

Systems and Controls

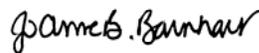
Management Assurances

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement Fiscal Year 2006

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, 2006, 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, 2006.

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, 2006.



Jo Anne B. Barnhart
November 7, 2006

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 they be reported to the President and the Congress, 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.

When a major control weakness is identified in the Agency, it is considered by the Agency's Executive Internal Control (EIC) Committee to determine if the weakness should be considered a material weakness and thus submitted to the Agency head for final determination. The 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. The Committee provides executive oversight of the management control program, addresses management control issues that have a substantial impact upon the Agency's mission, monitors the progress of actions to correct management control weaknesses, ensures SSA's critical infrastructure is protected and ensures the Agency has a viable continuity of operations plan. The Committee also provides recommendations for improvement in those areas to the Agency head.

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.

The controls of the new or changed processes or systems are monitored to ensure they remain 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. The Agency requires that a minimum of 10 percent of field offices (FO) be reviewed each fiscal year. The FOs are chosen for review by considering performance measures in selected critical processes and by using the experience and judgment of the regional security personnel. During FY 2006, SSA's managers and contractor conducted reviews of 215 FOs, 6 Program Service Centers (PSC) and 14 Hearings offices.

SSA continues to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). During FY 2006, updated security policy and guidelines were issued to the DDS's. The DDSs perform annual security self-reviews using the guidelines and a review checklist. Additionally, SSA's Regional Offices (RO) and contractors perform independent security review 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 2006, SSA and contractor conducted reviews of 15 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, selected ROs, 24-30 FOs, selected PSCs, and selected 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 2006, SSA's contractor conducted detailed reviews of SSA's Title 2 Redesign System, Retirement, Survivors and Disability Insurance Accounting System, Supplemental Security Income Records Maintenance System, and Social Security Number Establishment and Correction System. 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 2006. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2006 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 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 2006 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 remediation efforts 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, with the exception of procedural areas needing improvement, SSA had complied with FISMA requirements. SSA submitted its annual FISMA report to OMB on September 29, 2006.

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. 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.

OMB issued scorecard standards for success for each of the five PMA initiatives. In order for agencies to be considered in the "green" category (the highest score) for the Improved Financial Performance initiative, they must satisfy the following standards for success:

- Meets all yellow standards for success by:
 - Receiving an unqualified opinion on its financial statements
 - Meeting financial statement reporting deadlines
 - Reporting in its audited annual financial statements that its systems are in compliance with the FFMA
 - Having no chronic or significant Anti-Deficiency Act Violations
 - Having no repeat auditor-reported internal control material weaknesses
 - Having no material non-compliance with laws or regulations
 - Having no repeat material weaknesses or non-conformances under Section 2 and Section 4 of FMFIA that impact the agency's internal control over financial reporting or financial systems.
- Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations.
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.

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 and has also demonstrated this to OMB. 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.

In addition to efforts related to the PMA, SSA is aggressively working to ensure compliance with the recently revised OMB Circular A-123, *Management's Responsibility for Internal Control*. Beginning in FY 2006, the circular requires that the internal controls that support the financial reporting process are documented and tested to allow management to make an assertion regarding the effectiveness of these internal controls. SSA has documented the financial reporting process, determined the most significant risks, as well as the controls in place to mitigate these risks, and developed and executed a test plan to test the effectiveness of these controls. This information, as well as the results of the review programs discussed on the preceding pages of the Systems and Controls section, served as the basis for the required assertion on the internal controls. The required assertion may be found under Management Assurances at the beginning of the Systems and Controls section.

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. Accordingly, the FMS inventory may change from year to year depending on the progress made in modernization projects. In FY 2006, SSA utilized the following active FMS:

Program Benefits

- Title II Redesign System
- Retirement, Survivors and Disability Insurance (RSDI) Accounting System
- Supplemental Security Income (SSI) Records Maintenance System
- Earnings Record Maintenance System
- Social Security Number Establishment and Correction System

Debt Management

- Debt Management System (DMS)
- Recovery of Overpayments, Accounting and Reporting System (ROAR)

Financial/Administrative

- Social Security Online Accounting and Reporting System (SSOARS)
- Cost Analysis System (CAS)
- Supply System
- Property Accountability System
- SSA Streamlined Acquisition System

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. The major effort in this category is to eventually subsume the RSDI Accounting System into the umbrella Title II System. SSOARS, a federally certified accounting system based on Oracle Federal Financials, was implemented as SSA's System of Record on October 1, 2003. During FY 2006, a user-friendly "front-end" for accessing the Agency's financial accounting system data and integrating budget allocations with expenditure data was developed. The functionality makes financial data easily available to all managers throughout the Agency. SSA is keeping all options open and assessing all available Financial Management Line of Business alternatives in conjunction with an ongoing assessment of SSA's existing accounting system and the potential need for replacement to meet government-wide standards.

Improper Payments Information Act of 2002

Narrative Summary of Implementation Efforts for FY 2006 and Agency Plans for FY 2007-FY 2009

Background

A key component of the President's Management Agenda is the initiative to reduce improper payments. The Improper Payments Information Act of 2002 (IPIA), Public Law 107-300, requires Federal agencies to report annually on the extent of the improper payments in those programs that are susceptible to significant improper payment and the actions they are taking to reduce such payments. IPIA has extended the improper payments reporting requirements beyond those programs and activities listed in the former Section 57 of OMB Circular A-11.

