

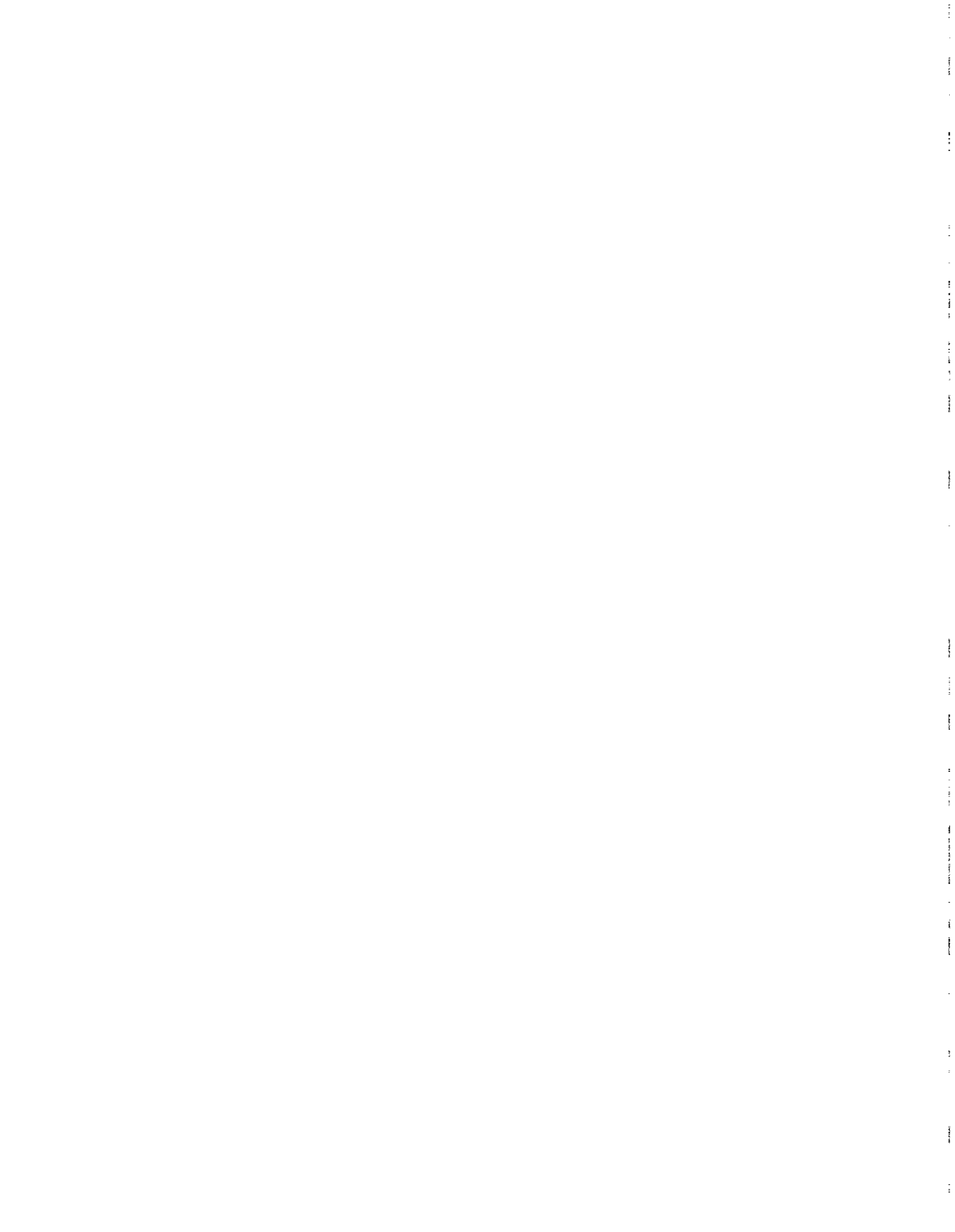
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TECHNICAL SUMMARY
FINANCIAL MANAGEMENT PROFILE
OF THE
SOCIAL SECURITY ADMINISTRATION

PREPARED BY THE STAFF
OF THE
U.S. GENERAL ACCOUNTING OFFICE

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FOREWORD

The Social Security Administration is an organizational component of the Department of Health and Human Services. In fiscal 1982 it accounted for approximately \$169 billion in benefit and assistance payments. The Social Security Administration is responsible for administering benefit and assistance payment programs such as Old-age and Survivors, Disability Insurance; Supplemental Security Income; Aid to Families with Dependent Children; Low Income Energy Assistance; and Black Lung programs.

This technical summary is one of eleven volumes of detailed information that supports the overall Financial Management Profile for the Department of Health and Human Services (AFMD-84-15, April 9, 1984). The technical summaries provide detailed information on the major organization components of the Department of Health and Human Services (the Department), their financial management systems, and major internal control strengths and weaknesses in these systems.

The financial management profile of the Department and the eleven technical summaries were prepared by GAO as a pilot test of a new audit approach--called Controls and Risk Evaluation (CARE)--for (1) identifying and describing the financial management systems used by an agency and (2) assessing and ranking the internal control strengths and weaknesses of the systems. This analysis is based on reviews of available systems documentation, discussions with agency personnel, and reviews of prior GAO and Inspector General reports. Tests were not performed of actual information processed by and recorded in the systems, therefore, conclusions cannot be reached about whether the systems' internal controls were actually operating as designed.

The information in this technical summary is intended for use in:

- planning future tests and evaluations of the accounting and financial management systems at the Social Security Administration,
- monitoring the Administration's efforts to implement the Federal Managers' Financial Integrity Act of 1982, and
- supporting and enhancing the understanding and application of the care-based methodology by designers, operators, and evaluators of agency accounting and financial management systems.

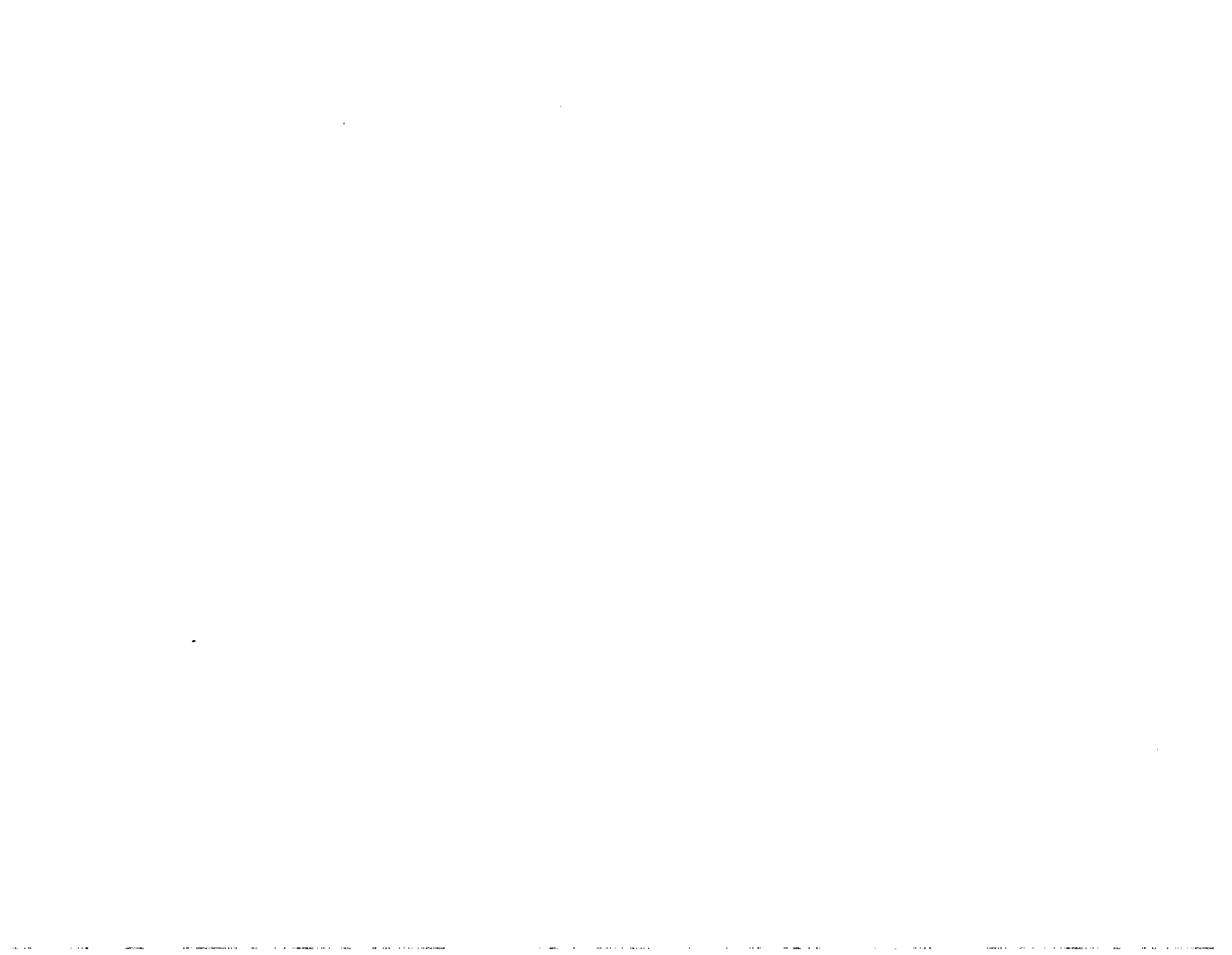
This summary provides a description of the financial management structure of the Social Security Administration. Nine financial management systems form the financial management structure of the Administration. These systems are used to (1) control appropriated funds and other resources, (2) authorize the use of funds and other resources, and (3) capture, record, process, and

summarize financial information related to the execution of budget authority. The summary also provides a detailed analysis of the nine systems and identifies specific internal control strengths and weaknesses for each system.

