

# AUDITOR'S REPORTS



## SOCIAL SECURITY

November 8, 2012

The Honorable Michael J. Astrue  
Commissioner

The *Chief Financial Officers Act of 1990 (CFO)* (Pub. L. No. 101-576), as amended, requires that the Social Security Administration's (SSA) Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), Grant Thornton, LLP, an independent certified public accounting firm, audited SSA's Fiscal Year (FY) 2012 financial statements. Grant Thornton, LLP, also audited the FY 2011 financial statements presented in SSA's FY 2012 Performance and Accountability Report for comparative purposes. This letter transmits the Grant Thornton, LLP, *Independent Auditor's Report* on the audit of SSA's FY 2012 financial statements. Grant Thornton, LLP's, Report includes the following.

- Opinion on Financial Statements
- Opinion on Management's Assertion About the Effectiveness of Internal Control
- Report on Compliance and Other Matters

### **OBJECTIVE OF A FINANCIAL STATEMENT AUDIT**

The objective of a financial statement audit is to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used, and significant estimates made, by management as well as an evaluation of the overall financial statement presentation.

Grant Thornton, LLP, conducted its audit in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

## AUDIT OF FINANCIAL STATEMENTS, EFFECTIVENESS OF INTERNAL CONTROL, AND COMPLIANCE WITH LAWS AND REGULATIONS

Grant Thornton, LLP, issued an unqualified opinion on SSA's FY 2012 and 2011 financial statements. However, Grant Thornton, LLP, stated SSA had not maintained effective internal control over financial reporting based on criteria under the *Federal Manager's Financial Integrity Act of 1982* (FMFIA).

In its audit, Grant Thornton, LLP, identified five deficiencies in internal control that, when aggregated, are considered to be a material weakness in controls over information security. Specifically, Grant Thornton, LLP's, testing disclosed

1. lack of monitoring controls and implementation of policy related to the configuration and content of information on SSA Intranet Webpages,
2. lack of controls related to the identification and monitoring of high-risk programs operating on the mainframe,
3. The Agency's vulnerability testing was not sufficient to identify critical weaknesses in SSA's information technology environment,
4. lack of a comprehensive profile and access recertification program, and
5. lack of appropriate controls to prevent programmer access to the production environment.

In addition to the material weakness, Grant Thornton, LLP, noted additional deficiencies in internal control that, when aggregated, are considered to be a significant deficiency related to weaknesses in internal control related to monitoring activities and overall control environment. Specifically, Grant Thornton, LLP's, testing disclosed

1. lack of consideration and resolution of audit findings that were reported in the Management Letter for the past two FYs;
2. lack of a comprehensive process for SSA's quality review feedback forms; and
3. lack of appropriate documentation for disability reviews; various approvals for certain transactions; and Overpayments detection and associated Waivers.

Grant Thornton, LLP, identified no reportable instances of noncompliance with the laws, regulations, or other matters tested.

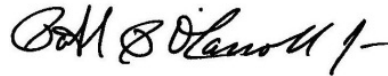
## OIG EVALUATION OF GRANT THORNTON, LLP AUDIT PERFORMANCE

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored Grant Thornton, LLP's, audit of SSA's FY 2012 financial statements by

- reviewing Grant Thornton, LLP's, audit approach and planning;
- evaluating its auditors qualifications and independence;
- monitoring the audit's progress at key points;
- examining Grant Thornton, LLP's, documentation related to planning the audit, assessing SSA's internal control, and substantive testing;
- reviewing Grant Thornton, LLP's, audit report to ensure compliance with Government Auditing Standards and OMB Bulletin No. 07-04;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Grant Thornton, LLP, is responsible for the attached auditor's report, dated November 8, 2012, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Grant Thornton, LLP's, performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where Grant Thornton, LLP, did not comply with applicable auditing standards.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over SSA. In addition, we will post a copy of the report on our public website.



Patrick P. O'Carroll, Jr.  
Inspector General



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Honorable Michael J. Astrue  
 Commissioner  
 Social Security Administration

## INDEPENDENT AUDITOR'S REPORT

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of the SSA as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2012 and January 1, 2011 and statement of changes in social insurance amounts for the periods January 1, 2011 to January 1, 2012 and January 1, 2010 to January 1, 2011 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- SSA did not maintain effective internal control over financial reporting as of September 30, 2012; and
- No reportable instances of noncompliance with laws, regulations, or other matters tested.

## OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the SSA as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the statements of social insurance as of January 1, 2012, January 1, 2011 and January 1, 2010 and the statements of changes in social insurance amounts for the periods January 1, 2011 to January 1, 2012 and January 1, 2010 to January 1, 2011. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of social insurance as of January 1, 2009 and 2008 were audited by other auditors whose reports dated November 9, 2009 and November 7, 2008 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants (AICPA); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and presented on pages 110 through 144 of this *Performance and Accountability Report (PAR)*, present fairly, in all material respects, the financial position of SSA as of September 30, 2012 and 2011, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, and the financial condition of its social insurance program as of January 1, 2012 and January 1, 2011 and changes in social insurance amounts for the period January 1, 2011 to January 1, 2012, in conformity with accounting principles generally accepted in the United States of America.



However, misstatements may nevertheless occur in other financial information reported by SSA and may not be prevented or detected because of the deficiencies noted in the opinion on internal control below.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of the SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

## OPINION ON INTERNAL CONTROL

We have audited SSA's internal control over financial reporting as of September 30, 2012, based on criteria established under 31 U.S.C. 3512(c), (d), commonly known as the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). We did not test all internal controls, relevant to the operating objectives broadly, defined by FMFIA. SSA's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the operating effectiveness of internal control over financial reporting included in the accompanying FMFIA Assurance Statement on page 47 of this PAR. Our responsibility is to express an opinion on SSA's internal control over financial reporting based on our audit.

We conducted our audit in accordance with attestation standards established by the AICPA; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An Agency's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles. An Agency'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 Agency; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Agency 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 Agency's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with



governance. We identified certain deficiencies in internal control related to benefit payment oversight that, in the aggregate, are considered to be a significant deficiency.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in Information Systems Controls that, in the aggregate, are considered to be a Material Weakness.

## Material Weakness - Information Systems Controls

SSA's business processes which generate the information included in financial statements are dependent upon the Agency's information systems. A comprehensive and effective internal control program over these systems is critical to the reliability, integrity, and confidentiality of data while mitigating the risk of errors, fraud and other illegal acts.

### Overview

Management relies extensively on information systems operations for the administration and processing of the Title II and Title XVI programs, to both process and account for their expenditures. Internal Controls over this environment are essential for the reliability, integrity, and confidentiality of the program's data and mitigate the risks of error, fraud and other illegal acts.

Our internal control testing covered both general and application controls. General Controls encompass the entity-wide security program (EWSP), access controls (physical and logical), change management, segregation of duties, system software, and service continuity plans and testing. General controls provide the foundation for the integrity of systems, and combined with application level controls, are critical to ensure accurate and complete processing of transactions and integrity of stored data. Application controls include controls over input, processing of data, and output of data. Our audit included testing of the Agency's mainframe, networks and applications and was conducted at headquarters as well as Disability Determination Services Centers (DDS) and Program Service Centers (PSC).

### Deficiencies Noted in Information Systems

While the SSA has made efforts to strengthen controls over its systems and address the outstanding significant deficiency in Information Security, our testing identified general control issues in both design and operation of key controls. We noted weaknesses in the following areas:

- Entity Wide Security Program
- Access Controls
- Compensating Controls

**Entity-Wide Security Program:** These programs are designed to ensure that security threats are identified, risks are assessed, control objectives are appropriately designed and formulated, relevant control techniques are developed and implemented, and managerial oversight is consistently applied to ensure the overall effectiveness of security measures. EWSPs afford management the opportunity to provide appropriate direction and oversight of the design, development, and operation of critical system controls. Deficiencies in the programs can result in inadequate access and configuration controls affecting mission-critical, system-based operations. Our testing identified the following issues:

- *Lack of monitoring controls and implementation of policy related to the configuration and content of information on SSA intranet web pages.*



During our testing we were able to obtain security and Personal Identifiable Information (PII) data that was accessible due to the misconfiguration of SSA systems. While testing was terminated after gaining control of a single server, the information obtained enabled us to take control of the SSA's Windows network. These issues increase the risk that sensitive data is accessible to unauthorized personnel which may be used or disclosed inappropriately.

The Agency is currently in the process of implementing new software that will assist in the identification of inappropriate information being posted.

- *Lack of controls related to the identification and monitoring of high risk programs operating on the mainframe.*

During the change management process, management does not perform an impact assessment to determine security implications for significant mainframe programmatic changes. For example, management does not perform assessments for changes to programs in the Authorized Program Facility (APF) libraries (i.e. Services (SVCs), user SVCs, and exits). In addition, management does not have a comprehensive process to periodically review the privileged programs added to the SSA mainframe environment to ensure that all privileged programs have been approved, modified appropriately, and pose no security risks.