OMB guidance on implementation of IPIA calls for SSA to continue to report on improper payments information for the OASI and DI programs, in addition to the SSI program, as was required by Section 57 of OMB Circular A-11. SSA is to report on the improper payments found in the OASI and DI programs even though the level of such payments in these programs have continually been well below the threshold cited in IPIA. The OMB guidance also calls for the *FY 2006 Performance and Accountability Report* to include the most recently available data in reducing

improper payments. Due to timing of the payment accuracy analysis, SSA's FY 2006 report includes results for FY 2005. Please refer to the *Appendix* for a detailed report of the FY 2005 results and plans to reduce improper payments.

Since OMB guidance on IPFA requires the evaluation of all payment outlays beyond the OASI, DI and SSI programs that SSA administers, SSA has performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments. More information on the evaluation of improper payments is provided in the *Appendix* of the report.

Recovery Auditing

In FY 2005, SSA conducted an internal recovery audit of contractor payments in accordance with Section 831 of the Defense Authorization Act for Fiscal Year 2002 which requires agencies that enter into contracts with a total value in excess of \$500 million in a FY initiate a program to identify and recover payment errors. Using its own resources, SSA established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges; additionally, computer assisted auditing techniques are utilized to identify possible duplicate payments. Results from the audit do not indicate any susceptibility to significant improper payments nor any problems with recovery activity. The recovery audit program scope included a review of administrative contractor payments for FY 2005 totaling \$1.4 billion. Of that amount, about .01 percent or \$178,199 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and collection of administrative improper payments. Please refer to the *Appendix* for a detailed report on SSA's recovery auditing initiative.

Agency Efforts and Future Plans

SSA's OASI, DI and SSI quality assurance (QA) payment accuracy (Stewardship) reviews provide the data to measure the payment outlays in these programs each fiscal year. The FY 2005 OASDI accuracy rate continues to be at a significantly high level; 99.6 percent for overpayments and 99.8 percent for underpayments. Even though we have achieved this high accuracy rate, we still strive to make additional achievements in payment accuracy. The detailed report on SSA's efforts to reduce improper payments identifies the major causes of improper payments over the past several years in the OASI and DI programs and the actions the Agency has taken to address these causes.

In the SSI program, SSA has established an ambitious 5-year goal to achieve 96 percent overpayment accuracy by FY 2008 and maintain that rate in FY 2009. Success in achieving the SSI goal is dependent on the effectiveness of the activities outlined in SSA's SSI Corrective Action Plan. In FY 2005, SSI payment accuracy results were 93.6 percent for overpayments and 98.6 percent for underpayments. The major causes of SSI overpayments in FY 2005 were wages and financial accounts (such as savings and checking accounts). The major causes of SSI underpayments in FY 2005 were wages, living arrangements, and in-kind support and maintenance.

OASDI Improper Payment Initiatives

- A Substantial Gainful Activity (SGA) software tool, called eWork, is available in every field office to ensure proper handling of SGA cases. In addition, SSA completed an agreement in December 2005 with the Office of Child Support and Enforcement (OCSE) that permits computer matching with OCSE's "new hires" file that is expected to be useful in identifying unreported work and earnings.
- The Agency is working with State governments to improve the current paper-based process to report death data. Electronic Death Reporting (EDR), a web-based automation of the death registration process, would provide timely and accurate death data. Currently, SSA is receiving death data via EDR from 14 States, New York City and the District of Columbia. The Agency has awarded funding to nine additional States in FY 2006. Fifteen States are in the process of implementing EDR.
- For the past several years, SSA implemented initiatives to correct computation errors in benefit payments. SSA is in the process of developing automated capabilities that will further prevent, identify and correct computation errors.

- Improvements were made to wage and self-employment earnings reports by modifying the Social Security Statement and increasing electronic filing of W-2's. In addition, the Social Security Number Verification System was implemented nationally in June 2005 providing employers a web-based vehicle in which to verify names and SSN's of employees for wage reporting purposes. To date, 46.9 million SSNs have been verified through this system.
- Correction of workers compensation offset errors, the second leading cause of OASDI underpayments for FYs 2001 through 2005, continues through dedication of SSA's Operations staff to rework affected cases and exploring possible data exchanges.

SSI Improper Payments Initiatives

- A national workgroup was formed in 2006 to begin developing a comprehensive strategy to maximize SSI wage reporting nationwide, while minimizing the resource impact through automation and policy efficiencies.
- In FY 2004, SSA completed a test to determine the feasibility of implementing monthly wage reporting using touch-tone and telephone technology. Based upon the results of the first test, SSA is conducting and evaluating a second test using a different authentication process. Results of the second test will determine whether to proceed with this technology that offers the opportunity to prevent SSI wage overpayments estimated at \$416 million in FY 2005.
- To further improve SSI payment accuracy, the Foster Care and Independence Act of 1999 gives the Commissioner the authority to require SSI recipients to provide authorization for SSA to obtain any and all financial institution records. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination. In February 2005, SSA initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering of this study concluded in FY 2005. A report of the study findings is expected to be released by November 2006. SSI financial account issues accounted for a projected \$503 million in overpayment deficiencies for FY 2005.
- Effective January 2001, SSA began using online queries to access OCSE quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. SSA also undertook a pilot match study that explored the feasibility and usefulness of a quarterly match with the "new hires" OCSE file. A study report is expected by November 2006.
- Improper SSI payments due to living arrangements and in-kind support and maintenance result from recipients not reporting changes in their household living situations or changes in the recipient's contributions to household expenses. This is a complex area where recipient understanding of reporting requirements is very difficult to address. For this reason a portion of the annual SSI redetermination workload is targeted to addressing improper payments due to living arrangement changes. The redetermination process is the most powerful tool available to SSA for preventing and detecting all types of SSI improper payments, including those due to living arrangements and in-kind support and maintenance.