November 13, 2024

The Honorable Martin O'Malley
Commissioner of Social Security

The Office of the Inspector General contracted with the independent certified public accounting firm Ernst & Young LLP to audit (1) the Social Security Administration's (SSA) financial statements as of September 30, 2024 and 2023 and the related notes to the financial statements; (2) the sustainability financial statements, including the statements of social insurance as of January 1, 2024 and 2023 and the related notes to the sustainability financial statements; and (3) the statements of changes in social insurance amounts for the periods January 1, 2023 to January 1, 2024 and January 1, 2022 to January 1, 2023. We also contracted with Ernst & Young to provide an opinion on internal control over financial reporting and report on compliance and other matters. The contract requires that the audit be conducted 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. 24-02, *Audit Requirements for Federal Financial Statements*. Those Standards and Bulletin require that Ernst & Young plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

This letter transmits Ernst & Young's *Report of Independent Auditors.* Ernst & Young found the following.

- The financial statements and sustainability financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

- SSA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024, based on criteria established under the *Federal Managers' Financial Integrity Act* (FMFIA); OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control;* and in *Standards for Internal Control in the Federal Government* (Green Book), issued by the Comptroller General of the United States. However, Ernst & Young identified two significant deficiencies in internal control over financial reporting related to (1) Internal Controls over Certain Financial Information Systems and (2) Internal Control over Accounts Receivable with the Public (Benefit Overpayments).

- No instances in which SSA's financial management system did not comply substantially with *Federal Financial Management Improvement Act* (FFMIA) requirements.

- No reportable instances of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements tested.

The sustainability financial statements as of January 1, 2022, 2021, and 2020 were audited by Grant Thornton LLP who expressed unmodified opinion on the sustainability financial statements on November 10, 2022. Grant Thornton LLP’s Report of Independent Certified Public Accountants dated November 10, 2022, included an Emphasis of matter paragraph regarding the sustainability financial statements.

OFFICE OF THE INSPECTOR GENERAL EVALUATION OF ERNST & YOUNG’S AUDIT PERFORMANCE

To fulfill our responsibilities under the *Chief Financial Officers Act of 1990* and related legislation for ensuring the quality of the audit work performed, we monitored Ernst & Young’s audit of SSA’s financial statements and sustainability financial statements by:

- evaluating the auditors’ and specialists’ independence, objectivity, and qualifications;
- reviewing Ernst & Young’s audit approach and planning;
- monitoring the audit’s progress at key points;
- examining Ernst & Young’s documentation related to planning the audit, assessing SSA’s internal control, and substantive testing;
- reviewing Ernst & Young’s audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 24-02;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Ernst & Young is responsible for the attached auditor’s report, dated November 13, 2024, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding Ernst & Young’s performance under the contract terms. 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; sustainability financial statements; internal control over financial reporting; or conclusions on whether SSA’s financial management systems complied substantially with FFMIA; or compliance with provisions of certain laws, regulations, contracts and grant agreements. However, our monitoring review, as qualified above, disclosed no instances where Ernst & Young did not comply, in all material respects, with applicable auditing standards.

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

Hannibal "Mike" Ware
Acting Inspector General

Building a better working world

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Report of Independent Auditors

Martin O'Malley, Commissioner
Social Security Administration

Hannibal "Mike" Ware, Acting Inspector General
Social Security Administration

In our audits of the Social Security Administration (SSA or the Agency), we found:

- The consolidated balance sheets of SSA as of September 30, 2024 and 2023, the related consolidated statements of net cost, consolidated statements of changes in net position, and the combined statements of budgetary resources for the years then ended, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- The sustainability financial statements which comprise the statements of social insurance as of January 1, 2024 and 2023, and the statements of changes in social insurance amounts for the periods January 1, 2023, to January 1, 2024, and January 1, 2022, to January 1, 2023, are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States of America;
- SSA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024; and
- No reportable noncompliance for fiscal year 2024 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, a section on required supplementary information and a section on other information included with the financial statements, (2) our report on compliance with laws, regulations, contracts, and grant agreements, and (3) the Agency's response to findings. Our report also includes an emphasis of matter paragraph related to the sustainability financial statements and an other matter paragraph to acknowledge that the Agency's fiscal year 2022, 2021, and 2020 sustainability financial statements were audited by another auditor.

