Management's Discussion and Analysis

SocialSecurity.gov

The *Management's Discussion and Analysis* (MD&A) section is required supplementary information to the financial statements and provides a high-level overview of the Social Security Administration. The MD&A describes who we are, what we do, and how well we meet our established goals.

The *Overview of the Social Security Administration* highlights our mission as set forth in our *Agency Strategic Plan*. We identify the major programs we administer and provide a brief explanation of our organization.

The *Overview of Our Fiscal Year 2019 Goals and Results* provides a high-level discussion of our goals and our key mission results. We link our agency-wide Strategic Goals with our Priority Goals, display our fiscal year 2019 operating expenses by Strategic Goal, highlight how our results contribute to achieving our Strategic Goals and Objectives, and discuss how we plan to address the challenges we face.

The MD&A also addresses our financial performance in the *Highlights of Financial Position*. We provide an overview of our financial data and explain the major sources and uses of our funds, as well as the use of these resources in terms of both program and function. We also provide an overview of our Social Insurance data, discuss the solvency of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, and indicate the projections for short-term and long-term financing of the OASI and DI Trust Funds.

Finally, *Systems, Controls, and Legal Compliance* describes the actions we have taken to address our management control responsibilities. The Management Assurances subsection provides our assurances related to the *Federal Managers' Financial Integrity Act* and the determination of our compliance with the *Federal Financial Management Improvement Act*. We also address the results of the audit of our financial statements and compliance with the *Federal Information Security Management Act*, as amended.

Overview of the Social Security Administration

Our Mission

Deliver quality Social Security services to the public.

Social Security Benefits America

Few government agencies affects the lives of as many people as we do. In accordance with law and regulations, we administer three programs under the *Social Security Act*:

- **Old-Age and Survivors Insurance**: Established in 1935, the Old-Age and Survivors Insurance (OASI) program provides retirement and survivors benefits to qualified workers and their family members. In fiscal year (FY) 2019, we paid OASI benefits to an average of over 53 million beneficiaries each month, and paid about $893 billion to OASI beneficiaries through the fiscal year.
- **Disability Insurance**: Established in 1956, the Disability Insurance (DI) program provides benefits for workers who become disabled and their families. In FY 2019, we paid DI benefits to an average of approximately 10 million beneficiaries each month, and paid about $142 billion in DI benefits through the fiscal year.
- **Supplemental Security Income**: Established in 1972, the Supplemental Security Income (SSI) program provides financial support to aged, blind, and disabled adults and children who have limited income and resources. In FY 2019, we paid SSI benefits to a monthly average of approximately 8 million recipients (approximately 2.7 million of whom concurrently receive DI benefits), and paid about $52 billion in SSI Federal benefits and State supplementary payments through the fiscal year.

In addition, we support national programs administered by other Federal and State agencies, as required by law, such as Medicare, *Employees Retirement Income Security Act of 1974*, *Coal Act*, Supplemental Nutrition Assistance Program (formerly Food Stamps), *Help America Vote Act*, State Children's Health Insurance Program, E-Verify, Medicaid, and Federal Benefits for Veterans.

How Social Security Benefited America in Fiscal Year 2019

- We paid a combined total of over $1 trillion in Social Security and SSI benefits;
- As of June 30, 2019, approximately 88 percent of the American population age 65 and over received Social Security benefits; and
- On average each month, about 1.1 million blind or disabled children under age 18 received SSI benefits.

How We Served America in Fiscal Year 2019

- Completed over 17 million applications for new and replacement Social Security cards;
- Performed over 2.3 billion automated Social Security number verifications;
- Posted 288 million earnings items to workers' records;
- Handled over 33 million calls on our National 800 Number;
- Assisted 43.2 million visitors in field offices;
- Mailed nearly 255 million notices;
- Registered over 6.9 million users for *my* Social Security, a personalized online account;
- Processed over 184 million online transactions;
- Completed over 7 million claims for benefits;
- Completed nearly 794,000 hearing dispositions;
- Completed over 144,000 Appeals Council requests for review;
- Completed almost 17,000 disability cases in Federal court;
- Completed over 713,000 full medical continuing disability reviews (CDR);
- Performed nearly 2.67 million non-medical redeterminations of SSI eligibility;
- Conducted 22 computer matching agreements for data exchanges with various Federal partners, resulting in $7.6 billion in annual savings; and
- Provided access to the Social Security Statement (Statement), mailing over 11 million paper Statements and allowing beneficiaries to access their Statements online more than 56 million times.

