INDEPENDENT AUDITOR'S REPORT

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

November 14, 2023

The Honorable Kilolo Kijakazi
Acting 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) consolidated financial statements as of September 30, 2023 and the related notes to the consolidated financial statements; (2) the sustainability financial statements, including the statements of social insurance as of January 1, 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, 2022 to January 1, 2023. The OIG also contracted with Ernst & Young to provide an opinion on internal control over financial reporting and report on compliance with laws, regulations, contracts, grant agreements, and other matters and to report on whether SSA's financial management systems did not comply substantially with the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA). 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. 24-01, *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 *Independent Auditor's Report*. Ernst & Young found the following.

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

- SSA management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, 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 the requirements of FFMIA.
- No reportable instances of noncompliance with provisions of applicable laws, regulations, contracts, grant agreements, and other matters tested.

Grant Thornton, LLP audited SSA's consolidated financial statements, including the related notes as of September 30, 2022 and the sustainability financial statements, including the statements of social insurance and changes in social insurance amounts as of January 1, 2018 through January 1, 2022, and issued an unmodified opinion on those financial statements. Grant Thornton, LLP also reported that SSA maintained effective internal control over financial reporting as of September 30, 2022 based on criteria established under FMFIA and in *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States. Grant Thornton, LLP identified three significant deficiencies in internal control over financial reporting: (1) Certain Financial Information Systems Controls, (2) Information Systems Risk Management, and (3) Accounts Receivable with the Public (Benefit Overpayments).

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 consolidated 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. 24-01;
- 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 14, 2023, 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 consolidated 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.

Gail S. Ennis

Gail S. Ennis
Inspector General

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Independent Auditor's Report

Kilolo Kijakazi, Acting Commissioner
Social Security Administration

Gail S. Ennis, Inspector General
Social Security Administration

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

- The consolidated balance sheet of SSA as of September 30, 2023, the related consolidated statement of net cost, consolidated statement of changes in net position, and the combined statement of budgetary resources for the year then ended, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- The sustainability financial statements which comprise the statement of social insurance as of January 1, 2023, and the statement of changes in social insurance amounts for the period January 1, 2022, to January 1, 2023, are presented fairly, in all material respects in accordance with U.S. generally accepted accounting principles;
- Although internal controls could be improved, SSA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023; and
- No reportable noncompliance for fiscal year 2023 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, required supplementary information and 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 financial statements were audited by another auditor.

Report on 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 sheet as of September 30, 2023, and the related consolidated statement of net cost, consolidated statement of changes in net position, and the combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "Consolidated Financial Statements"), and we have audited the sustainability financial statements which comprise the statement of social insurance as of January 1, 2023, and the statement of changes in social insurance amounts for the period

January 1, 2022, to January 1, 2023, and the related notes to the sustainability financial statements (collectively referred to as the "Sustainability Financial Statements").

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the financial position of the Agency as of September 30, 2023, and its net cost of operations, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Also, in our opinion, the accompanying Sustainability Financial Statements present fairly, in all material respects, the Agency's statement of social insurance as of January 1, 2023, and its statement of changes in social insurance amounts from January 1, 2022, to January 1, 2023, in accordance with U.S. generally accepted accounting principles.

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) and 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)*, the Agency's internal control over financial reporting as of September 30, 2023 based on criteria established under 31 U.S.C. § 3512(c), (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, although certain internal controls could be improved, the Agency maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on the criteria established under FMFIA, OMB Circular No. A-123, and the Green Book. As discussed below in more detail, our 2023 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 2023 Consolidated Financial Statements.

Although the significant deficiencies in internal control did not affect our opinions on the Agency's 2023 Consolidated Financial Statements and Sustainability Financial Statements, misstatements may occur in unaudited financial information reported internally and externally by the Agency because of these significant deficiencies.

In addition to the significant deficiencies in internal control over Certain Financial Information Systems and Accounts Receivable with the Public (Benefit Overpayments), we also identified deficiencies in the Agency's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant SSA management's attention. We have communicated these matters to SSA management and, where appropriate, will report on them separately.