During the course of our survey agency officials were briefed. The summary was provided to cognizant agency officials for their review and comment. Agency comments were considered and changes were made where appropriate. The assistance and cooperation of agency management enhanced the successful completion of the work. The results of the survey will be used by GAO as the basis for planning future reviews of the Social Security Administration's financial management systems to ascertain if they conform to the Comptroller General's accounting principles and standards. This summary is being provided to the Administration to assist it in its continuing efforts to improve financial management.

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SOCIAL SECURITY ADMINISTRATION--
ITS RESPONSIBILITIES, ACTIVITIES,
AND FINANCIAL MANAGEMENT STRUCTURE

The Social Security Administration (SSA) is headed by the Commissioner of Social Security and it administers six income security programs that accounted for about \$169 billion in benefit payments during fiscal 1982. These programs are the Old-age and Survivors Insurance, Disability Insurance, Supplemental Security Income, Aid to Families with Dependent Children, Low Income Energy Assistance, and Black Lung programs. SSA also issues Social Security Numbers (SSN's) to Americans covered by its survivors and disability insurance programs and maintains individual lifetime earning histories for all Americans that are issued SSN's. In addition, SSA through its extensive Nationwide network of district offices assists in the administration of two other federal programs--the Medicare and food stamp programs. In order to discharge its responsibilities, SSA employs more than 87,000 individuals.

SSA programs are funded from two sources: trust funds and appropriated funds. Two trust funds, maintained by the Treasury Department, support benefit payments under the Old-age and Survivors and Disability Insurance programs. These funds are the Old-age and Survivors and Federal Disability Insurance trust funds. Revenues to the trust funds come from employer and employee Federal Insurance Contribution Act (FICA) and Self Employment Contribution Act (SECA) payroll taxes. SSA's other four programs and administrative operations are funded out of general federal tax revenues.

Through a review and analysis of available documentation and discussions with agency financial, system, and ADP officials, we determined that the financial management structure of SSA is comprised of nine automated systems. These systems, taken together, obligate and control SSA's spending authority, make payments for administrative expenses, control assets and liabilities, and make benefit payments. These systems also produce required internal and external financial reports.

In assessing the internal control strengths and weaknesses in SSA's financial management structure we determined that:

- SSA's budget development system for administrative costs is fully integrated with its accounting system.
- Budget requests for future benefit payments under SSA's six income security programs are based on long term trends in benefit payment levels and estimates of future economic and demographic factors.
- Congress can directly control only about 3 percent of SSA's spending authority through the appropriation process.

- Accountability for the two trust funds that support benefit payments under the Old-age Survivors and Disability Insurance programs is divided between the Department of Health and Human Services, the Internal Revenue Service, and the Treasury Department.
- Controls appeared to be adequate to ensure that SSA's spending authority is not beached and that the financial results of program and administrative operations are accurately and completely reported.
- Controls over disbursements for administrative costs (like supplies, rent, utilities, and official travel) appeared to be adequate to ensure that disbursements were properly authorized and computed and completely and accurately recorded in SSA's general ledger accounts.
- Controls over personal property appeared to be inadequate to ensure that all property is accounted for and that property on-hand and not being used is considered in procurement decisions for new property.
- Controls in the systems that authorize and disburse benefit payments under the Old-Age and Survivors Disability Insurance, and Supplemental Security Income programs appeared to be inadequate to ensure that benefit payments are properly computed and issued only to eligible individuals.
- Controls in the systems to maintain individual earnings records for Americans covered by the Old-Age and Survivors and Disability Insurance programs appeared inadequate to ensure that individual's earnings are completely, accurately, and timely recorded in their individual records.
- Controls in the system to issue, record, and control Social Security Numbers appeared inadequate to preclude the issuance of duplicate or incorrect numbers.
- Controls in the Black Lung System appeared adequate to ensure that benefit payments are proper.
- Controls in the SSI System appeared inadequate to ensure that benefit payments are proper.

We did not survey the systems that authorize and disburse benefit payments under the Low Income Energy Assistance and Aid to Families with Dependent Children Program.

Appendix I discusses the objectives, scope, and methodology used in applying the Controls and Risk Evaluation audit approach to identify the financial management structure of SSA. Appendix II lists the internal control strengths and weaknesses we identified in SSA's financial management structure, and Appendix III shows the interrelationship of nine systems that comprise SSA's financial management structure.

RESPONSIBILITIES OF THE SOCIAL SECURITY ADMINISTRATION

The Social Security Administration (SSA) is headed by the Commissioner of Social Security and administers six major income security programs. It administers these programs through an extensive, nationwide network of regional, field, and district offices and its national headquarters located in Baltimore, MD. In addition, SSA through its network of local offices, assists the Health Care Financing Administration in administering the Medicare program and the Department of Agriculture in administering the food stamp program.

The following paragraphs provide an overview of SSA's six major income security programs, special recordkeeping responsibilities to support the six income security programs, and assistance to the Health Care Financing Administration and Department of Agriculture.

SSA's Six Income Security Programs

SSA administers six income security programs that disbursed about \$169 billion in benefit payments during fiscal 1982. These programs and related fiscal 1982 disbursements are the:

	(billions)
Old-Age and Survivors Insurance Program	\$ 130.2
Disability Insurance Program	22.0
Supplemental Security Income Program	10.0
Aid to Families With Dependent Children Program	5.7
Low Income Energy Assistance Program	
Black Lung Program	1.1
TOTAL	\$ <u>169.0</u>

Old-Age and Survivors Insurance Program

The Old-Age and Survivors Insurance Program is designed to provide retired Americans with a supplemental retirement income. Retirement benefits start at either age 62 or 65. The program is supported by employee and employer payroll tax contributions under the Federal Insurance and Contributions Act (FICA) and the Self Employment Contribution Act (SECA). This program is authorized under Title II of the Social Security Act As amended.

Disability Insurance Program

The Disability Insurance (DI) Program provides benefit payments to American workers and the families of workers who become disabled before reaching retirement age. The program is supported

by employee and employer payroll tax contributions under FICA and SECA and is authorized under Title II of the Social Security Act as amended.

Supplemental Security Income Program

The Supplemental Security Income (SSI) Program provides income supplements to aged, blind, and disabled Americans to bring their income up to at least a federal minimum income standard. SSI benefits are paid in addition to other private, state, and federal income benefits received by SSI recipients, so that recipient's total income, including SSI, is at least equal to a federal minimum income standard. The program is jointly operated by the federal government and states and is supported by both federal and state general tax revenues. The SSI program is authorized under Title XVI of the Social Security Act as amended.

Aid to Families With Dependent Children Program

The Aid to Families With Dependent Children Program provides benefit payments for needy children who are deprived of parental support because of death, disability, or continued absence from the home by the father and/or because the mother is unable to work because of child care responsibilities. The program is jointly operated and funded by the federal government and the states and is supported by federal and state general tax revenues.

Low Income Energy Assistance Program

The Low Income Energy Assistance Program provides benefit payments to low income households to meet the rising cost of energy. The program was authorized by Title XXVI of the Omnibus Budget Reconciliation Act of 1981. Under the program, SSA provides funds through block grants to states, Indian tribes, Puerto Rico, and the territories for the programs operated in their jurisdictions.

Black Lung Program

The Black Lung Program provides benefit payments to coal miners disabled because of black lung disease and to their widows and certain dependents. Under this program, SSA functions as an agent for the Department of Labor. Specifically, SSA is responsible for accepting and processing claims under the black lung program for:

- Claims filed from December 30, 1969 through June 30, 1973.
- Claims for death benefits for a miner or his widow if they were receiving benefits under claims processed through SSA.

SSA has continued to accept claims for benefits under the black lung program filed after June 30, 1973, through its network of

local offices. SSA accepts the claims and forwards them to the Department of Labor for adjudication and payment. The Department of Labor reimburses SSA for the costs it incurs in accepting and forwarding black lung benefit claims.