Our Organization

Approximately 62,000 Federal employees and 15,000 State employees serve the public from a network of more than 1,500 offices across the country and around the world. Most of our employees serve the public directly or provide support to employees who do. Each day, approximately 173,000 people visit and 233,000 call one of our field offices nationwide for various reasons such as to file claims, ask questions, or update their information.

Our National 800 Number handles over 33 million calls each year. Callers can conduct various business transactions by speaking directly with a customer service representative or through our 24-hour automated services, which include requesting benefit verification letters, ordering replacement Medicare cards, and obtaining claim status updates.

The public can also do business with us online. Our suite of online services is available 24 hours a day. They provide a convenient, safe option for anyone interested in conducting business with us online, viewing his or her Social Security records, or looking for information about our programs and services. In FY 2019, the public conducted over 184 million transactions through our online services.

Our processing centers handle complex Social Security retirement, survivors, and disability claims, as well as provide support to our National 800 Number and field offices. State agencies make disability determinations for initial claims, reconsiderations, and CDRs. Administrative law judges in our hearings offices and administrative appeals judges in our Appeals Council decide appealed cases.

For more information about our organization and its functions, visit our [Organizational Structure webpage (www.socialsecurity.gov/org/)](http://www.socialsecurity.gov/org/).

OVERVIEW OF OUR FISCAL YEAR 2019 GOALS AND RESULTS

HOW WE MANAGE PERFORMANCE

Our Performance Framework: The *Government Performance and Results Modernization Act of 2010* (GPRMA) describes how agency strategic plans and goals should align with presidential terms and broader Federal efforts.

Setting goals and measuring our performance is vital to our success. We define our performance framework in the *Fiscal Years* (FY) *2018–2022 Agency Strategic Plan* (www.socialsecurity.gov/asp). Our *Agency Strategic Plan* (ASP) defines our Strategic Goals and details underlying objectives, strategies, and relevant risks and mitigation plans.

Our Strategic Goals are:

Strategic Goal 1: Deliver Services Effectively;

Strategic Goal 2: Improve the Way We Do Business; and

Strategic Goal 3: Ensure Stewardship.

Our Planned Performance: In March 2019, we published our *Annual Performance Plan for FY 2020, Revised Performance Plan for FY 2019, and Annual Performance Report for FY 2018* (www.socialsecurity.gov/agency/performance), as part of the *President's FY 2020 Budget Request* (www.socialsecurity.gov/budget/). Collectively, we refer to this combined document as our *Annual Performance Report* (APR). The APR outlines our tactical plans for achieving the goals and objectives in our ASP, finalizes our performance commitments for FY 2019, and describes how we ensure data integrity of our performance information.

Each fall, a draft of the APR is submitted to the Office of Management and Budget. The draft APR provides our priorities and key initiatives for the next two fiscal years, the performance measures we will use to evaluate our success, and our progress to date on current fiscal year commitments. The budgeted workloads published in our APR correspond to the key workload measures contained in the *FY 2019 Operating Plan* (www.socialsecurity.gov/budget/).

Our Actual Performance and Program Results: We update the APR after the close of the fiscal year to provide performance results for the previous fiscal year. We will issue the final APR containing our actual FY 2019 results in February 2020. The final APR will be available on our Budget Estimates and Related Information website (www.socialsecurity.gov/budget/).

This *Agency Financial Report* summarizes our key initiatives, overall performance results, and financial activities in carrying out our mission in FY 2019. The following table shows our operating expenses by Strategic Goal.

FY 2019 Operating Expenses by Strategic Goal
(Dollars in Millions)

Deliver Services Effectively	$8,906
Improve the Way We Do Business	$1,590
Ensure Stewardship	$2,968

Our Priorities: In support of the GPRMA, we established two Agency Priority Goals (APG). Our APGs are 24-month goals reflecting the priorities of our executive leadership, as well as those of the Administration. We routinely review our progress and take actions to improve our outcomes, promote innovation, and deliver favorable results.

