Nos. A-123, A-127, 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

OMB Circular No. A-127 requires agencies to maintain a financial management systems inventory and to conduct reviews to ensure financial management systems 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 FY 2011, 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 our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2011. In making this determination, he considered all the information available, including the auditor's opinion on our FY 2011 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 management control reviews and financial management systems reviews conducted by the agency and its 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 contracted with Grant Thornton, LLP for the audit of our FY 2011 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. The auditor also found management fairly stated that our internal control over financial reporting was operating effectively, and reported no instances of noncompliance with laws, regulations, or other matters.

However, the auditor did identify certain deficiencies in internal control, that when aggregated, they considered a significant deficiency. The auditors found that 1) we did not consistently comply with policies and procedures to reassess, periodically, the content of security access profiles; 2) some employees and contractors had system access in excess of access required to complete their job responsibilities; and 3) certain mainframe configurations increased the risk of unauthorized access.

Grant Thornton, LLP recommends SSA management improve policies and procedures that require a periodic review of the content of the agency's security profiles, improve controls to test and monitor configurations on the mainframe and network operating system environments, and improve procedures that require on-going monitoring of implemented configurations to identify and address security risks. We concur with the recommendations, and we will continue to work to improve the overall effectiveness of our security controls.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The *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 15, 2011. Our report summarizes the results of the agency's security reviews of major information systems and programs, progress on correcting identified weaknesses, and the results of other work performed during the reporting period using OMB's performance measures. There are currently several bills pending in Congress to strengthen FISMA. As Congress considers new security legislation, we will strive to meet and exceed existing information security requirements for protecting Federal information systems and information, including personally identifiable information.

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 Governmentwide 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 twelve 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.

In the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In the Debt Management category, we are continuing to pursue enhanced capabilities to collect and resolve program debt. We developed an External Collection Operation (ECO) system to help recover program overpayments through the Treasury Offset Program, credit bureau reporting process, and Administrative Wage Garnishment process. We have continued to improve the ECO system through an initial three-phased approach. Phase I, implemented in July 2010, enabled us to collect delinquent Supplemental Security Income (SSI) debts from a population of debtors previously excluded from the automated ECO selection process. Next, we have secured information technology resources to embark on Phase II of the ECO enhancements in FY 2012, which will allow us to collect delinquent

debts by offsetting Federal payments through the Treasury Offset Program beyond the current 10-year statute of limitations, as authorized by Public Law 110-246 and 31 United States Code 3716. Finally, as resources permit, we will then pursue implementation of Phase III to collect delinquent debts by offsetting applicable State payments through the Treasury Offset Program.

In May 2011, we improved existing overpayment controls for the SSI program by implementing a process that automatically records any existing overpayments on newly created supplemental security records. This process will help ensure we properly account for, report, and resolve SSI overpayments. In addition, when this new process cannot automatically record an existing overpayment on a newly created supplemental security record, it alerts our employees to manually resolve the overpayment on an individual's SSI account.

In the Financial/Administrative category, we implemented the Social Security Online Accounting and Reporting System (SSOARS), a federally-certified accounting system based on Oracle Federal Financials, as our System of Record on October 1, 2003. In FY 2011, we implemented the Oracle Governance Risk and Compliance Controls Software Suite. The Governance Risk and Compliance Controls Software Suite provides real-time control over user access, provides segregation of duties policies and changes to key SSOARS configurations, and enables us to implement SSOARS enhancements in a transparent and more cost-effective manner.

We have standardized our web services to eliminate duplication of code and to establish a common gateway for the SSOARS Service-Oriented Architecture. This effort has allowed us to establish a standard framework for all future integrations with both internal and external systems, thereby reducing long-term maintenance costs and improving operational efficiency. We implemented business activity monitoring giving subject matter experts more control over the applications, and a service registry that provides technical data about the SSOARS Service-Oriented Architecture environment.

We also integrated the Internet Payment Platform (IPP) with the accounting system. The IPP is a secure web-based electronic invoicing and payment information system provided by the Department of the Treasury's Financial Management Service. The IPP allows agencies to transform existing paper-based order-to-pay processes into a streamlined electronic flow by sending electronic Purchase Orders to suppliers, receiving electronic invoices from suppliers, and for invoice routing and approval workflow. The integration of the IPP is an example of how we have adopted the latest guiding principles for system modernization by embracing common automated solutions for transaction processing.

In keeping with the directives in OMB Memorandum, M-10-26, *Immediate Review of Financial Systems IT Projects*, we continue to follow the prescribed guidelines and best practices to implement system improvements by: a) using an incremental approach that focuses on the latest technology, b) meeting critical agency business needs, and c) closely monitoring project schedule and cost. Although the accounting system is in a "steady-state" status, we continue to maintain current operational efficiencies through product upgrades, incremental enhancements, and application extensions that increase labor efficiencies and performance and maintain the integrity of the data.