Report on the Audit of the Financial Statements and on Internal Control over Financial Reporting

Opinions on the Financial Statements

We have audited the financial statements of the Social Security Administration, which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost, consolidated statements of changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated and combined financial statements, and we have audited the sustainability financial statements which comprise the statements of social insurance as of January 1, 2024 and 2023, and the statements of changes in social insurance amounts for the periods January 1, 2023, to January 1, 2024, and January 1, 2022, to January 1, 2023, and the related notes to the sustainability financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying consolidated and combined financial statements present fairly, in all material respects, the financial position of the Agency as of September 30, 2024 and 2023, and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Also, in our opinion, the accompanying sustainability financial statements present fairly, in all material respects, the Agency's statements of social insurance as of January 1, 2024 and 2023, and its statements of changes in social insurance amounts from January 1, 2023, to January 1, 2024, and January 1, 2022, to January 1, 2023, in accordance with accounting principles generally accepted in the United States of America.

Opinion on Internal Control over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Agency's internal control over financial reporting as of September 30, 2024 based on criteria established under 31 U.S.C. § 3512(c) and (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA) as implemented by Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and in *Standards for Internal Control in the Federal Government*, issued by the United States Government Accountability Office (the Green Book).

In our opinion, the Agency maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024, based on the criteria established under FMFIA, OMB Circular No. A-123, and the Green Book. Our 2024 audit identified deficiencies in the Agency's controls over Certain Financial Information Systems and Accounts Receivable with the Public (Benefit Overpayments), described in the accompanying Appendix *Significant Deficiencies in Internal Control Over Financial Reporting*, that represent significant deficiencies in the Agency's internal control over financial reporting. A deficiency in internal control 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. 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on the Agency's 2024 financial statements.

Basis for Opinions

We conducted our audits in accordance with GAAS, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards),* and in accordance with the provisions of OMB Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and the provisions of OMB Bulletin No. 24-02 are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control Over Financial Reporting* section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Sustainability Financial Statements

As discussed in Note 17 to the sustainability financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the Agency's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust fund reserves become depleted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund reserve depletion. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

Report of Other Auditors on the Agency's Sustainability Financial Statements

The sustainability financial statements as of January 1, 2022, 2021, and 2020 were audited by Grant Thornton LLP who expressed an unmodified opinion on the sustainability financial statements on November 10, 2022. Grant Thornton LLP's Report of Independent Certified Public

Accountants dated November 10, 2022, included an Emphasis of matter paragraph regarding the sustainability financial statements.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the financial statements and in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Management is responsible for assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA, OMB Circular No. A-123, and the Green Book, and its assessment about the effectiveness of internal control over financial reporting as of September 30, 2024, included in the accompanying Commissioner's Assurance Statement.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting, conducted in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to our audits of the financial statements in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, OMB Circular No. A-123, and the Green Book, such as those controls relevant to preparing performance information and ensuring efficient operations.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity'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 entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements; and (4) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which 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 assessment 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in Management's Discussion and Analysis from pages 7 to 53 and the combining schedule of budgetary resources, and the required supplementary social insurance information from pages 116 to 132 be presented to supplement the financial statements (collectively the Required Supplementary Information or RSI). Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB and OMB Circular A-136, *Financial Reporting Requirements*, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with *Government Auditing Standards*. These procedures consisted of (1) inquiries of management about the methods of preparing the Required Supplementary Information and (2) comparing the Required Supplementary Information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements, in order to report omissions or material departures from FASAB and OMB Circular A-136 guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Agency's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the Agency's Financial Report. The other information comprises the following sections: A Message from the Commissioner (pages 1-2); Table of Contents & Introduction (pages 4-6); A Message from the Chief Financial Officer (pages 56-58); Audited Financial Statements and Additional Information (59-60); and Other Information (pages 153-221). Other information does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, consistent with our auditor's responsibility discussed below, in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with certain provisions of applicable laws, regulations, contracts and grant agreements disclosed no instances of noncompliance for fiscal year 2024 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Agency. Accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether the Agency's financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the *United States Standard General Ledger* at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a). The results of our tests disclosed no instances in which the Agency's financial management systems did not comply with the requirements of FFMIA Section 803(a).