For FYs 2018–2019, our APGs were:

1. Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision; and
2. Improve the integrity of the Supplemental Security Income program by focusing our efforts on reducing overpayments.

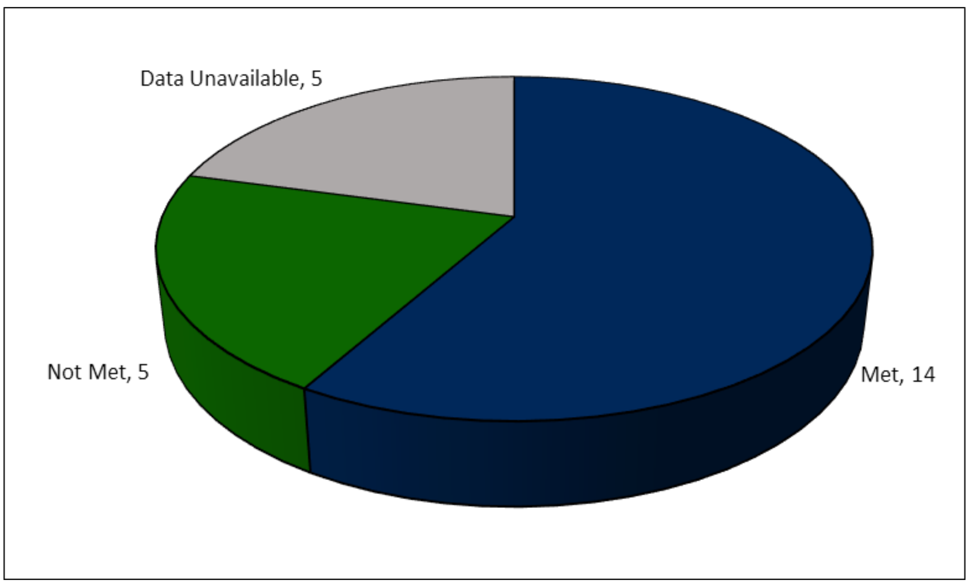
Summary of Fiscal Year 2019 Performance

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2019. It also outlines some of the challenges we faced meeting these goals and analyzes our performance. We base our planned performance measures and targets on the President's Budget request. If necessary, we adjust our resources to ensure we can complete our budgeted workloads and agency goals within our budget.

We have a total of 24 performance measures (including APGs) that we use to track agency progress towards meeting our Strategic Goals and objectives. Overall, we met our targets for 14 of the 24 performance measures. We selected nine performance measures and related key initiatives that highlight our progress, challenges, and priorities in support of our Strategic Goals and objectives. We met our targets for three of the five performance measures with available data. Final data for four of the nine performance measures and targets we highlighted were not available at the time we published this report.

Final data for all performance measures will be published in our *Annual Performance Plan for FY 2021, Revised Performance Plan for FY 2020, and Annual Performance Report for FY 2019* in February 2020.