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. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and the provisions of OMB Bulletin No. 24-01 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

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 funds are exhausted. 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 exhaustion. 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 FY 2022 Consolidated Financial Statements and Sustainability Financial Statements

The Consolidated Financial Statements and related notes to the Consolidated Financial Statements of the Agency as of and for the year ended September 30, 2022, and the Sustainability Financial Statements as of January 1, 2022, 2021, 2020, 2019 and 2018 and the changes in social insurance amounts for the periods January 1, 2022 to January 1, 2021 and January 1, 2020 to January 1, 2021 were audited by Grant Thornton LLP who expressed unmodified opinions on the Consolidated Financial Statements and Sustainability Financial Statements on November 10, 2022. Grant Thornton LLP's Report of Independent Certified Public Accountants dated November 10, 2022, included: i) an Emphasis of matter paragraph regarding the Sustainability Financial Statements and ii) an Appendix titled *Significant Deficiencies in Internal Control Over Financial Reporting*, that represent the significant deficiencies in the Agency's internal control over financial reporting as of September 30, 2022.

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

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements and the Sustainability Financial Statements in accordance with U.S. generally accepted accounting principles, 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, 2023, included in the accompanying Acting 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 Consolidated Financial Statements and Sustainability 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. 24-01, 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 Consolidated Financial Statements or Sustainability 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. 24-01, we:

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and Sustainability 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 Consolidated Financial Statements and Sustainability Financial Statements.

- Obtain an understanding of internal control relevant to our audit of the Consolidated Financial Statements and Sustainability 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 Consolidated Financial Statements and the Sustainability Financial Statements.

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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles, 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 due to fraud or error. 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

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in Management's Discussion and Analysis from pages 7 to 44 and the combining schedule of budgetary resources, and the required supplementary social insurance information from pages 107 to 122 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 U.S. generally accepted 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 Consolidated Financial Statements and Sustainability Financial Statements, and other knowledge we obtained during our audit of the Consolidated Financial Statements and Sustainability 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 Consolidated Financial Statements or Sustainability 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 Acting Commissioner's Message on pages 1 and 2 and the other information on pages 3 through 6, 45 through 54, 143 through 212 but does not include the Consolidated Financial Statements, Sustainability Financial Statements and our auditor's report thereon. Our opinions on the Consolidated Financial Statements and the Sustainability 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 audit of the Consolidated Financial Statements and Sustainability 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 with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

As part of obtaining reasonable assurance about whether the Agency's Consolidated Financial Statements and Sustainability 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. 24-01.

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 2023 that would be reportable under U.S. generally accepted 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 U.S. generally accepted government auditing standards; *Government Auditing Standards;* and OMB Bulletin No. 24-01.

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 Consolidated Financial Statements and Sustainability 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.

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Intended Purpose of Report on Compliance with Laws, Regulations, Contracts and Grant Agreements

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 142 of this Agency Financial Report. The Agency's response was not subjected to the other auditing procedures applied in the audit of the Consolidated Financial Statements and Sustainability Financial Statements, and accordingly, we express no opinion on the Agency's response.

Ernst & Young LLP

November 14, 2023

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Appendix – Significant Deficiencies in Internal Control Over Financial Reporting

Significant Deficiency in Internal Controls over Certain Financial Information Systems

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 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 several control deficiencies identified this year have been recurring issues in previous financial statement audits. 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 timeliness attribute or the segregation of duties requirements to execute the controls.
- For one financially significant application, account review of the database accounts and user responsibilities was not performed in accordance with the SSA defined timeframe.
- The monitoring and review of privileged user activities were not consistently followed in accordance with SSA procedures.

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.
- 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.
- For a selection of IT infrastructure components that support the financially relevant applications, documentation to support the remediation of SSA identified non-compliance with its defined security configuration settings were not available.

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 don't 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 a selection of systems, identified control weaknesses/deficiencies noted as a result of annual security assessments were not appropriately tracked in accordance with SSA policy.
- For one financially significant application, 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. 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.

