

SYSTEMS AND CONTROLS

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE STATEMENT FISCAL YEAR (FY) 2012

Management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. We assessed 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 our evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012 was operating effectively and that we found no material weaknesses in the design or operation of the internal controls.

In accordance with the *Federal Information Security Management Act (FISMA)* and FMFIA, we are reporting that the financial statement auditor cited a material weakness in our information systems controls in its opinion on internal control and that the Office of Inspector General reported that finding as a significant deficiency under FISMA. As we do with all auditor findings, we are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with the auditor's conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor's findings is remote.

In addition, we assessed the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of our annual financial statements, 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 OMB Circular No. A-123, Appendix A. The results of this evaluation provide reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2012.

We also conduct reviews of financial management systems in accordance with OMB Circular No. A-127, *Financial Management Systems*. Based on the results of these reviews, we can provide reasonable assurance that our financial management systems comply with the applicable provisions of the FMFIA as of September 30, 2012.



Michael J. Astrue
Commissioner
November 8, 2012

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 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 Office of Management and Budget (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 fiscal year (FY) 2012, 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 2012. In making this determination, he considered all the information available, including the auditor's opinion on our FY 2012 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 (OIG) contracted with Grant Thornton, LLP for the audit of our FY 2012 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.

Grant Thornton cited a material weakness in our information systems controls in its opinion on internal control over financial reporting. We are pursuing a risk-based corrective action plan to address the findings. However, we do not agree with Grant Thornton's conclusion that its findings rise to the level of a material weakness in our information systems controls. We believe the likelihood of a material misstatement to our financial statements based on the auditor's findings is remote.

Grant Thornton found deficiencies in our benefit payment oversight, that when aggregated, it considered a significant deficiency, and provided recommendations for the deficiencies. We concur with the recommendations and will continue to improve our benefit payment oversight.

The OIG reported Grant Thornton's finding of material weakness as a significant deficiency under the *Federal Information Security Management Act* (FISMA). We acknowledge the finding identified by the OIG and reported it in accordance with OMB M-12-20.

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, 2012. 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. In the FISMA report, the OIG cited Grant Thornton's finding of a material weakness in our information systems controls as a significant deficiency.

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 12 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 (TOP), 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 debts from a population of debtors previously excluded from the automated ECO selection process. We implemented Phase II of the ECO Enhancements in May 2012. Phase II allows us to select debts 10 years or more delinquent for referral to TOP, as authorized by Public Law 110-246 and 31 U.S.C. 3716. In addition, we have secured information technology resources to embark on Phase III of the ECO enhancements in FY 2013, which will allow us to collect delinquent debts by offsetting applicable State payments through TOP.

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 2012, we implemented Oracle Release 12.1.3. This release upgrades the SSOARS to the most current version of the Oracle Federal Financials Software. Release 12.1.3 includes Common Government-wide Accounting Code functionality and sets the stage for implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) in SSOARS. Implementation of GTAS functionality is necessary to comply with new Treasury Department reporting requirements, which mandate GTAS implementation by December 2013.

Release 12.1.3 also provides new Accounts Payable to Accounts Receivable Netting functionality where open receivables and payables exist for the same payee. These receivables and payables are automatically netted prior to issuing payment. This new process will increase efficiency and reduce operational costs by consolidating transactions and preventing overpayments. Additionally, we implemented the Federal Delinquency functionality as part of the new release. This functionality automates manual processes and enhances our ability to recover improper payments more timely.

Building on our previous use of Web Services technology, we integrated the Case Processing and Management System, a web-based system that supports our disability workloads, to automatically transmit medical and vocational expert orders and invoices to the accounting system. These purchase order and accounts payable Web Services interface in real time to SSOARS and provide components with access to their financial data in near real time.

We also implemented Oracle Business Intelligence Applications (BI Apps). BI Apps provides financial management dashboards and includes reports, budget execution, and spending analyses. This functionality will reduce the time required to compile and report on workload performance, and increase transparency for managers to react to changing workloads.

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