Summary of Our FY 2019 Performance Measure Results



Strategic Goal 1:
Deliver Services Effectively

Strategic Objectives

- Improve Service Delivery
- Expand Service Delivery Options

Create an account:
www.socialsecurity.gov/myaccount

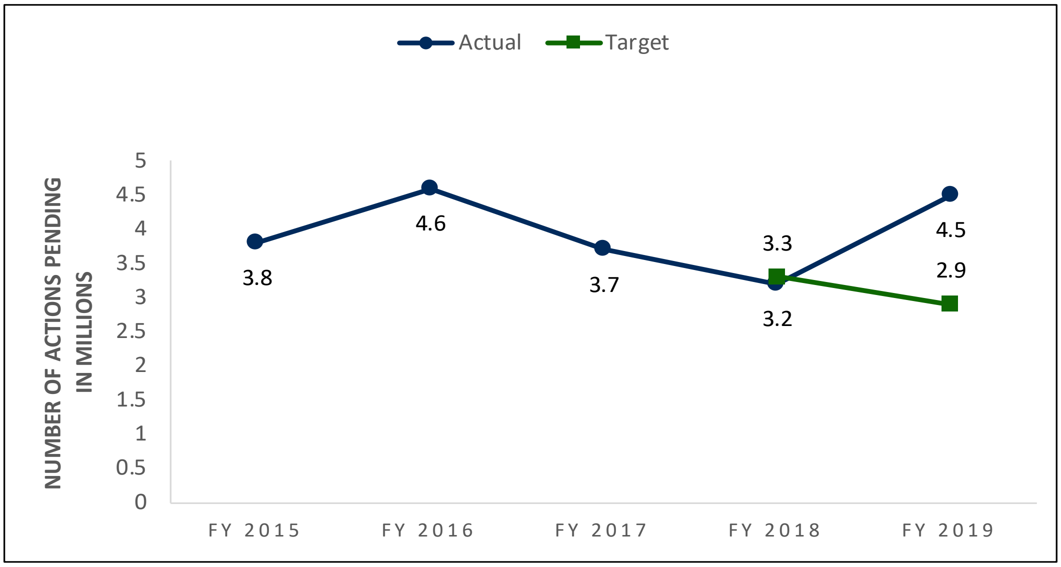
We selected the following performance measures to help demonstrate our progress in delivering services effectively:

Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision (APG)

	FY 2016	FY 2017	FY 2018	FY 2019
Target	Decide 99% of the cases that begin the fiscal year 430 days old or older	Decide 97% of the cases that begin the fiscal year 430 days old or older	Complete 97% of cases that begin the fiscal year 430 days old or older (~374,000 cases)	Complete 95% of cases that begin the fiscal year 350 days old or older (~355,000 cases)
Target Achieved	Not Met	Not Met	Met	Met
Performance	98%	96%	98%	98%

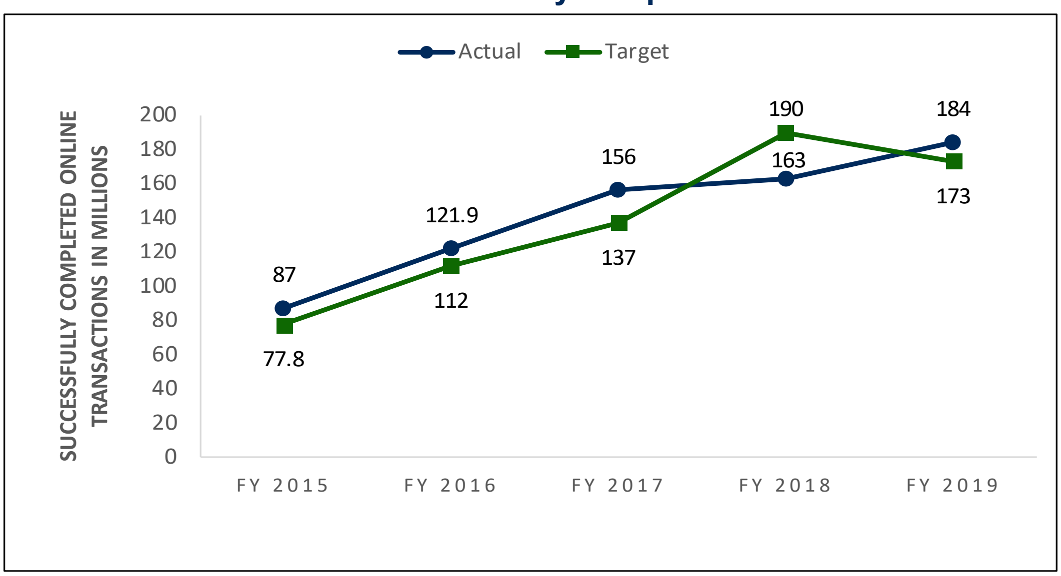
Analysis: Reducing our hearings pending and eliminating our hearings backlog remains our highest priority. In support of this effort, we have prioritized those individuals who have waited the longest for a hearing decision. In FY 2019, we met our goal by completing 98 percent of the cases that began the fiscal year 350 days old or older. Additionally, the number of people waiting for a hearing decision dropped by about 283,000, or nearly 33 percent, to the lowest level since FY 2004.