Without performing specific assessments of the impact of program changes to the system security framework, there is an increased risk that the security posture and controls may be bypassed or compromised.

- *Insufficient vulnerability testing is conducted by the Agency for the identification of critical weaknesses in their information technology environment.*

During our internal penetration testing we were able to gain access to restricted information and ultimately assume control over a server without detection. Although via a different method, this is the second year in a row we have been able to utilize an internal network drop to gain control of the SSA Windows system without detection. Management's failure to conduct robust enterprise focused penetration testing increases the risk that unauthorized access may occur and go undetected, allowing privileged information or critical infrastructure to be compromised.

The Agency currently performs security assessments related to specific implementations and projects but does not conduct enterprise wide penetration testing (simulated attacks from a malicious user).

**Access Controls:** Access controls provide assurance that critical systems assets are physically safeguarded and that logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. Access controls over operating systems, network components, and communications software are also closely related. These controls mitigate the inherent risk that unauthorized users and computer processes cannot access sensitive data. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately accessed and/or disclosed. Our testing identified the following issues:

- *Lack of a comprehensive profile and access recertification program.*

Our testing disclosed that policies and procedures to periodically reassess the content of security access profiles had been developed but not implemented consistently throughout the Agency. This issue increases the risk of inappropriate access and user rights, which allows individuals an opportunity to perform transactions or access restricted information outside of their job responsibilities. During our testing we identified personnel with inappropriate access.

This is a recurring issue identified as part of the Significant Deficiency in prior years. The Agency is working to remediate its profile and access recertification program and plans for a full implementation of this control in Fiscal Year (FY) 2013.

- *Lack of appropriate controls to prevent programmer access to the production environment.*



Our testing identified programmers with unmonitored access to production data for a benefit payment application. This is of heightened concern as this access did not exist in the prior fiscal year and based on inquiry with management was caused by human error. This issue increases the risk that programmers could make unauthorized changes to the production environment without detection and without a comprehensive recertification process discussed above. There is no current control that would have identified this error in a timely manner.

The Agency has implemented a secondary user ID process to allow programmers to access production data through a highly monitored, time-limited process. During our testing we determined this control was not operating effectively. For example, we identified instances where programmers were issued a secondary user ID; however, their access was not approved and reviewed for more than six months after they accessed production.

While our testing did not disclose that any inappropriate changes were made to the production environment, a risk existed.

### **Compensating Controls**

Management has identified several areas of compensating controls to mitigate the risks related to the deficiencies above; however, our testing identified control deficiencies for the majority of these controls. The following highlights several of the control deficiencies identified related to these compensating controls:

#### **1. Change control**

- Our testing noted a failure of the operational effectiveness of the controls related to documentation and approval of changes to financially relevant applications. This included both routine and emergency changes.

#### **2. Physical access**

- During FY 2012, a comprehensive physical access recertification was not performed; including access to the data center. Management is currently working to implement an automated process; however, this was not in place during FY 2012.
- Our testing identified multiple instances of control failures during our review of the SSA 4395 Form process (the form used to request and approve physical access to SSA facilities). For example, we identified forms that did not include approval signatures, physical access justification, and disapproved employees that were provided physical access.
- During testing of terminated contractors, we identified a control failure related to removing contractor physical access (from the physical access system) upon termination. Specifically, we noted instances where terminated contractors were identified as having active physical access during our testing.
- During a related physical security audit, auditors identified a contracted network engineer was found unsuitable for contract employment at the SSA by the Office of Personnel Management. That contracted employee maintained physical access to the SSA facilities for approximately one year after the unsuitable determination was made. This employee was immediately removed from the contract upon notification to the appropriate SSA personnel.

#### **3. Logical access**

- Our testing identified control failures related to the appropriate use of the SSA 120 Forms (the forms used to request and approve logical access to SSA systems and applications). Included in these control failures were instances of new hires, transferred employees, state DDS employees, and contracted employees.





- During a related logical security audit, auditors identified a DDS system user ID (also known as a PIN) that was in use after the employee associated to the ID was terminated to access the system. Management confirmed that no transactions were executed with the terminated employee's ID, but is currently investigating how this occurred.