SSA's Special Recordkeeping Responsibilities

SSA maintains central, government-wide records on the earnings of individual Americans covered by FICA and SECA and on individuals' eligibility for Old-Age and Survivors, Disability Insurance, Supplemental Security Income, and Medicare benefits. The two major masterfiles maintained by SSA are the:

- Earnings Records File which contains the annual earnings records for all American workers covered by FICA and SECA.
- SSA masterfile which contains detailed records on all individuals receiving Old-Age and Survivors, Disability Insurance and Supplemental Security Income benefits. This file also contains eligibility information for individuals' eligibility for Medicare program benefits (this program is administered by the Health Care Financing Administration).

SSA's Assistance to the Health Care Financing Administration and Department of Agriculture

SSA has put into place a large, nationwide network of regional, field, and district offices to deal with the public in carrying-out its responsibilities under the six benefit payment programs it operates. Both the Health Care Financing Administration (HCFA) and Department of Agriculture are responsible for administering two benefit programs that also require extensive public contact--the Medicare and food stamp programs. Instead of developing their own network of local offices, both HCFA and the Department of Agriculture use SSA's offices to administer the Medicare and food stamp programs.

For the Medicare program, SSA through its network of field and district offices:

- Accepts applications for Medicare enrollment.
- Issues Medicare identification cards.
- Processes requests for replacement Medicare identification cards.
- Accepts and processes appeals for denials or modifications of Medicare claims.
- Issues temporary letters of eligibility for Medicare benefits.

--Answers inquiries from the public regarding Medicare.

--Processes and resolves Medicare premium and payment problems.

For the food stamp program, SSA, through its regional, field, and district offices:

--Accepts applications for participation in the food stamp program from individuals and households enrolled in the Supplemental Security Income program.

--Assists state and local welfare agencies identify eligible individuals for various state and local public assistance programs.

SSA'S FINANCIAL MANAGEMENT STRUCTURE

SSA uses nine automated systems to discharge its financial management responsibilities. A brief description of each system follows:

--Budget Management System formulates SSA's budget request which is included in the Department of Health and Human Services' Department-wide budget request.

--Financial Accounting System is SSA's general ledger and financial reporting system. It accounts for and controls SSA's spending authority, produces internal/external reports on the financial results of program and administrative operations, and authorizes, computes, makes, accounts for, and controls payments related to SSA's administrative expenses.

--Cost Analysis System performs cost accounting functions for SSA's budget formulation and execution functions. This system produces summarized reports of budget data, and accumulates data from various subsystems related to the budget development process.

--Property System accounts for, controls, and maintains detailed records on SSA's personal property.

--Retirement, Survivors and Disability Insurance System processes and maintains records of retirement, survivors and disability claims. The System receives, validates and controls initial claim actions and subsequent changes.

--Earnings Record System tracks and maintains earnings for every individual with a Social Security Number. The System produces earnings information for pension funds, trust funds, and the Treasury and is also a source of data for statistical research.

- Enumeration System assigns and accepts, records, and controls Social Security Numbers.
- Supplemental Security Income (SSI) System accepts, records, and controls data on SSI. The system performs automated operations of recordkeeping, computation and payment of benefits and claimant notification of denial, allowance or changes in benefits.
- Black Lung System accepts, records, and controls data on the Black Lung Program. The system performs automated operations of recordkeeping, computation and payment of benefits, and claimant notifications of denial, allowance or change in benefits.

SSA'S BUDGET DEVELOPMENT SYSTEM FOR ADMINISTRATIVE COSTS IS INTEGRATED WITH ITS ACCOUNTING SYSTEM

SSA's budget development system for administrative costs is directly linked to its accounting system. This direct link facilitates the preparation of budget requests for administrative costs based on the actual financial results of administrative operations.

SSA's Budget Management System receives a magnetic tape of expenditures for items like salaries, rent, utilities, and supply purchases from the accounting system each month. Consequently, Social Security Administration's budget request for administrative expenditures is based on actual expenditures incurred as of the date the budget request is submitted to the Office of Management and Budget.

SSA's budget request for administrative costs is based on workload estimates - for example, number of claims to be received, planned systems and procedural changes for the ensuing fiscal year, and actual administrative costs incurred as of the date of preparation of the budget request. These estimates are developed by SSA's automated Budget Management System.

Estimates of administrative costs are revised three times during the budget development process. For example, the fiscal 1984 budget development process spanned the time period November 1981 through October 1982. Key milestones during this time period were:

- May 1982 when SSA developed its initial budget request.
- July 1982 when SSA submitted its budget request to HHS's Office of the Secretary.
- October 1982 when HHS submitted the Department-wide budget request to the Office of Management and Budget.

--January 1983 when the President submitted the annual federal budget request to the Congress.

The Budget Management System developed administrative cost estimates as of each of the aforementioned dates based on actual administrative costs incurred as of these dates.

SSA'S BUDGET REQUEST FOR
BENEFIT PAYMENTS IS BASED
ON SEVERAL TREND FACTORS

SSA's budget request for benefit payments are based on estimates of projected benefit payments. The Administration prepares both long and short-term estimates. Long-term estimates are based on historical growth rates and economic factors. Short-term estimates are based on recent actual benefit payments which are increased or decreased to reflect cost-of-living increases, and changes in the number and mix of people on the benefit roles. Short-term estimates support the budget request submitted to the Office of Management and Budget.

SSA's program budget request presents estimates of required funding for the Old-age and Survivors Insurance, Disability Insurance, Black Lung, Aid to Families with Dependent Children, and Supplemental Security Income programs. Estimates for benefit payments are developed based on (1) historical trends in benefit payments, (2) actuarial assumptions on beneficiaries' life expectancies and other demographic factors, and (3) economic trend factors such as inflation and employment rates. The sources of the information to estimate benefit payments are various automated systems that accept applications for benefits and compute and issue payment checks. The actual determinations of estimates and total benefit payments to be made under each program during the ensuing fiscal year are essentially manual processes supported by automated systems.

CONGRESSIONAL CONTROL OVER
SSA'S BUDGET REQUEST FOR
BENEFIT PAYMENTS

Congress cannot directly control SSA expenditures for benefit payments under the six income security programs through the annual appropriation process. For example, for fiscal 1982 SSA estimated that it would disburse about \$169 billion in benefit payments, and this amount was included in the fiscal 1982 Presidential budget request sent to the Congress. The \$169 billion, however, was an estimate of benefit payments to be made and not a spending ceiling that Congress can approve, disapprove, or modify during the appropriation process.

ACCOUNTABILITY FOR
TRUST FUNDS

Responsibility for maintaining accounting records and accountability for the two trust funds that supported the estimated \$152.2

billion in retirement and disability insurance benefits payments in the President's fiscal 1982 budget request is divided between three federal agencies: the Treasury Department, the Internal Revenue Service, and the Department of Health and Human Services. To obtain an overview of total trust fund operations--that is, receipts, disbursements and fund balances--work would have to be done in all three agencies. The Department of Health and Human Services controls and accounts for benefit payment disbursements from the two trust funds and maintains detailed disbursement records for the benefit payments made.

The Internal Revenue Service collects, controls, and accounts for receipts to the two trust funds. Receipts come primarily from Federal Insurance Contribution Act (FICA) and Self Employment Contribution Act (SECA) payroll taxes, contributions by states, federal interbudgetary transfers, and federal general tax revenues. The largest source of income to the trust funds come from FICA and SECA taxes. These taxes are collected by the Internal Revenue Service and are reported to the Treasury Department. States make their contributions through the Social Security Administration. Federal interbudgetary transfers are reported to the Treasury Department by the federal agencies initiating the transfers. Contributions from federal general tax revenues are collected and recorded by the Treasury Department.

The Treasury Department, as fiduciary, maintains general ledger accounts for the two trust funds that support benefit payments to individuals covered by the Federal Old-age and Survivors Insurance and Disability Insurance programs. The two funds are the:

--Old-age and Survivors Insurance Trust Fund.

--Federal Disability Insurance Trust Fund.

The Treasury Department maintains trust fund general ledger accounts which are based on receipts reported to it by the Internal Revenue Service and the Social Security Administration and disbursements reported to it by the Department of Health and Human Services. Specifically, at the beginning of each tax year, Treasury estimates how much money (Federal Insurance Contributions Act [FICA] and Self Employment Contributions Act [SECA] tax collections) the trust funds will receive during the year and records these estimates in the trust fund general ledger accounts. Each tax quarter, the Department prepares a trust fund letter and sends it to Treasury that certifies the FICA and SECA tax receipts recorded by the Social Security Administration in individuals' accounts in its Earnings Record System and the data needed to redistribute FICA and SECA tax receipts among the trust funds. Entries in the Earnings Record System are based on information reported to the Internal Revenue Service by employers. Treasury, based on the letter received from the Social Security Administration, compares actual receipts with its estimates and adjusts the trust fund general ledger accounts as appropriate. During each month, the Department provides estimates to Treasury of

cash required to meet daily trust fund benefit and administrative payments, and, at monthend, reports actual disbursements made.