Improve customer service by reducing the number of actions pending at the processing centers



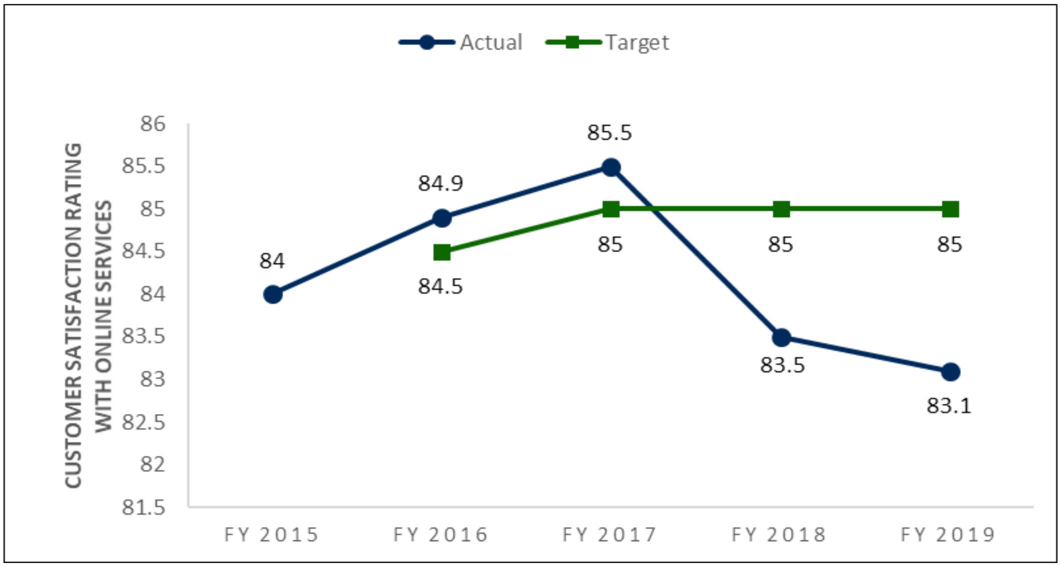
Analysis: Reducing the number of pending actions at the processing centers (PC) remains a focus area for improvement for the agency. We reduced the number of pending actions by 37 percent from January 2016 to September 2018. However, in FY 2019, the PCs had to rework a number of complex and time-consuming cases based on the outcome of the court case, *Steigerwald v. Berryhill*. Furthermore, the PCs provided additional assistance to our National 800 Number to help address high busy rates and wait times. These efforts contributed to an increase in the PC backlog.

Increase the number of successfully completed online transactions



Analysis: By implementing new online services over the past four years, we have significantly increased the volume of online transactions. As we realized these increases, we have continued to set aggressive stretch targets each year. In FY 2016, we implemented Dynamic Help, which contributed to more than 20 million transactions in its first year, and in FY 2017, we implemented My Application Status, a web-based application that allows claimants to view benefit claims that are currently pending or recently adjudicated, which contributed over 9 million transactions. We also implemented myWageReport (myWR), which allowed Disability Insurance (DI) beneficiaries to report earnings electronically on computers, mobile devices, and smartphones through *my* Social Security, and expanded it to Supplemental Security Income (SSI) recipients and concurrent (SSI and DI) beneficiaries, their representative payees or deemors (e.g., an ineligible spouse or parent living with the recipient) in FY 2018. In FY 2019, we enhanced online services to allow representative payees to conduct online wage reporting and direct deposit changes. These improvements contributed to a 13 percent increase in online transactions over FY 2018. We will continue to increase online transactions as we implement new services.

Maintain customer satisfaction with our online services above ForeSee's Threshold of Excellence (80)



Analysis: This performance measure targets overall customer satisfaction with eight agency online services, including our homepage (www.socialsecurity.gov), based on the ForeSee E-Government Satisfaction Index. During FY 2019, we encountered a drop in Business Services Online customer satisfaction due to additional steps required of customers to update their records. We provided training videos and instructions to assist the affected customers. For FY 2019, we exceeded the ForeSee Threshold of Excellence of 80. (The agency's ForeSee Threshold of Excellence target was established in FY 2016.)