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with *Government Auditing Standards;* and OMB Bulletin No. 24-02.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to the Agency that have a direct effect on the determination of material amounts and disclosures in the Agency's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to the Agency. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the findings identified in our audit and described on page 151 of this Agency Financial Report. The Agency's response was not subjected to the other auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on the Agency's response.

Ernst & Young LLP

November 13, 2024

Appendix – Significant Deficiencies in Internal Control Over Financial Reporting

<u>Significant Deficiency in Internal Controls over Certain Financial Information Systems</u>

Information systems controls are a critical component of the Federal government's operations to manage the integrity, confidentiality and reliability of its programs and activities and assist with reducing the risk of errors, fraud, or other illegal acts. SSA has a complex set of technology, systems, and Information Technology (IT) infrastructure in place to administer its programs and activities. As SSA continues its efforts to enhance its information system internal controls over financial reporting, the items identified in the current year audit merit continued focus on their information systems controls and processes.

Due to the complex nature of the IT environment, SSA continues to have pervasive deficiencies in its implementation of controls. While SSA has made improvements in the remediation of IT deficiencies, we noted that some control deficiencies identified this year have been recurring issues in previous financial statement audits as well as new control deficiencies. Therefore, we deemed the aggregation of these control deficiencies to be a significant deficiency in information system internal controls over financial reporting.

Access Controls and Segregation of Duties

SSA has a large number of users requiring access to these IT systems in order to administer its programs in a timely and effective manner. Accordingly, properly implemented system access controls, including user and system account management, segregation of duties, and monitoring of system access, are critical to preventing and detecting unauthorized usage of SSA information resources, program, and data files. Without maintaining an appropriate level of access controls within SSA systems, the integrity, confidentiality, and availability of SSA's information resources could be compromised.

The following control deficiencies were identified:

- The accounts of terminated users were not disabled or deprovisioned in accordance with the SSA defined timeframe.
- SSA procedural documentation to support its account management processes did not include the procedures for handling cases requiring a second reviewer and thus individuals reviewed and certified their own access.
- For one financially significant application, the users' account history for provisioning and deprovisioning of access was not available.
- For one financially significant application, users provisioning was not performed in accordance with SSA defined policy and procedures.

- For one financially significant application, production deployers have access to code development and review capabilities and the evidence of approval for the review of segregation of duties for change management was not maintained.

Configuration Management Controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, SSA can ensure that only authorized software programs and infrastructure configurations are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity and availability of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The following control deficiencies were identified:

- SSA has not yet completed its review of use cases to establish a monitoring and remediation process using an automated tool for additional monitoring of its security configuration settings.

- One change was requested and migrated into production by an individual that was not documented as an approved migrator.

- For a selection of IT infrastructure components that support the financially relevant applications, not all security settings were in compliance with the SSA defined security configuration settings or the SSA approval waiver process for non-compliance was not followed.

- The monitoring and review of audit logs were not consistently followed in accordance with SSA procedures.

IT Operations Controls

Effective IT operations controls support the reliability of various aspects of operating the IT environment related to the complete and accurate processing of transactions and the protection of information used in that processing. IT operations involves computer job management tasks related to scheduling and running jobs (programs), monitoring the successful completion of those jobs, and detecting and addressing job failures timely. In addition, it includes the effective identification and timely remediation of vulnerabilities and weaknesses identified by SSA through its risk management process. Ineffective controls around IT operations increases the risk that issues with programs that are not scheduled correctly or do not process to completion, may not be addressed, or may be addressed inappropriately, and hardware or software issues will result in the loss of financially relevant data or the ability to accurately process that data. Further, not timely remediating known vulnerabilities or weaknesses may impact the integrity and security of the data.

The following control deficiencies were identified:

- Vulnerabilities identified were not remediated within the timeframe set forth by SSA policy and were not appropriately tracked via an associated plan of action and milestones (POA&M) or waiver noting the compliance deviation.