CONTROL OVER SSA'S SPENDING AUTHORITY

The Financial Accounting System (FAS) is SSA's general ledger and financial reporting system. It accounts for and controls SSA's spending authority, produces required internal and external reports on the financial results of program and administrative operations, and authorizes, computes, makes, accounts for, and controls payments related to SSA's administrative expenses. In fiscal 1982 the system accounted for about \$174 billion for program and administrative expenditures. A brief discussion of system inputs, processing, outputs, and internal control strengths and weaknesses follows.

System inputs

FAS receives input in the form of hard copy documents, as well as magnetic tapes from other automated systems. Hard copy document input is keyed to magnetic disk and then to magnetic tape for input into the Financial Accounting System. Hard copy documents entered range from travel vouchers to various reports on SSA program expenditures. Magnetic tapes entered contain payroll information from the Departmental Central Personnel/Payroll System and grant and contract financial information from the Departmental Federal Assistance Financing System.

System processing

Automated transaction processing includes various edit checks to validate transaction information prior to updating the accounting files. The system uses transaction codes to limit the information that can be entered into the system and user passwords to control access to the system. For example, prior to updating the accounting file, an edit routine checks transaction code against a reference file of authorized codes.

System Outputs

Outputs from the FAS consists of various reports and tapes such as the status of fund data for online access by SSA components. Tapes are forwarded to the Cost Analysis System and the Departmental Federal Assistance Financing System.

Internal Control Strengths and Weaknesses

Internal controls in the Financial Accounting System generally appear adequate to ensure that data entered is properly captured, processed, and reported. The key internal control strengths are:

- Transaction codes to limit the types of information that can be entered into the system and user passwords to control access to the system.

- Various edit routines to verify transaction information and codes before transaction information is posted to the system's masterfiles.
- A rotating error file which controls rejected transactions to help ensure that errors are corrected and transactions are resubmitted for processing in a timely manner.
- Adequate and up-to-date system documentation.

The effectiveness the internal controls in the Financial Accounting System, however, have not been verified through a detailed, independent audit of system operations.

Cost Analysis System

SSA's Cost Analysis System performs cost accounting functions for budget execution and formulation. The Cost Analysis System receives information on the financial results of SSA program and administrative operations from SSA's Financial Accounting System. It also receives workload information - such as, number of claims processed per employee work-year and salary data by workload, support function, and staff function for SSA's major organizational components from other manual and automated systems.

Access to the Cost Analysis System and its files is controlled by a system of user passwords and transaction codes. The user passwords identify individuals authorized to use the system. The transaction codes control the items of information that can be entered into the system and its files. Data is checked for completeness and accuracy before it is entered into the system via computer terminal.

The Cost Analysis System computes administrative costs for each SSA program and each workload function. The system is updated monthly with cumulative data for the current fiscal year to date. The Cost Analysis System is used to:

- Determine actual administrative costs and work-year expenditures by major program (trust fund, general fund appropriation, or major reimbursable activity) for SSA and its principal component organizations.
- Determine actual administrative costs, work-year expenditures, production rates, and unit costs by workload, support function, and staff function within each program activity and in total for SSA and its principal component organizations.
- Provide the budget base of actual data on workloads, work-years, production rates, and costs for use in projecting future resource requirements.
- Provide actual data for use in comparisons to budget estimates and for measuring actual work output, work-year input,

and productivity compared to budgeted levels for SSA and its principal component organizations.

The results of Cost Analysis System processing are included in a series of hard copy reports which are produced each month. All of the basic data used to produce these reports is also stored on a machine media file where it is available for a variety of management analyses. For example, one analysis determines actual workload and cost data by SSA organizational component and program. Also, the system compares actual workload and production data with projected data, and it computes workload and production baselines. These baselines are used in formulating the next fiscal year's budget request.

The internal controls in the Cost Analysis System appear adequate to ensure that information is processed accurately. The key internal control strengths are:

- User passwords to identify individuals authorized to enter transactions into the system and screen-out unauthorized system users.
- Transaction codes that limit the information that can be posted to the system.
- Edit check to validate information entered into the system for processing.

INADEQUATE CONTROLS OVER PERSONAL PROPERTY

SSA's Property System is an automated system designed to maintain detailed records on and control personal property items. The total value of SSA's capitalized personal property is about \$164 million, about half of which is computer equipment. A recent GAO review of the property management function found that SSA does not have an accurate record of its personal property or its location. GAO found that the last complete inventory of capitalized property was taken in 1974. In addition, the detailed property system records did not agree with summary financial information for property in the general ledger balances maintained by SSA's Financial Accounting System. The result is that:

- The annual statements of SSA's financial condition are not accurate.
- The recording of depreciation is unnecessarily complicated and inaccurate, thus affecting the ability of the Cost Analysis System to allocate charges for the use of capitalized property.

The problems noted in property management are compounded when the computer operations are considered. For example, SSA stated that transaction processing was 6 months behind and attributed the delay to antiquated computer systems. The entire software program for the system needs to be rewritten, however, SSA does not have the resources to redesign its Property System.

SSA uses identification numbers to account for personal property. The numbers are recorded on the Master Inventory Listing (MIL) maintained by the Property System. They identify the SSA component and personal property assigned to that component. The information on the MIL, however, is unreliable.

Problems result from not accurately recording the proper identification numbers on the MIL when offices and unit designations are changed and when property is moved. For example, the Office of Financial Resources (OFR) has several subdivisions; each subdivision had been assigned an identification number to account for assigned personal property. The MIL for OFR showed that OFR was accountable for 485 items costing about \$475,000. However, OFR's manually maintained inventory listing showed only 93 of the items costing about \$54,000 as belonging to it. A further comparison showed that many items on OFR's listing were not recorded on the MIL under the same subdivision as shown on the OFR's inventory list. The items were recorded on the MIL under property identification numbers not assigned to OFR.

SSA regulations require that all capitalized personal property be inventoried at least annually and that inventories be reconciled to the general ledger accounts to verify the records. The last complete physical inventory of capitalized property was taken in 1974. In July 1981, SSA's Division of Finance emphasized the need for inventory to be taken to reconcile the financial records. The Division's management said that due to years of functioning without an inventory the general ledger property accounts are inaccurate. They also said that a physical inventory is "desperately needed" to correct the general ledger accounts. They stated that incorrect property values have the following effects:

- Inaccurate annual statements of SSA's financial condition.

- Inaccurate and unnecessarily complicated recording of depreciation, thus affecting the ability of the Cost Analysis System to accurately allocate user charges.

SSA has been taking a physical inventory of stored personal property, either ready for issue or excess and awaiting disposal. Only estimates of the furniture and equipment in storage are available.

The internal controls in the Property System appear inadequate to provide needed assurance to management that personal property is not lost, stolen, or improperly used. The internal control strengths and weaknesses follow:

The key internal control strengths are:

- User passwords and transaction codes identify individuals authorized to enter into and retrieve data from the system.

--Adequate and up-to-date system documentation.

The key internal control weaknesses are:

--Lack of a complete physical inventory of property and reconciliation of differences with the general ledger accounts. (An annual inventory was last taken in 1974.)

--No independent audits of property system operations.

--Time lags in entering transaction information in the property system-- it takes about 6 months to enter a property transaction into the system.

--Detailed property accounts have not been reconciled to financial control accounts in SSA's accounting system--as a result the two sets of accounts disagree.

INADEQUATE CONTROLS IN THE SYSTEMS THAT
AUTHORIZE AND DISBURSE RETIREMENT,
SURVIVORS, AND DISABILITY INSURANCE
BENEFIT PAYMENTS

The Retirement, Survivors, and Disability Insurance (RSDI) Benefit System computes, disburses, and accounts for benefits provided under Title II of the Social Security Act. About 28 automated subsystems comprise the RSDI system. In fiscal 1982, the system generated benefit payments to 35 million beneficiaries that totalled more than \$13 billion a month.

The process begins when a person initially files for benefits or reports changes in his or her status at a local SSA office. Claims representatives review the information provided and enter the information, by computer terminal, into the RSDI benefit system. Access to the RSDI System and its files is controlled by a system of user passwords and transaction codes. The user passwords identify individuals authorized to use the system. The transaction codes control the items of information that can be entered into the systems and its files.

The initial claims subsystems in the RSDI benefit system process and control claims. They receive, validate, and control initial claim actions. In addition, the subsystems furnish information for claims purposes, establish and format the initial master beneficiary record (MBR), and generate a notice of award or denial for the claimant. The subsystems also produce microfilm and magnetic tape payment records for the Treasury Department.