## Recommendations

In order to mitigate the risks of the issues noted in the material weakness, management should consider implementing:

- Monitoring controls designed to identify configurations within the SSA network and systems environment that are not in compliance with the SSA system configuration policy. In addition, management should consider implementing controls to identify and track content on SSA intranet web pages that may pose a risk to the security of SSA systems, or the confidentiality of SSA data;
- A comprehensive program to identify and monitor high risk programs operating on the mainframe. Consider including the identification of programs that may pose security risks to the SSA mainframe prior to them being loaded onto the production environment;
- Comprehensive enterprise-wide security vulnerability testing, including simulated penetration attacks, in order to identify critical weaknesses in the information technology environment that may not be identified by the current control processes.;
- A comprehensive profile and access recertification program; and,
- Additional controls to prevent unauthorized programmer access to the production environment.

## Significant Deficiency - Benefit Payment Oversight

SSA has extensive operations geographically dispersed throughout the United States, spanning over 1,200 field offices (FO), 10 regional offices (RO) and 52 state operated DDS offices. In order to ensure consistent processing of transactions related to benefit payments across the numerous physical locations, SSA has detailed policies and procedures as well as an internal control system related to authorization, payment, and continuation of benefit payments. Adherence to policies and procedures are critical to decisions being made timely and correctly by the Agency. In order to ensure compliance with these policies and procedures, management's internal control structure is designed to prevent and/or detect inaccuracies and deviations which can occur throughout the process which relies heavily on human input and decisions.

### Overview

Our testing identified control deficiencies that could impact the accuracy of benefit payments related to the following components of internal control: Monitoring and Control Environment. These components are critical to the overall function of the SSA control environment and are necessary to ensure the accuracy of benefits payments in an organization where extremely high volumes of relatively low dollar amount transactions are processed.

### Monitoring and Control Environment Deficiencies

Our testing noted deficiencies in SSA Monitoring Controls and Control Environment in the key areas noted below. Many of these exceptions have recurred over the past two fiscal years and have been reported in prior Management Letters.

**CDRs** - Continuing Disability Reviews (CDRs) are performed by management to determine if existing beneficiaries receiving payments based on disability continue to meet the medical eligibility criteria. This process is critical to the establishment of continued eligibility of beneficiaries receiving disability benefits and has been identified as a key



control by management as part of their OMB Circular A-123 assessment process. Our testing of CDR cases determined that some CDRs were not documented in accordance with SSA policies, for example physician approvals of final determinations were missing. However, for our sample, we were able to obtain sufficient evidence to conclude the final CDR determinations met the medical criteria established by SSA.

Improper documentation increases the risk of incorrect determinations and prevents the Agency from properly supporting decisions, impacting the accuracy and validity of SSA's recorded benefit payments.

**Quality Assurance (QA)** - The QA processes conducted by Office of Quality and Performance (OQP) reviews the work being performed through various workloads within the SSA, including a review of CDRs conducted. This process has been identified as a key control by management as part of their OMB Circular A-123 assessment process. Our testing of the QA processes related to the review of the CDRs conducted by the DDS determined the following:

- Communication of detected errors to responsible parties for resolution and performance improvement was not performed. By not communicating deficiencies noted, a key step in improving overall performance and quality is circumvented.
- QA reviews were not completed accurately based on SSA's policies and procedures. Inaccurate completion of QA reviews may result in ineligible beneficiaries receiving payments, which by statute, SSA may not be able to terminate.
- The QA process does not include procedures to update and verify SSA records outside of the QA systems. The lack of updates and verification with beneficiary records may compromise decisions made by management and lead to improper payments.

**SSA-93 Forms:** SSA management has claims review processes in place within OQP. OQP processes are considered key controls by management for the oversight of benefit payments. When an OQP claim review detects a discrepancy or inaccuracy, a Quality Review Feedback Form (SSA-93 Form) is produced to notify the applicable office that a correction is needed. Our testing identified, SSA-93 Forms are not being completed timely, accurately or completely. In addition, the SSA does not have a comprehensive process to track outstanding SSA-93 Forms and determine accuracy or timeliness of completion.

The lack of a comprehensive process related to identified findings negates the effectiveness of the OQP program and allows known payment errors to go uncorrected and inaccurate data to be maintained.

**Overpayments** - Overpayments occur when beneficiaries receive payments beyond their entitled amount. Our testing noted deficiencies in the documentation maintained to support a number of the overpayments tested. In certain situations, system limitations cause historic data to be overwritten. Consequently, we were unable to reconstruct the overpayment amount for a number of sample items due to this limitation.

The lack of documentation to support the overpayments impacts the Agency's ability to meet its fiduciary duties to protect the assets of the trust funds and government general fund and support the accounts receivable balance on its financial statements.

