

Systems and Controls

Federal Managers' Financial Integrity Act

Federal Managers' Financial Integrity Act (FMFIA) Program

SSA has a well established agencywide 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. For FY 2005, all the assurance statements provided positive assurance. This executive accountability assurance provides an additional basis for the Commissioner's annual assurance statement included in the transmittal letter to this report.

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 Office of Management and Budget (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 agencywide 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 (FY). 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 2005, SSA's managers and contractors conducted reviews of 205 FOs (15%) and 6 Program Service Centers (PSC) (100%). During FY 2005, SSA's Office of Hearings and Appeals (OHA) and an independent contractor conducted reviews of 48 OHA offices (34%). The contractor also provided recommendations on ways to strengthen the OHA Management Control Review Program.

SSA has also taken great strides to strengthen the administrative, programmatic and security controls at the State Disability Determination Services (DDS). During FY 2005, updated security policy and guidelines were issued to the DDS's. The DDSs perform annual security self-reviews using the guidelines and checklist from the DDS Security Document. Additionally, SSA's Regional Offices (RO) perform an 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 2005, SSA conducted reviews of 15 DDS sites (23%).

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 2005, SSA's contractor conducted detailed reviews of SSA's Earnings Records Maintenance System, Social Security Online Accounting and Reporting System, and Supply System. The results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations or Federal standards. However, SSA is addressing the weaknesses found and will monitor those until corrected.

Financial Statement Audit

The OIG contracted for the audit of SSA's FY 2005 financial statements. The auditor found that the principal financial statements were fairly stated in all material respects and issued an unqualified opinion. The auditor also found management's assertion that SSA's systems of accounting and internal controls were in compliance with OMB's internal control objectives to be fairly stated in all material respects, and the internal control report did not include any internal control deficiencies.

Federal Financial Management Improvement Act

On May 6, 2005, the Commissioner determined that SSA's financial management systems were in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) for FY 2004. In making this determination, she considered all the information available, including the auditor's opinion on the Agency's FY 2004 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.

Under Section 803(c)(2) of FFMIA, the determination for FY 2005 shall be made no later than 120 days after the earlier of (A) the date of receipt of an agencywide audited financial statement or (B) the last day of the fiscal year following the year covered by such statement. We expect to receive the final management letter report(s) for the FY 2005 audit in February 2006.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to conduct an annual self-assessment review of their information technology security 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 self-assessment methodology was consistent with established FISMA requirements. SSA's Office of Inspector General (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 October 7, 2005.

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 governmentwide and nine agency specific areas that need to be revamped to better serve the American people. One of the five governmentwide 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 an agency 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 FFMIA
 - Having no chronic or significant Anti-Deficiency Act Violations

- Having no material auditor-reported internal control weaknesses
- Having no material non-compliance with laws or regulations
- Having no material weaknesses or non-conformances reported under FMFIA.
- 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.

SSA's status for the Improved Financial Performance initiative is green and we have also been rated green for progress on OMB's latest scorecard. 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 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 will serve as the basis for the required assertion on the internal controls over financial reporting as of September 30, 2006.

Financial Management Performance

A major challenge facing SSA is to maintain the green status in financial management in the PMA and green status in progress. We achieved that status due to our integrated financial and performance systems that allow SSA managers to routinely access financial and performance information to make day-to-day decisions. That status is also due to the Agency receiving an unqualified opinion on its financial statements with no material weaknesses cited by the auditor; having financial systems compliant with Federal law; and demonstrating to OMB that SSA uses accurate and timely information to manage the Agency. The Agency has new initiatives to "Get Beyond Green" that will improve the quality, consistency and access to information used by managers and analysts to manage work and account for resources. The lynchpin to these initiatives is a modernized cost accounting system which will integrate workload counts, processing times, and administrative cost data at all levels of the organization. This data will be used to calculate unit cost and productivity management information for the Agency's programs down to the office level to support strategic decision making.

SSA's core accounting system is in compliance with all OMB requirements, incorporates commercial best practices and includes the Agency's core accounting functions. The system interfaces with administrative systems to enhance the Agency's ability to soundly manage assets and we will continue to invest in infrastructure needed to sustain superior performance into the future.