The postentitlement subsystems in the RSDI benefit system maintain the data base used to make and adjust payments to those persons determined to be eligible by the initial claims subsystems. The major function of the postentitlement process is to process information relating to events--change in marital status for example--that affect continuing eligibility or the amount of payments.

The central processing subsystems in the RSDI benefit system edit and validate input data, set up control records, retrieve stored data, calculate payment amounts, and generate output to SSA district offices by mail or wire transmission. Postentitlement events may be beneficiary initiated or generated by the system. Events initiated by the beneficiary include change of address, work reports, marriage, and death. System events include checks for age maturities, annual reports of earnings, and other system-controlled transactions. According to SSA, the largest of all postentitlement workloads is the annual processing of the statutory cost-of-living increase for each beneficiary.

For the RSDI programs, GAO and the Department's Inspector General have reported on system and internal control problems over: (1) the issuance of Social Security Numbers, (2) the recording of individual earnings histories, and (3) the authorization and computation of benefit payments. This work disclosed serious system and internal control weaknesses as follows.

The internal control weaknesses in the RSDI System are serious and preclude adequate assurance that benefits paid by workers under Social Security and benefits provided under Title II of the Social Security Act are proper in all cases. The key internal control weaknesses are:

- Automated processing steps and controls can be manually overridden.
- Computer program changes are not fully tested and the impact of changes on total system operations is unknown.
- Methods for entering information into the computer for processing are inadequate and as a result erroneous information is posted to the computer files.
- Erroneous input information identified by computer edits is not adequately controlled and erroneous information is not completely corrected and reentered into the computer for processing.
- More than 30 percent of claims cannot be processed by normal automated procedures and must be processed manually. For example, about 6 million changes to existing benefits--post entitlement changes--must be manually processed.
- Fifty percent of the individual earnings histories needed to support claim decisions must be manually reviewed and corrected.
- Ability to override computer edit checks and enter unedited information into the automated files.
- Inadequate controls over automated files to ensure that all information in the files was properly processed.

--Issuance of duplicate Social Security Numbers. For example, the Department identified a group of about 24 million records with the same number but representing different people.

--Delays in issuance of Social Security Numbers, for example, during 1973-1979, the Department discovered 3 million original applications for numbers which never had been processed and numbers issued.

INADEQUATE CONTROLS IN THE SYSTEM
TO MAINTAIN EARNING RECORDS

The Earnings Record System maintains individual earnings records for all individuals assigned a Social Security Number. As of December 23, 1982, SSA maintained 280 million individual earnings records. Each year SSA establishes approximately 6 million new accounts and processes 200 million transactions to update about 150 million earnings records. Information maintained by the Earning Record System is used to compute RSDI benefit payments and prepare various reports such as earnings information for pension funds and trust funds.

The Earnings Record System receives earnings information on either magnetic tape or hard copy (paper forms) from employers. SSA encourages employers to report earnings on magnetic tape. However, most employers submit earnings information on hard copy forms.

SSA receives magnetic tape earnings information at its central office in Baltimore, Md. SSA receives paper earnings reports at three data operations centers located in Wilkes Barre, Pennsylvania; Albuquerque, New Mexico; and Salinas, California. The Centers convert the paper data to magnetic tape and then forwarded the tape files to SSA's central office (Baltimore, Maryland) for processing. To convert to magnetic media, the documents undergo several operations: extraction and examination, pre-microfilm, microfilm, machine optical scanning, and keying to magnetic tape.

Data entered into the system is checked for accuracy and completeness. If errors are detected in transactions, the transactions are rejected from further processing and an appropriate error report is printed to specify what is wrong with the transactions. When errors are corrected, they are reentered into the system.

Internal control weaknesses in the Earnings Record System preclude the system from maintaining accurate records on individuals' earnings histories. Work done by GAO and the HHS Office of Inspector General (OIG) disclosed weaknesses in the processing of earnings reports. GAO's work focused on the

processing of hard copy earnings reports. The OIG's review focused on the processing of earnings reports submitted on magnetic tape.

GAO's work disclosed:

- Lack of segregation of duties at SSA's data operations centers.
- Incomplete and outdated documentation for the Earnings Record System.
- Lack of codes to screen out unauthorized users.
- Inadequate recordkeeping.
- Lack of security over system files at the Data Operation Centers.

As a result of its work, GAO concluded that these weaknesses impair the reliability of the earnings information processed by the system. In July 1982, the Comptroller General, in a letter to the Commissioner of SSA, disapproved the design of the Earnings Record System because control weaknesses in the design of the system affect the reliability of earnings.

As a result of its work, the IG reported on similar control weaknesses. The weaknesses the IG found over processing of wage reports submitted on magnetic tape included that:

- Earnings Record System files included incorrect or incomplete data and were not updated to reflect changes made by employers or SSA.
- Magnetic tape library controls for the Earnings Record System did not account for and control the number of tape reels received or the number of employers who submitted employee wage information on magnetic tape. Thus, SSA could not accurately determine what employer tapes had been received, or whether the tapes received were actually processed through the Earnings Record System.
- The Earnings Record System could not balance, reconcile, and correct errors in wage data received after fiscal 1978.

INADEQUATE CONTROLS IN THE
SYSTEM TO MAINTAIN SOCIAL
SECURITY NUMBERS

SSA's Enumeration system is designed to issue, record, and control Social Security numbers for all individuals who are assigned numbers. A GAO report entitled "Complete and Accurate Information Needed In Social Security's Automated Name and Number Files" (HRD-82-18) dated April 28, 1982, states that incomplete and inaccurate information in the files prevents SSA from effectively using the files for their intended functions.

An individual who needs a Social Security Number or requires a change prepares an application on Form SS-5 or request for a change on Form 7003, at a SSA local field office. The applications and change forms are sorted, reviewed, and microfilmed daily. After the applications and change forms are microfilmed, the data on the Form SS-5 and 7003 are put on magnetic tape and transmitted by telecommunications lines to SSA headquarters in Baltimore.

The application and change form information is posted to the Enumeration System files. The system maintains two magnetic tape files--the name file and the number file. The name file lists in alphabetical sequence the surnames of individuals issued a Social Security Number and contains the same identifying information as in the number file. This information consists of an individual's assigned Social Security Number, current name, date, and place of birth, race, sex, father's name, and mother's maiden name. The name on file is the primary file in the system and SSA headquarters uses it to screen all Social Security applications. The number file is in numerical sequence by social security number and contains identifying information for all individuals issued numbers since 1936.

The process of assigning social security numbers varies depending on the type and nature of the application or request. After receiving the application or change form the system edits the data for accuracy and completeness. For applications for a new Social Security Number or verification of a previously issued Social Security Number, the system matches the name and other identifying information on the application or change form with the information in the name file. If a match is found, a duplicate card is prepared using the previously assigned number. If a match is not found and the applicant does not have a prior number, the computer will assign a new social security number and prepare a card. All numbers issued are recorded on the Enumeration System's name and number files.

GAO has previously reported internal control weaknesses in the Enumeration System and that these weaknesses preclude adequate controls over the issuance of Social Security Numbers. Specifically GAO reported that:

- SSA identified about 24 million records with the same SSN which represented different individuals.
- SSA discovered about three million original applications for SSN's received during the 1973-1979 timeframe but which were never processed.
- SSA issued cards to individuals with numbers already assigned to other individuals.
- Questionable data entries, omissions, and errors in identification information were found--for example, over 200,000 SSN's had the name identified on the number file but not in the name file.

--Discrepancies existed between the number file and the earning file. For example, SSA found cases where name, sex, race, and date of birth were not consistent.

--Controls over SSN applications in process and safeguards over blank cards were inadequate.

CONTROLS IN THE SYSTEM TO
ISSUE BLACK LUNG PAYMENTS
APPEAR ADEQUATE

The Black Lung system issues, records, and controls benefit payments under the Black Lung program for claims filed from December 1969 through June 1973. The system controlled over \$1 billion in Black Lung payments to about 355,000 beneficiaries in fiscal 1982.

SSA accepts applications for Black Lung Program benefits at its local offices. The local offices obtain needed proof of coal mine employment from applicants and prepare the initial claims forms and forward this documentation to SSA's central office in Baltimore, Md. The Central Office in turn forwards the initial claims packages to the U.S. Department of Labor for computation and issuance of benefit payments. For all Black Lung Program claims filed after June 1973, the Department of Labor is responsible for maintaining all program records and files.

SSA accepts reports of changes in eligibility for Black Lung Program claims established before June 1973 at its local offices. The local offices process the change in eligibility information and transmit the information to SSA's central offices for processing through SSA's Black Lung System. SSA is still responsible for making Black Lung Program benefit payment for claims filed during the period December 1969 through June 1973.

Automated processing of Black Lung Program changes in eligibility is built around the maintenance of two master records. These master records are known as the Payment Master Record (PMR) and the Benefit Master Record (BMR). The PMR contains data-- payment amount, address--necessary to make payments to beneficiaries. The BMR contains a complete record of all information obtained for each claimant and a history of all benefit payments made.