- For one financially significant system, SSA did not perform the annual security control assessment defined within policy.

- For a selection of systems, SSA did not appropriately document minimum low and moderate baseline controls according to National Institute of Standards and Technology NIST-800-53B defined categorization in their System Security Plans (SSP).

- For two financially significant applications, interface/job monitoring procedures were not defined and not consistently implemented.

Recommendations

SSA should continue to improve the operating effectiveness of information security controls to address deficiencies in access controls and segregation of duties, configuration management, and IT operations to include:

Access Controls and Segregation of Duties Controls

1. Follow defined guidance for account management processes related to execution of access controls.

2. Restrict access for key applications and the underlying IT infrastructure in accordance with the principle of least privilege, monitored to detect and correct unauthorized access or activities. Additionally, evidence of such monitoring activities should be retained.

3. Routinely monitor and revalidate access needs for business users, privileged users, and terminated and inactive users.

Configuration Management Controls

1. Define the process to fully integrate the automated tool to monitor security baselines.

2. Follow defined guidance for change management processed related to access to deploy changes.

3. Monitor security configuration processes to validate compliance with defined configuration requirements and retain remediation documentation in support of SSA Identified non-compliance with defined security configuration settings.

IT Operations Controls

1. Document risks and controls in place, identify gaps, and complete corrective actions to strengthen the internal control environment. Improve documentation, test and validate controls, and remediate findings. Additionally, monitor vulnerabilities for non-compliance with policy requirements and track remediation actions appropriately. Complete security assessment reports according to defined SSA frequency.

2. Update System Security Plans for low and moderate categorized systems with baseline controls according to NIST 800-53B.

3. Follow defined guidance related to interface/job monitoring procedures.

<u>Significant Deficiency in Internal Control over Accounts Receivable with the Public (Benefit Overpayments)</u>

Overview

A benefit overpayment exists when beneficiaries receive payments beyond their entitled amount. When SSA detects a benefit overpayment, it records an accounts receivable with the public to reflect the amount due SSA from the beneficiary. Because of the nature of the benefit-payment programs, SSA has extensive operations geographically dispersed nationwide. Overpayment detection, calculation, and documentation occur in various places throughout SSA, including approximately 1,200 field offices, 8 processing centers, and various functional areas within SSA's central office. Therefore, SSA has specific policies, procedures, and internal controls in place to consistently detect, calculate, and document overpayments and the related accounts receivable balances. Since the benefit overpayment process can be complex for some cases and relies on manual input, lack of adherence to its internal controls could lead to inaccuracies in recording, documenting, and tracking overpayment balances. Management also relies on its IT infrastructure, interfaces, and controls to record and prevent erroneous payments.

Deficiencies in Benefit Overpayment Documentation and Calculations

During the previous audit period, Ernst & Young identified errors affecting the accuracy of the overpayment amounts reported in the subsidiary ledger's records for Title II Recovery of Overpayments, Accounting, and Reporting (ROAR) System and Title XVI Modernized Overpayment and Underpayment Reporting System (MOURS). The identified errors in the Title II and Title XVI overpayment recalculations were due to (1) Actions being made to records in error, (2) Actions not being made by a technician to correct the record, or (3) Discrepancies between the Master Beneficiary Record (MBR) and ROAR, for Title II, or Supplemental Security Record (SSR) and MOURS, for Title XVI.

During FY 2024, SSA Management established an Overpayment Review Team (ORT) to identify, assess and develop analyses, processes, and certain IT systems enhancements to begin to address the Title II and Title XVI Overpayment finding and implement the recommendations. Specifically, the ORT has primarily focused its corrective actions on current year overpayment transactions and in developing control processes over future transactions. As a result, Ernst & Young determined that the remediation efforts made-to-date either: (1) did not have a financially relevant impact on historical balances, (2) would not be fully implemented in the current year, or (3) would not be implemented for a long enough period in the current year for Ernst & Young to evaluate the new set of controls designed and implemented. Accordingly, the Agency confirmed that its remedial actions were not sufficient to overcome the deficiencies and had Ernst & Young substantively tested overpayments in the current year, the path of findings would be consistent with prior year results.