SSA continues to meet the challenges of timely and accurate financial reporting. During this year, SSA produced quarterly financial statements and submitted them to OMB by the required due dates and met the required delivery date for the FY 2005 PAR. We will continue to improve our procedures for assembling, analyzing and reporting financial information on a timely basis. The accuracy of our data has been confirmed by twelve successive unqualified, or clean, opinions on our annual financial statements.

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 2005, SSA utilized the following active FMS:

Program Benefits

- Title II 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. The goal in the Debt Management category is to have a single DMS incorporating both RSDI and SSI debt programs. The major project in the Financial/Administrative category was the roll out of SSOARS on October 1, 2003. During FY 2005, SSA upgraded SSOARS to implement the OMB requirement related to Central Contractor Registration functionality. Prospectively, SSA is conducting research to determine the viability of applying to become a Financial Management Center of Excellence.

Improper Payments Information Act of 2002

Narrative Summary of Implementation Efforts for FY 2005 and Agency Plans for FY 2006-FY 2008

Background

A key component of the PMA 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 Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs, in addition to the Supplemental Security Income (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 2005 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 2005 report includes results for FY 2004. Please refer to the *Appendix* for a detailed report of the FY 2004 results and plans to reduce improper payments.

Since OMB guidance on IPIA 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 2004, SSA initiated recovery auditing 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. SSA hired auditing firm PRG Shultz and the recovery auditing effort began in January 2004. Results from the contractor did not indicate any significant recovery activity. Only .001 percent, or about \$49,000, of the \$3.3 billion payments reviewed was deemed improper and collected. The vendor concluded their review in December 2004. SSA then established an in-house recovery auditing program. 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 2004 Old-Age, Survivors and Disability Insurance (OASDI) accuracy rate continues to be at a significantly high level; 99.5 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 a 5-year goal to achieve 96 percent overpayment accuracy by FY 2008. Success in achieving the SSI goal is dependent on the effectiveness of the activities outlined in SSA's SSI Corrective Action Plan. In FY 2004, SSI payment accuracy results were 93.6 percent for overpayments and 98.7 percent for underpayments. The major causes of SSI overpayments in FY 2004 were wages and financial accounts (such as savings and checking accounts). The major causes of SSI underpayments in FY 2004 were wages, living arrangements, and in-kind support and maintenance.

OASDI Improper Payment Initiatives

- A Substantial Gainful Activity software tool, called eWork, is available in every field office to ensure proper handling of SGA cases. In addition, SSA is pursuing a pilot with the Office of Child Support and Enforcement's (OCSE) "new hires" file as well as a study of SSA's internal alert process to investigate substantial earnings.
- The Agency is working with State governments to improve the current paper-based process to report death data. Electronic Death Registration (EDR), a web-based automation of the death registration process, would provide timely and accurate death data. Currently, SSA has awarded EDR development contracts to 22 States and 7 States and the District of Columbia have implemented 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.
- Correction of workers compensation errors, the third leading cause of OASDI underpayments for FY's 2003 and 2004, continues through dedication of SSA's Operations staff to rework affected cases and exploring possible data exchanges.

SSI Improper Payments Initiatives

- 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 will conduct 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 \$398 million in FY 2004.
- In addition, SSA is working to streamline the SSI wage documentation requirements. In January 2005, a year long test began in selected service areas to utilize a centralized unit to process wage reports mailed by SSI recipients and deemors; i.e., ineligible spouses and parents.
- 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. Study analysis and reporting will occur in the second quarter of FY 2006 whereby the results will be used to increase the effectiveness and efficiency of a future national electronic verification process. SSI financial account issues accounted for a projected \$369 million in overpayment deficiencies for FY 2004.
- 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. In an effort to learn quickly about unreported work, SSA is exploring the usefulness of a quarterly match with the "new hires" OCSE file.
- 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. To detect improper SSI payments, SSA regularly reviews cases that statistical profiles indicate are most likely to be in error.