2. Monitor vulnerabilities for non-compliance with policy requirements and track remediation actions appropriately.

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

Significant Deficiency in Internal Control over Accounts Receivable with the Public (Benefit Overpayments)

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

The predecessor auditor, Grant Thornton LLP, in its combined audit report dated November 10, 2022, included in the 2022 SSA Agency Financial Report, noted that their prior audits identified significant deficiencies in internal controls related to SSA adhering to *Program Operations Manual System* criteria regarding maintaining sufficient evidence to support benefit overpayment balances. The *Program Operations Manual System* provides important policies, procedures, and internal controls over processing and documenting overpayments. Our inquiries of management in the current year regarding remediation efforts of the predecessor auditor's findings revealed that improvements in the operating effectiveness of this internal control process had not been remediated in fiscal year 2023.

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. Therefore, we did not test internal controls related to overpayments.

To test the recorded amount of accounts receivable with the public, we selected a statistical sample of outstanding Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) (referred to as OASDI when discussing them in combination) and Supplemental Security Income (SSI) overpayment balances and noted overpayment calculation errors in 6 (29 percent) of 21 sampled OASDI items and 6 (27 percent) of 22 sampled SSI items. Although the statistically projected impact of these calculation errors was not material to the financial statements, these errors further evidence control weaknesses in the accounts receivable with the public processes, including inappropriate overpayment tracking that could lead to misstatements in the financial statements.

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 OASDI and 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. As in prior years, our current-year testing revealed the detail-level beneficiary information in the SSI accounts receivable subsidiary ledger did not agree with the summary-level reports from the SSI subsidiary 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.

System limitations prevent SSA from reconciling the SSI differences between the detail and summary-level information in the subsidiary ledger. This could lead to misstatements in the financial statements; however, the unreconciled differences are immaterial to the financial statements and the accounts receivable with the public line item shown on the consolidated balance sheet and the related disclosures in footnote 6 Accounts Receivable, Net.

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

Beneficiaries can request to repay overpayment balances in monthly installments as withholdings from monthly benefit payments. Depending on the amount of the overpayment balance and the amount of each installment payment, repayment periods can extend beyond December 2049.

According to Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (for example, taxes not received by the date they are due), or goods or services provided. Further, SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* states that accounts receivable should be recognized when a collecting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets through its established assessment processes to the extent the amount is measurable.

We noted that SSA identified a system design process limitation concerning long-term withholding agreements that extend past December 2049 where the system cannot capture, and track debt scheduled for collection beyond December 2049. Therefore, the accounts receivable balances related to these overpayments are understated in the amount of the installment payments expected to be collected beyond December 2049. 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. In addition, the impact of this issue will continue growing as December 2049 approaches if other factors remain constant.

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.

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.

SOCIAL SECURITY
The Commissioner

November 14, 2023

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

Dear Sir or Madam:

We have reviewed the Independent Auditor's Report concerning our fiscal year (FY) 2023 financial statements. We are pleased we received our 30th consecutive unmodified opinion on our financial statements, an unqualified opinion that our internal control over financial reporting was operating effectively, and we had no reportable instances of noncompliance with laws, regulations, or other matters tested.

In this year's financial statement audit, you cited two significant deficiencies identified in prior years. The significant deficiencies concern internal controls over certain financial information systems and internal control over accounts receivable with the public (benefit overpayments).

As noted in your report, we continue to make progress in remediating elements of these significant deficiencies; however, we face challenges such as the ever-changing cybersecurity landscape in which we operate. We will consider your benefit overpayment findings and recommendations as part of our agency-level review of overpayments. We remain committed to resolving the deficiencies identified by audits through risk-based corrective action plans to mitigate risks and strengthen our control environment.

We view our relationship as a partnership and appreciate both your efforts and the efforts of the Office of the Inspector General. The independent audit process continues to provide us with valuable recommendations, and we remain committed to excellence in financial management.

If members of your staff have any questions, they may contact Christian Hellie, Associate Commissioner for the Office of Financial Policy and Operations, at 410-965-9511.

Sincerely,

Kilolo Kijakazi

Kilolo Kijakazi, Ph.D., M.S.W.
Acting Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001