The process documentation obtained from SSA on the Black Lung System consisted of 1977 system process documentation. The Office of Claims, Payments, and Requirements (OCPR) who establishes and maintains black lung process documentation could not provide any current process documentation. An official from OCPR explained that this office had recently undergone reorganization and as a result various (system) process documentation had been misplaced or disorganized. In addition, he explained that SSA's involvement with the black lung process is gradually phasing out and as such the need for current documentation is becoming more limited. Another OCPR official said that the processes detailed in the 1977

system documentation are still valid today because the system had not undergone many changes.

The internal controls in the Black Lung System appear adequate to ensure that data entered is properly captured and processed. The main internal control weakness is the lack of current system documentation

INADEQUATE CONTROLS IN THE SYSTEM
TO ISSUE SSI PAYMENTS

The Supplemental Security Income (SSI) System issues, records, and controls SSI benefit payments. Specifically, the system's automated operations include recordkeeping, computation and payment of benefits, and claimant notification of denial, allowance or changes in benefits. For fiscal 1982, the SSI program covered over 3 million persons and disbursed about \$750 million in benefit payments.

The SSI process begins when applicants file initial claims or when program participants report post-eligibility events which may affect their eligibility for benefits. After securing all required evidence, SSA local offices determine the clients' initial or continuing eligibility to receive SSI payments and input the claimants' data into the SSI System by computer terminal.

Data from the field offices is transmitted through a telecommunication network directly to the SSI System run at SSA headquarters. Access to the SSI system and its files is controlled by a system of user passwords and transaction codes. The user passwords identify individuals authorized to use the system. The transaction codes control the items of information that can be entered into the system and its files.

The system performs various edits. Editing routines screen the data for incorrect or incomplete entries and return exception messages (reject, edit, or alert) to the local offices, thereby allowing immediate correction and re-entry of data. The system also possesses a data exchange mechanism that verifies data input by automatically cross-checking other automated files, such as the RSDI and Earnings Record System files. The SSI system is used to maintain program master records, compute and pay benefits, and notify claimants of denial of benefits or changes in benefits.

The SSI System includes subsystems that provide data for States, research reports, and maintenance of quality assurance and program integrity operations. The various subsystems and their descriptions are:

--SSI Over/Underpayment System is a management information system that produces financial reports on SSI over/underpayments.

- SSI Interface System is the SSI data exchange mechanism that exchanges claimant data with other systems such as the Earnings and RSDI systems.
- SSI On-Line Advance Payment System controls and contains accounting data on emergency checks that are issued to visibly disabled recipients (blind, amputees and others) who are in immediate need of assistance.
- SSI Program Estimating System is a management information system that contains budget data on the SSI program.
- SSI Quality Assessment Federal Fiscal Liability System is a management information system that contains information on verification and assessments of SSI payments.
- SSI Accounting System contains records of monthly SSI payment totals and provides records of the State allocations that are used for State reimbursements.
- SSI Index System directs transaction records to the proper housed-index number to facilitate processing in subsequent subsystems and operations.

Reports from these systems are used to prepare various accounting reports which are used to, among other things, update SSA's Financial Accounting System.

The internal controls in the SSI System appear inadequate to effectively control and accurately pay recipients. Key internal control strengths and weaknesses follow.

The key internal control strengths are:

- User passwords and transaction codes to identify individuals authorized to enter into and retrieve data from the system.
- Computer edits to verify the completeness and accuracy of transactions.

The key internal control weaknesses were reported on by GAO. GAO estimated that control weaknesses in the SSI system resulted in over \$25 million in erroneous benefit payments. Specifically:

- Manual and computer overrides of processing steps to verify application information for computation and issuance of benefit payments caused erroneous information to be accepted and processed and resulted in about \$6.4 million in erroneous benefit payments.
- Incomplete verification of benefit payments already being received by SSI applicants under RSI and DI programs caused about \$6.3 million in erroneous SSI benefit payments.

--Incomplete coordination of concurrently filed applications for RSI and DI and SSI benefit payments caused the issuance of about \$7.2 million in erroneous SSI benefit payments.

In addition, over \$5.4 million of erroneous SSI benefit payments were made because post eligibility events were not processed or not processed in a timely manner.

Computer programming weaknesses in the SSI disbursing system allowed erroneous information to be processed. In tests of these computer programs, GAO processed 1,555 initial claims and 3,288 post eligibility test transactions and showed that over 25 percent of the system's computer edits did not function properly. In addition, the field office procedures manual disagrees with SSI computer processing manual causing confusion as to the appropriate action needed to correct information rejected by computer edits. Furthermore, the field office personnel can override many of the system's edit controls, thereby allowing incorrect, incomplete, or erroneous data to be entered into and processed by the computer.

According to a Departmental official, numerous changes have been made to the SSI system which have corrected many of the reported deficiencies. However, the official could not state specifically or provide documentation as to how conditions were improved.

SYSTEM ENHANCEMENT EFFORTS

The Social Security Administration (SSA) is implementing a 5-year computer equipment modernization plan to upgrade the processing capabilities of its computer equipment and automate many of the manual processes currently used to compute benefit payments. In Social Security Administration's 1983 annual report to the Congress, this 5-year ADP modernization plan was described as the "top administrative priority of the Social Security Administration". The modernization plan is designed to address longstanding deficiencies in the administration's computer systems and is designed to solve the accounting system problems discussed in this technical summary.

This 5-year plan was not reviewed during this survey because work is still underway and an evaluation of the effectiveness of the 5-year computer modernization plan in solving the Administration's accounting system problems will have to wait until the plan is fully implemented and operational.

OBJECTIVES, SCOPE, AND METHODOLOGY

This survey viewed the Social Security Administration as a financial entity and focused on identifying its financial management structure, related systems of internal control, and internal control strengths and weaknesses in the structure. The survey applied the Controls and Risk Evaluation (CARE) audit approach.

SURVEY OBJECTIVES

Our survey objectives were to (1) document all manual and automated systems at the Social Security Administration that process financial transactions from the time they are authorized through final reporting of these transactions in internal and external reports, (2) identify the relationships between those systems, that is, the flow of information among different systems, and (3) identify and document internal control strengths and weaknesses in the systems.

SURVEY SCOPE

This survey viewed the Social Security Administration as a single entity. Therefore, we identified and surveyed the financial management systems in the various organizational components of the Administration. Survey work was performed at the Social Security Administration Headquarters in Baltimore, MD.

We documented the financial management systems in operation and identified, based on available system documentation and through discussions with agency accounting, ADP systems, and program officials, and review of prior GAO, Inspector General, and special system study group reports, the internal control strengths and weaknesses in these systems. We did not perform any tests of system operations or actual financial information and transactions. The following sections present the definitions of a financial management system, internal control, and an agency system of internal control used in this survey.

DEFINITION OF A FINANCIAL
MANAGEMENT SYSTEM

In consonance with GAO's Policy and Procedures Manual for Guidance for Federal Agencies (Titles 2 through 8), we defined a financial management system for this survey, as the manual and/or automated systems that capture, record, summarize, and/or report financial and related quantitative information related to the:

- Authorization of the use of resources.
- Management of liabilities.
- Receipt of revenue.
- Disbursement of funds.

- Control of assets.
- Control of appropriated funds.
- Development and issuance of reports on financial status of assets, liabilities, and appropriated funds and the financial results of program and administrative operations.

In an April 18, 1983, letter to the heads of Departments and Agencies, the Comptroller General announced changes to GAO's procedures for approving agency accounting systems. In this letter, the Comptroller General reiterated the definition of an accounting systems in GAO's Policy and Procedures Manual for Guidance of Federal Agencies.

DEFINITION OF INTERNAL CONTROLS

On June 6, 1983, the Comptroller General issued the Standards for Internal Controls in the Federal government to be followed by agencies in establishing and maintaining systems of internal controls. The standards define systems of internal controls as

"The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports."

Processing procedures are those manual and/or automated procedures that govern capturing, recording, processing, summarizing, and reporting of financial and related quantitative information. Internal control procedures are independent procedures designed to provide evidence that processing procedures have, in fact, been followed.

DEFINITION OF AN AGENCY'S SYSTEM OF INTERNAL CONTROL

Most agencies operate several financial management systems that process different types of financial transactions and provide information to each other. The individual financial management systems--taken together--form the agency's overall financial accounting, control, and reporting system. For example, most agencies have a general ledger/administrative control of funds system, and subsidiary systems that, for example, process transactions relating to personnel/payroll actions, personal property, disbursements, receipts, loans, accounts receivable, and accounts payable. These systems--taken together--form the agency's overall financial accounting, control, and reporting system.