Professional standards dictate that, when an auditor deems a control to have been ineffective in the prior year, and management indicates there has been no improvement, the auditor need not test it in the current year.

Reconciliation of the Supplemental Security Income Accounts Receivable Ledger

OMB Circular A-123, Appendix D, *Management of Financial Management Systems – Risk and Compliance* (OMB Circular A-123), requires that the United States Government Standard General Ledger be applied at the transaction level. For its Old-Age and Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs, SSA tracks individual debtor overpayment transactions and accounts receivable balances in subsidiary ledger systems and adjusts the general ledger according to the balances reported from the subsidiary ledgers.

In the prior year's audit, Ernst & Young identified differences between the detailed records in MOURS to summary MOURS files used by SSA to adjust the general ledger. SSA relies on these summary-level reports to update the general ledger; therefore, the SSI accounts receivable program balances reported in the general ledger and subsequently the Financial Statements, differ from the supporting detail-level beneficiary data in the SSI subsidiary ledger system.

Limitations in SSA IT systems, and the structure of the MOURS databases have resulted in the inability to implement certain controls over accounts receivable to confirm the balances posted to the financial reporting system from summary reports and MOURS detailed records.

Deficiencies in Overpayment Records and Tracking of Long-term Installment Payments

As disclosed in Note 6 of the 2024 SSA financial statements, SSA identified a Title II system design limitation concerning long-term withholding agreements that extend past the year 2049, where the ROAR system cannot capture, and track debt scheduled for collection beyond the year 2049.

Due to changes set by the SSA Commissioner on how overpayments are collected as well as the implementation of a lower default rate for recovering overpayments from current benefits, SSA determined that the latest date to track the future collection of overpayments within the system needed to extend beyond 2049. Accordingly, the date within the system was changed to 2073 during quarter 3 of FY 2024. This date was determined by similar constraints within the system that dictated the 2049 date; it was the latest date to which the system could be set.

These system limitations have led to an understatement of the accounts receivable with the public balance on the Agency's financial statements. The limitations have hindered SSA's ability to effectively track and collect these overpayments. The projected understatements are immaterial to the financial statements and the accounts receivable with the public balance. While the Agency is enhancing system capabilities to properly account for these receivables and updating policies to avoid longer-term repayment programs, failure to resolve the system design process limitation will continue understating accounts receivable balances.

Recommendations

To mitigate the risks of the issues noted in the significant deficiency, management should consider the following:

Deficiencies in Benefit Overpayment Documentation and Calculations

1. Continue exploring opportunities to improve overpayment accuracy and document retention through engaging field office and payment center employees in trainings related to common weaknesses and more complex overpayment cases.

2. Enhance overpayment processing management information to consider risk-based factors such as current overpayment balances, manual intervention required, and age.

3. Consider implementing new overpayment documentation tools to ensure overpayments are documented completely, accurately, and timely by field offices or processing centers within the appropriate systems of record.

4. Consider implementing a secondary review of overpayment calculations for cases that are more prone to manual intervention.

5. Implement a retroactive review control on historical overpayment data that would not have been subject to the new controls being implemented by the Overpayment Review Team.

6. Evaluate the impact to the accounts receivable balance through an analysis of those transactions (e.g. historical overpayment data) that will not be subject to control processes the Agency plans to implement on future transactions beginning in fiscal year 2025.

Reconciliation of the Supplemental Security Income Accounts Receivable Ledger

1. Continue implementing and executing SSI reconciliation internal controls between subsidiary ledgers at the detail level and the general ledger through summary reports. Investigate and document reconciling differences on a periodic and timely manner.

2. Investigate potential system reporting enhancements to reduce unreconciled differences between summary and detail level data produced by subsidiary ledgers.

Deficiencies in Overpayment Records and Tracking of Long-term Installment Payments

1. Continue working toward updated debt management systems without the technical limitations over the length of time repayment installments can be recorded.

2. Continue pursuing changes in repayment policy to minimize future extended repayment plans.

3. Continue analyzing and tracking the impact of the December 2049 system design process limitation on the financial statements.

4. Analyze and track the impact of the 2073 system design process limitation on the Financial Statements.