To deliver services effectively, we will:

Reduce the Hearings Backlog

Eliminating the hearings backlog and reducing the time it takes to get a hearing decision remains one of our most critical priorities. Our plan for Compassionate And REsponsive Service (CARES) is a multi-pronged approach to eliminate the hearings backlog through increased decisional capacity, business process efficiencies, and information technology (IT) innovations. With our CARES plan, the special hearings backlog funding we have received, and our dedicated employees, we are reducing the average wait for a hearing decision. We expect to eliminate the backlog and reduce the wait for a decision to 240 days in FY 2021.

We have reduced the number of pending hearing requests each consecutive month since January 2017. In FY 2019, we reduced the backlog to about 575,000 cases, the lowest level since FY 2004. In addition, we have eliminated our decision writer backlog. As importantly, we have reduced the average wait time for a hearing decision to 506 days, a 25 percent improvement from the height of 633 days in September 2017. We continue to gain benefits of hires from previous years, focus on improving our business processes and accountability, and invest in automation improvements in our hearings operations. Building from our disability case processing systems work for the State disability determination services (DDS), we are developing a modern case processing system for hearings and appeals level cases that will improve case processing, decisional quality, and efficiency. Additionally, we will be conducting more video hearings in the future which should more quickly improve the wait times and efficiencies of our process.

Reduce the Processing Center Backlog

Our PCs reduced the number of pending actions to 3.2 million as of September 2018, a 37 percent decrease from an all-time high of more than 5 million in January 2016. While we planned to further reduce the backlog in FY 2019, we ended the year at 4.5 million. We encountered significant increases in the PC workload due to the outcome of the court case, *Steigerwald v. Berryhill*, and additional assistance the PCs provided to our National 800 Number. We continue to provide hiring and overtime in the PCs, and focus on automation, workflow enhancements, and quality initiatives to improve performance.

Expand Internet Replacement of Social Security Number Cards

Each year, we process over 11 million applications for Social Security number replacement cards in our field offices. Adult U.S. citizens with a *my* Social Security account, who meet certain criteria, may apply for the card through the Internet Social Security Number Replacement Card (iSSNRC) online application. We expanded the iSSNRC option to 8 additional States in FY 2019, making it available now in 40 States and the District of Columbia.

Enhance *my* Social Security

my Social Security is our online portal for the public that provides a convenient, safe online option for people interested in viewing their Social Security records or conducting business with us. We continue to focus on improving the *my* Social Security user experience and adding service options. *my* Social Security has a user-friendly design to allow broad access from various devices, and we had over 45.7 million registered users at the end of FY 2019.

STRATEGIC GOAL 2:
IMPROVE THE WAY WE DO BUSINESS

Strategic Objectives

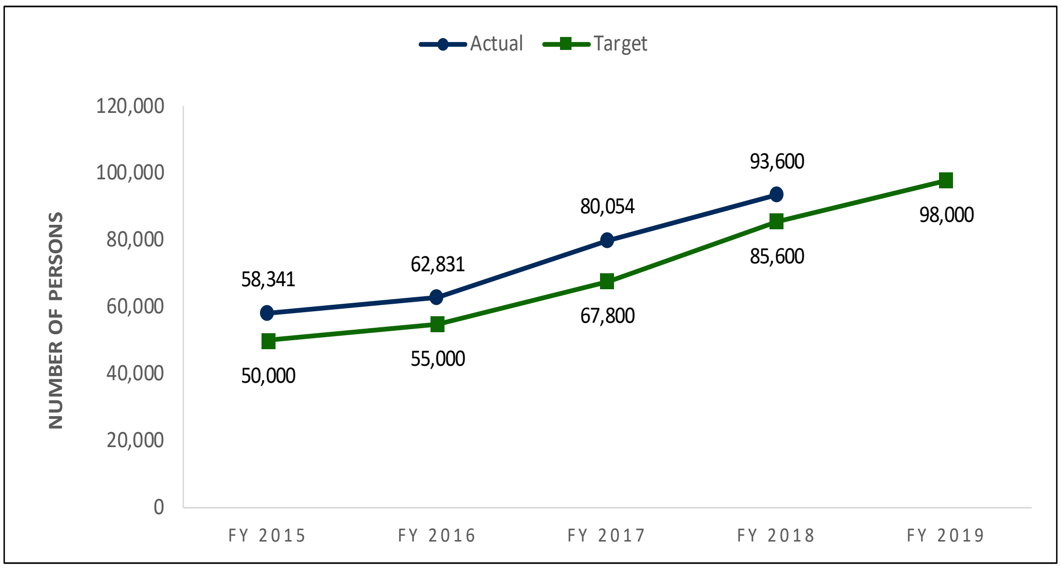
- Streamline Policies and Processes
- Accelerate Information Technology Modernization