The financial management systems that make up an agency's overall financial accounting, control, and reporting system include both processing procedures and independent internal control procedures, as defined in the preceding two sections. For this

survey, we defined an agency's system of internal control as all the internal control procedures--taken together--that are included in all the financial management systems that comprise the overall financial accounting, control, and reporting system.

SOCIAL SECURITY ADMINISTRATION
FINANCIAL MANAGEMENT SYSTEMS
INCLUDED IN OUR SURVEY

Based on the foregoing definition, we included in our survey all manual and automated systems at the Social Security Administration that:

- Maintain general ledger accounts and produce financial reports.
- Control appropriated funds.
- Validate information from subsidiary financial management systems that feed information to general ledger systems.
- Determine eligibility for and authorize the making of payments to vendors.
- Authorize acquisition of resources.
- Record and account for assets and liabilities.
- Compute and issue benefit payments.

SURVEY METHODOLOGY

Our survey work followed the requirements of the Controls and Risk Evaluation (CARE) survey approach. Accordingly, our survey included identification and documentation of the Administration's:

- Organizational structure and major organizational components and the mission of each component.
- Accounting and related financial management systems, as previously discussed, and the interrelationships between their systems.
- Internal control strengths and weaknesses in the Administration's systems.

In consonance with the CARE survey approach our work entailed identification and documentation of the operations and related internal control strengths and weaknesses of the Administration's financial management system based on (1) available agency system documentation, (2) discussions with cognizant agency accounting, program, and ADP system officials, and (3) prior issued GAO, Inspector General, and special study group reports. Our survey was made in accordance with our current "Standards for Audit of

Governmental Organizations, Programs, Activities, and Functions":
except that no tests were performed of system operations or of
information processed by and recorded in these systems.

SOCIAL SECURITY ADMINISTRATION - REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

Authorization

1. Data entered into reporting systems should be authorized in accordance with laws, regulations and management policy.

The policies and procedures concerning the Financial Accounting System (FAS) are set forth in SSA's Accounting Policy and Procedures manual. Much of the data entered in the FAS is generated by other systems or subsystems and the preparation and verification of the data are subject to the procedures governing those systems.

The reliability of the information produced by the FAS is dependent upon the validity of input data. Much of the input data is generated by other systems and is based on manual verifications of vouchers and receiving reports with no record of transactions within the system. Thus, input data may be subject to manipulation prior to FAS input and the FAS does not possess the capability to detect it.

2. Reporting system processing procedures should be established and maintained in accordance with laws, regulations and management policy.

See cycle control objective 1. Processing procedures were not tested as part of our survey.

Although documented within SSA's manuals, FAS actual processing of data has not been subject to audit.

APPENDIX II

APPENDIX II

SOCIAL SECURITY ADMINISTRATION - REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objective</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
<u>Economy, Efficiency, and Effectiveness</u>		
3. Reporting should be in accordance with laws, regulations, and management's policy and plans.	See cycle control objective 1.	The FAS has never been audited to verify the system in operation.
4. Reporting should be achieved in an economical and efficient manner.	This objective was not included in our survey.	
5. Reporting procedures used should be economical and efficient.	This objective was not included in our survey.	
<u>Transaction processing</u>		
6. Only those reports that meet management's policy should be approved.	Within the FAS, various controls are in place to verify the validity of input data. Edit routines verify transaction codes and common accounting numbers before accounting files are updated.	See cycle control objective 3.
7. Reports should be prepared accurately and promptly.	This objective was not included in our survey.	
8. Relevant disclosure data should be gathered accurately and promptly.	See cycle control objective 6.	

SOCIAL SECURITY ADMINISTRATION - REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESSES

<u>Cycle Control Objective</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
9. Relevant disclosure data should be accurately summarized and reported.	The procedures regarding data disclosure are established in the Accounting Policy and Procedures Manual.	
10. File and account balances should be accurately and promptly reported.	Within the FAS there are various balancing routines which update, validate, and balance the data processed. The general ledger files are balanced at the fiscal year level and validation checks are made of account relationships and abnormal account balances.	See cycle control objective 1.
11. Consolidation of reports should be accomplished accurately and promptly.	See cycle control objective 10.	See cycle control objective 1.
<u>Classification</u>		
12. Reporting entries should classify activities in accordance with management's plan.	The Accounting Policy and Procedures Manual contains FAS reporting and processing procedures and listings of the various accounts.	
13. Reports should be prepared accurately and promptly, be prepared on consistent basis and fairly present the information they purport to display.	This objective was not included in our survey.	

SOCIAL SECURITY ADMINISTRATION - REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

Substantiation and Evaluation

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| 14. Recorded balances in the records should be periodically substantiated and evaluated. | See cycle control objective 10. | See cycle control objectives 1 and 2. |
| 15. Access to records, critical forms, processing areas, and processing procedures should be permitted only in accordance with management's policy. | This objective was not included in our survey. | |

SOCIAL SECURITY ADMINISTRATION - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl WeaknessesAuthorization

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| 1. Vendors should be authorized in accordance with laws, regulations and management's policy. | The regulations governing SSA's procurement activities are set forth in HHS's Material Management Manual and are authorized under Title III of the Federal Property and Administrative Services Act of 1949. SSA's Division of Property Management (DPM) is responsible for procurement, record maintenance, and management of property items (office furniture, equipment, supplies.) DPM is required to maintain accurate records of property items, and coordinate with GSA in accounting for storage, issuance, and utilization of disposal of property. |
| 2. The types, estimated quantities and prices and terms of goods and services needed should be authorized in accordance with laws, regulations and management's policy. | See cycle control objective 1. |
| 3. Adjustments should be authorized in accordance with laws, regulations and management's policy. | See cycle control objective 1. |

SOCIAL SECURITY ADMINISTRATION - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
4. Procurement cycle processing procedures should be established and maintained in accordance with laws, regulations and management's policy. <u>And Effectiveness</u>	The procurement data enters the FAS via punched cards from the supply sub-system. The FAS policies and procedures for processing the data are setforth in SSA's Accounting Policy Manual.	
5. Procurement cycle operations should be in accordance with laws, regulations and management's policy and plans.	See cycle control objective 1.	
6. Procurements should be achieved in an economical and efficient manner.	This objective was not included in our survey.	
7. Procurement procedures used should be economical and efficient.	See cycle control objective 1.	
<u>Transaction Processing</u>		
8. Only those requests of vendors for goods and services that meet management's criteria should be approved.	See cycle control objective 1.	

SOCIAL SECURITY ADMINISTRATION - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
9. Only requested goods and services should be accepted.	See cycle control objective 1.	
10. Goods and services accepted should be accurately and promptly reported.	See cycle control objective 1.	Master Inventory Listing (MIL) of personal property is not kept current. Problems with the MIL computer system have resulted in data processing delays. For example, the MIL for December 1981, was not prepared until March 1982. And, the MIL prepared in May 1982, contained transactions for January and February 1982.
11. Amounts due to vendors for goods and services accepted and the accounting distributions of such amounts should be computed and recognized as liabilities promptly.	See cycle control objective 1.	See cycle control objective 1.
12. Amounts due to vendors should be accurately and promptly classified, summarized, and reported.	See cycle control objective 1.	See cycle control objective 1.
13. Purchasing adjustments should be accurately and promptly classified, summarized, and reported.	See cycle control objective 1.	See cycle control objective 1.

SOCIAL SECURITY ADMINISTRATION - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
14. Liabilities incurred and related adjustments should be accurately applied to the proper vendors accounts.	See cycle control objective 1.	See cycle control objective 1.
<u>Classification</u>		
15. Journal entries for amounts due to vendors and related adjustments should be prepared each accounting period.	See cycle control objective 1.	See cycle control objective 1.
16. Purchasing journal entries should summarize and classify economic activities in accordance with management's plan.	Same as above.	Same as above.
<u>Substantiation</u>		
17. Recorded balances of accounts payable, and related transaction activity, should be periodically substantiated and evaluated.	Same as above.	Same as above.