## Recommendations

In order to mitigate the risks of the issues noted in the significant deficiency, management should:

### CDRs

- Enforce existing policies and procedures around documentation of CDRs.
- Enhance enforcement procedures for DDSs which are not completing or documenting CDRs per policies and procedures.



### Quality Assurance

- Enhance policies over QA to clearly define when a reviewer should document and provide feedback to users.
- Enforce existing policies and procedures and continue training over the correct completion of a QA review.
- Implement procedures to update and verify SSA records outside of the QA systems based upon information validated during the QA review.

### SSA-93 Forms

- Provide training and reminders to encourage timely and appropriate completion of SSA-93 Forms in accordance with SSA guidance.
- Implement management review in the RO and FO over completed SSA-93 Forms.
- Include reviews by Headquarters over timeliness and quality of completion of SSA-93s Forms.

### Overpayments

- Include procedures in the current On-site Control and Audit Reviews (OSCAR) program for determining whether overpayment information has been completely, accurately, and timely documented by field offices or PSCs within the appropriate systems of record.
- Implement changes that prevent overpayment information from being overwritten in the system.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, SSA has not maintained effective internal control over financial reporting as of September 30, 2012, based on criteria established under FMFIA.

Specific disclosure of detailed information about these exposures might further compromise controls and are therefore not provided within this report. Rather, the specific details of deficiencies noted are presented in a separate, limited-distribution Management Letter.

We considered the material weakness identified above in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 financial statements, and this report does not affect the report above, which expressed an unqualified opinion.

## REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with laws and regulations, including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04 as amended, and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the *Federal Financial Management Improvement Act of 1996* (FFMIA), we are required to report whether the SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We did not test compliance with all laws and regulations applicable to SSA. We limited our tests of compliance to the provisions of laws and regulations cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.



The results of our test of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 as amended and no instances of substantial noncompliance that are required to be reported under FFMIA.

## OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 5 through 52 and the Required Supplementary Information (RSI) included on pages 151 through 162 of this PAR are not a required part of the basic financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Budgetary Resources included on page 149 of this PAR is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This schedule and the consolidating and combining information included on pages 145 to 148 of this PAR are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Commissioner's Message on page 1 and the other accompanying information included on pages 2 through 4, 53 through 109, 150 and 177 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Our report is intended solely for the information and use of management of SSA, the Office of the Inspector General, the OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Alexandria, Virginia  
November 8, 2012



## SOCIAL SECURITY

The Commissioner

November 08, 2012

Grant Thornton LLP  
333 John Carlyle  
Alexandria, VA 22314

Ladies and Gentlemen:

We have reviewed the draft Independent Auditor's Report concerning your audit of our fiscal year 2012 financial statements. We are extremely pleased to receive our 19<sup>th</sup> consecutive unqualified opinion on our financial statements, which demonstrates our long-standing dedication to strong financial management.

In your opinion on internal control, you identified certain deficiencies in information systems controls that in aggregate you considered a material weakness. Based on that conclusion, you did not provide an unqualified opinion that our internal control over financial reporting was operating effectively.

We strive to maintain strong controls over our systems, and we appreciate your work to identify issues so that we can further improve these controls. However, after careful consideration of your findings, many discussions with you, and based upon our overall knowledge and experience with these systems and processes, we respectfully disagree that your findings, either individually or in aggregate, rise to the level of material weakness. The findings do not prevent us from meeting the control objectives over our financial reporting. We believe the likelihood of a material misstatement to our financial statements based on your findings is remote. We remain committed to continuous enhancement of our internal controls over information systems; therefore, we are pursuing a risk-based corrective action plan to address the items you identified regarding entity-wide security programs, access controls, and compensating controls. As you have acknowledged in our discussions, we have already begun implementing improvements.

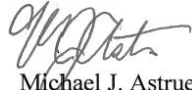
Your report also cited certain deficiencies related to benefit payment oversight that when aggregated you considered a significant deficiency. We acknowledge the need to strengthen our monitoring and control environment to ensure the accuracy of benefit payments. We will implement the necessary corrective actions to enforce and enhance continuing disability review documentation policies and procedures, enforce and enhance quality assurance policies and procedures, and improve timely completion and tracking of corrective actions from quality reviews.

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Page 2 - Grant Thornton LLP

If members of your staff have any questions, they may contact Carla Krabbe at (410) 965-0759.

Sincerely,



Michael J. Astrue