

# SYSTEMS AND CONTROLS

## MANAGEMENT ASSURANCES

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ASSURANCE STATEMENT FISCAL YEAR 2016

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, that are effective for fiscal year 2016. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016.

We also performed an evaluation of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. The result of this evaluation provides reasonable assurance that our internal control over financial reporting was operating effectively as of September 30, 2016.



Carolyn W. Colvin  
Acting Commissioner  
November 9, 2016

### 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 Acting Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that 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 Acting Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, 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 our agency head for a final determination on whether to report a material weakness.

We incorporate effective internal controls into our business processes and financial management systems through the life cycle development process. We incorporate the necessary controls into the user requirements, certify the controls are in place by having management review the new or changed processes and systems, and test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observations 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 that our business processes are functioning as intended. The reviews also ensure management controls and financial management systems comply with the standards established by FMFIA and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report 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**

The agency maintains a financial management systems inventory and conducts reviews of the financial management systems to ensure they 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) 2016, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

## **GOVERNMENT ACCOUNTABILITY OFFICE'S, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT**

In FY 2016, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meet the GAO's standards.

## **FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT**

The Acting Commissioner determined that our financial management systems were in substantial compliance with the *Federal Financial Management Improvement Act* for FY 2016. In making this determination, she considered all the information available, including the auditors' opinion on our FY 2016 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 our management control reviews and financial management systems reviews conducted by our independent contractor.

Please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report for more information.

### FINANCIAL STATEMENT AUDIT

The Office of the Inspector General (OIG) contracted with KPMG LLP (KPMG) for the audit of our FY 2016 financial statements. KPMG 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.

KPMG also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2016, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2015 to January 1, 2016, are presented fairly, in all material respects, in accordance with United States generally accepted accounting principles.

In this year's financial statement audit, KPMG cited a significant deficiency in our information technology systems controls in its opinion on internal control over financial reporting. KPMG provided recommendations to remediate the deficiencies. We will continue to pursue a risk-based corrective action plan to address the remaining deficiency, and build on our progress to date.

KPMG also found deficiencies in the processes and controls related to accounts receivable and overpayments that, when aggregated, it considered it to be a significant deficiency. KPMG provided recommendations to remediate the deficiencies. We will continue to improve our processes and controls over accounts receivable and overpayments.

Please refer to the *Auditors' Report* section of this report for more information on the auditors' findings and our plans to correct the findings.

### FEDERAL INFORMATION SECURITY MODERNIZATION ACT

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, 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 was due by November 10, 2016. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

During FY 2016, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by our Inspector General in our prior year financial statement audit. We made significant progress in automating our access management process, ensuring the security of distributed systems, and automating the detection and mitigation of vulnerabilities.

For the FY 2016 FISMA audit, KPMG determined that we established an information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The auditors did cite weaknesses in some areas, to include Risk Management, Contractor Systems, Configuration Management, Identity and Access Management, Security and Privacy Training, Information Security Continuous Monitoring, Incident Response, and Contingency Planning.

As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

### 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 nine 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. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

For our Debt Management category, in FY 2016, we began planning and analysis for the Overpayment Redesign project. This initiative will address various overpayment systems limitations identified via audits and other sources. Our goal is to build one comprehensive overpayment system that will enable us to track, collect, monitor, and report our programmatic overpayment activity more efficiently. Due to demands on current resources, we do not have information technology resources to continue planning and analysis for FY 2017.

In December 2014, we completed the nationwide rollout of the Social Security Electronic Remittance System (SERS) to collect administrative fees in all field offices. SERS fits our agency's vision to upgrade our receipt processes to eliminate cash transactions, use card swipe and check scanner technology, and adopt processes that are compliant with Payment Card Industry security standards. We continued the rollout of SERS functionality across the agency in FY 2016 to include the collection of fees for services, such as wage reports and itemized earnings statements. We also completed the planning and analysis to have SERS collect programmatic overpayments in both the field offices and the processing centers. SERS programmatic overpayment collection is funded for development in FY 2017.

Beginning in FY 2017, the Remittance Modernization Project will implement various mechanisms for submitting programmatic debt payments electronically. We will include SERS development in this overall effort. This initiative is a multi-year, multi-phase project.

For the Financial/Administrative systems category, OMB Memorandum M-10-26 provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

We successfully replaced the SSOARS infrastructure with state-of-the-art servers that consolidated our footprint, consume less energy, and provide performance improvement across the SSOARS environment. This hardware refresh coincided with the move to the National Support Center (NSC) as well. SSOARS is running on modern servers in the NSC with enhanced performance, disaster recovery, and life cycle configuration as a result of this successful hardware refresh in 2016.

The agency also completed planning and analysis and began implementing the *Digital Accountability and Transparency Act of 2014* (DATA Act) reporting requirements. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website and additional data to the Department of the Treasury.

## NATIONAL ANTI-FRAUD COMMITTEE

For many years, our regional offices have successfully collaborated with regional OIG agents and local law enforcement on regional anti-fraud committees (RAFC). In FY 2014, we reinstated the National Anti-Fraud Committee (NAFC), co-chaired by the Inspector General and our Deputy Commissioner for Budget, Finance, Quality, and Management. The NAFC leads and supports national and regional strategies to combat fraud, waste, and abuse. Support includes, but is not limited to, the following:

- Providing an open forum for agency senior executives to collaborate and develop agency-level strategies to address fraud challenges;
- Considering best practices, benchmarking, and new or evolving technology and analytical techniques to help prevent and detect fraud;
- Ensuring that the agency addresses the most critical vulnerabilities related to fraud;
- Serving as an advisory board for the Office of Anti-Fraud Programs (OAFP);
- Evaluating potential anti-fraud initiatives introduced by the RAFCs, workgroups, and employee suggestions; and
- Visibly demonstrating the agency's commitment to combatting fraud and fostering public confidence in the stewardship of our programs.

On November 24, 2014, the Acting Commissioner approved the establishment of OAFP. An Associate Commissioner-level office, OAFP's mission is to more efficiently and effectively detect, deter, and mitigate fraud, waste, and abuse of our programs. OAFP provides oversight and accountability for the agency's anti-fraud activities, working closely with the NAFC.

While the reinstatement of the NAFC provided strategic governance over our anti-fraud efforts, we also established OAFP to provide centralized oversight and accountability for our anti-fraud program. OAFP leads our anti-fraud activities and works across organizational lines to ensure that employees throughout the agency have the tools to combat fraud.

The NAFC co-chairs and OAFP meet periodically to ensure sustained attention on anti-fraud efforts. With the support of OAFP, the NAFC co-chairs convene regular meetings of the full NAFC membership. At any time, members may ask the co-chairs to call a meeting to discuss issues that require agency-level attention.

On September 27, 2016, OAFP and the NAFC co-chairs hosted a National Anti-Fraud Conference to share best practices and discuss FY 2017 priorities and initiatives.