SOCIAL SECURITY ADMINISTRATION - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

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| 18. Access to purchasing, receiving, and disbursement records; critical forms; processing areas; and processing procedures should be permitted only in accordance with management's criteria. | See cycle control objective 1. |
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SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl WeaknessesAuthorization

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| 1. Disbursements should be authorized in accordance with laws, regulations and management's policy. | Retirement, Survivors, and Disability Insurance (RSDI) benefit payments are made based on a complex process of initial claims and postentitlement to determine eligibility and payment amount. Various automated and manual processes and procedures have been established. The initial claim process system supports the processing and control of RSDI claims. The postentitlement process systems react to those events that affect continuing eligibility or the amount of payments. SSA has issued various Program Operation Manuals (POMs) and related documents to explain the process. | The benefit payment systems include provisions for manual overrides of automated edit checks and as a result duplicate payments can be processed through the system and paid. |
| 2. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations and management's policy. | | |
| 3. Disbursement processing procedures should be established and maintained in accordance with laws, regulations, and management's policy. | Our survey did not evaluate whether processing procedures are in accordance with laws, regulations, and management policy. | |

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

Economy Efficiency, And Effectiveness

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| <p>4. Disbursement cycle results should be in accordance with laws, regulations and management's policy and plans.</p> <p>5. Disbursements should be made in an economical and efficient manner.</p> <p>6. Disbursement processing procedures used to create, recognize and report events and related transactions should be economical and efficient.</p> | <p>Procedures in the RSDI system were designed to make sure that the proper payments were made to eligible beneficiaries. For example, various initial claim and postentitlement procedures test the inputs and events that impact on payment. We did not test the process or procedures in place.</p> <p>This cycle objective was not included in our survey.</p> <p>See control objective 5.</p> | <p>No documentation of system logic. Lack of recent comprehensive system audit to test controls.</p> |
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Transaction Processing

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| <p>7. Only those requests for disbursements that meet management's policy should be approved.</p> | <p>See control objective 5.</p> |
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SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
8. Disbursements should be accurately and promptly reported.	See cycle objective 5.	
9. Amounts due to vendors for goods and services accepted and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.	Not applicable to this process.	
10. Each disbursement of cash should be based upon a recognized liability, be accurately prepared and be appropriately authorized.	Not applicable to this process.	
11. Disbursements should be accurately and promptly classified, summarized and reported.	Certification and accounting for disbursements is accomplished through procedures to record the payments made under the RSDI processes.	Process to record disbursements depends upon integrity of data processed by existing systems. No recent comprehensive audit coverage of the certification and accounting function.
12. Cash disbursements and related adjustments should be accurately and promptly classified, summarized and reported.	Not applicable to this survey.	

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl Weaknesses

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| 13. Liabilities incurred, cash disbursements and related adjustments should be accurately applied to the proper vendors' accounts. | This objective was not included in this survey. | |
| 14. Transactions for amounts due to vendors, cash disbursements and related adjustments should be prepared each period. | This objective was not included in this survey. | |
| 15. Disbursements should be summarized and classified in accordance with management's plan. | See cycle control objective 11. | |

Substantiation and Evaluation

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| 16. Recorded balances of disbursements, and related transaction activity, should be periodically substantiated and evaluated. | This objective was not included in this survey. | |
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Physical Safeguards

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| 17. Access to disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy. | This objective was not included in this survey. | |
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SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
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Authorization

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| <ol style="list-style-type: none"> 1. Disbursements should be authorized in accordance with laws, regulations and management policy. 2. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations and management's policy. | <p>The Supplemental Security Income program was established by Public Law 92-603 of Social Security Amendments of 1972 to provide cash assistance to the needy, aged, blind, and disabled persons. The determination of claimant eligibility is administered at SSA's district and branch offices and State disability determination offices in accordance with criteria set forth under Title XVI of the Social Security Act. A computer system, consisting of a number of electronic subsystems, serves as the basic record from which monthly payment tapes are generated and forwarded to U.S. Treasury Department for the issuance of monthly checks.</p> | <p>A GAO review of the SSI computer operations disclosed that the system contains various control weaknesses which allows incorrect and incomplete data to enter into and be processed by the system, thereby producing erroneous benefit payments.</p> |
| <ol style="list-style-type: none"> 3. Disbursement processing procedures should be established and maintained in accordance with laws, regulations and management's policy. | <p>The SSA Office of Management, Budget, and Personnel (OMBP) provides overall policy and procedures for administrative control of SSI funds, defines data needed from SSI benefit systems and issues financial reports on the status of funds including those to the states under SSI program.</p> | |

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

Economy, Efficiency And Effectiveness

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| 4. Disbursement cycle results should be in accordance with laws, regulations and management's policy and plans. | See cycle control objective 1. | See cycle control objective 1. |
| 5. Disbursements should be made in an economical and efficient manner. | This objective was not included in our survey. | |
| 6. Disbursement processing procedures used to create, recognize and report events and related transactions should be economical an efficient. | This objective wsa not included in our survey. | |

Transaction Processing

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| 7. Only those requests for disbursements that meet management's policy should be approved. | See cycle control objective 1. | See cycle control objective 1. |
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SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl Weaknesses

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| 8. Disbursements should be accurately and promptly reported. | The SSA Certification and Accounting Section (CAS) certifies the SSI payments records. In addition, CAS prepares daily and monthly reports of SSI benefit activity which are provided to OMBP. The procedures regarding the certification and compilation of SSI benefit activity were established by CAS in accordance with policies set forth by OMBP. | According to CAS officials the writing of the SSI certification and processing procedures were to be done by the Office of Claims Payment Requirements (OCPR) within the Office of Systems. However, as of yet OCPR has not written the procedures so CAS has undertaken the responsibility themselves. As such procedural documentation regarding SSI certification processing is unofficial. |
| 9. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly. | This objective was not included in our survey. | |
| 10. Each disbursement of cash should be based upon a recognized liability, be accurately prepared and be appropriately authorized. | This objective was not included in our survey. | |

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl Weaknesses

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| 11. Disbursements should be accurately and promptly classified, summarized and reported. | See cycle control objective 8. | See cycle control objective 1 and 8. |
| 12. Cash disbursements and related adjustments should be accurately and promptly classified, summarized and reported. | See cycle control objective 8. | See cycle control objective 1 and 8. |
| 13. Liabilities incurred, cash disbursements and related adjustments should be accurately applied to the proper vendors' accounts. | This objective was not included in our survey. | |

Classification

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| 14. Transactions for amounts due to vendors, cash disbursements and related adjustments should be prepared each period. | This objective was not included in our survey. | |
| 15. Disbursements should be summarized and classified in accordance with management's plan. | See cycle control objective 8. | See cycle control objective 8. |

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
<u>Substantiation and Evaluation</u>		
16. Recorded balances of disbursements, and related transaction activity, should be periodically substantiated and evaluated.	See cycle control objective 8.	See cycle control objective 1 and 8.
<u>Physical Safeguards</u>		
17. Access to disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.	This objective was not included in our survey.	

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl In PlaceControl WeaknessesAuthorization

1. Disbursements should be authorized in accordance with laws, regulations and management's policy.
2. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations and management's policy.
3. Disbursement processing procedures should be established and maintained in accordance with laws, regulations and management's policy.

The Black Lung program was established by Title IV of the Federal Coal Mine Health and Safety Act of 1969. The act provides specific criteria for establishing eligibility of coal miners, their widows, and certain other dependents for benefits. The act also provides specific criteria for computing benefit payment amounts. Amendments to the act (Black Lung Benefits Act of 1972, PL 92-303 and Black Lung Benefits Reform Act of 1977, PL 95-239) have broadened and liberalized the original legislation.

The Black Lung processing procedures are maintained and established by the SSA Office of Claims Payments and Requirements, Office of Systems.

See cycle control objective 1 and 2.

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control In Place

Control Weaknesses

Economy, Efficiency and Effectiveness

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| 4. Disbursement cycle results should be in accordance with laws, regulations and management's policy and plans. | See cycle control objective 1 and 2. |
| 5. Disbursements should be made in an economical and efficient manner. | This objective was not included in our survey. |
| 6. Disbursement processing procedures used to create, recognize and report events and related transactions should be economical and efficient. | This objective was not included in our survey. |
| 7. Only those requests for disbursements that meet management's policy should be approved. | See cycle control objectives 1 and 2. |
| 8. Disbursements should be accurately and promptly reported. | This objective was not included in our survey. |

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
9. Amounts due to vendors for goods and services accepted and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.	This objective was not included in our survey.	
10. Each disbursement of cash should be based upon a recognized liability, be accurately prepared and be appropriately authorized.	This objective was not included in our survey.	
11. Disbursements should be accurately and promptly classified, summarized and reported.	See cycle control objectives 1 and 2.	
12. Cash disbursements and related adjustments should be accurately and promptly classified, summarized and reported.	See cycle control objectives 1 and 2.	
13. Liabilities incurred, cash disbursements and related adjustments should be accurately applied to the proper vendors' accounts.	This objective was not included in our survey.	

SOCIAL SECURITY ADMINISTRATION - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

<u>Cycle Control Objectives</u>	<u>Control In Place</u>	<u>Control Weaknesses</u>
<u>Classification</u>		
14. Transactions for amounts due to vendors, cash disbursements and related adjustments should be prepared each period.	This objective was not included in our survey.	
15. Disbursements should be summarized and classified in accordance with management's plan.	This objective was not included in our survey.	
<u>Substantiation and Evaluation</u>		
16. Recorded balances of disbursements, and related transaction activity, should be periodically substantiated and evaluated.	See cycle control objectives 1 and 2.	
17. Access to disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.	See cycle control objectives 1 and 2.	

FINANCIAL MANAGEMENT SYSTEMS OF SOCIAL SECURITY ADMINISTRATION