myWageReport

Available online at www.socialsecurity.gov/myaccount/

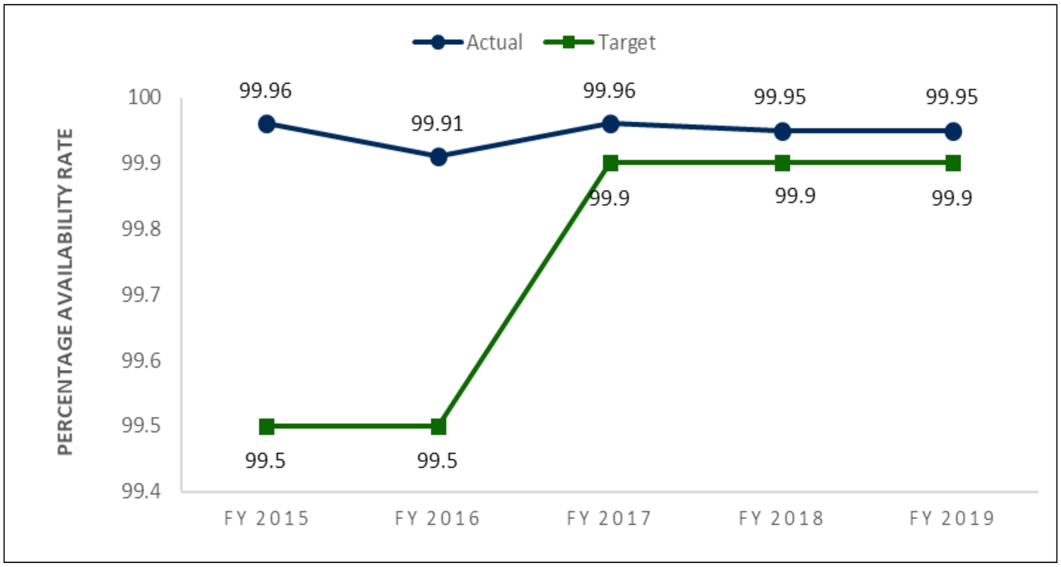
We selected the following performance measures to indicate our progress to improve the way we do business:

Increase labor force participation: Increase the number of persons with disabilities receiving employment support services who achieve the consequential earnings threshold of the trial work level



Analysis: Our Ticket to Work and Vocational Rehabilitation (VR) cost reimbursement programs have helped beneficiaries transition to employment. In FY 2019, we continued to increase the number of persons with disabilities who returned to work. Over the past four years, we have realized continued growth in this program and exceeded our target. FY 2019 data will not be available until April 2020.

Provide uninterrupted access to our systems during scheduled times of operations



Analysis: Maintaining uninterrupted access to our systems during scheduled times of operation is essential to serving the public. Since FY 2012, we have exceeded the target for this measure. We continue to surpass the agency's goal for Enterprise Availability of our critical services each year. In FY 2019, we achieved a systems availability rating of 99.95 percent, while processing higher volumes of transactions and deploying system changes for continual improvement as we constantly work to increase redundancy, stability, and scalability.

Maintain an effective cybersecurity program

	FY 2018	FY 2019
Target	Achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment	Achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment
Target Achieved	Met	TBD
Performance	"Managing Risk" score achieved	TBD

Analysis: Maintaining our cybersecurity is critical to sustaining public trust in our services. We maintain a comprehensive, agency-wide information security program to protect our network, information, and communication assets. We continue to meet the Department of Homeland Security cybersecurity target, as well as achieve an overall score of "Managing Risk" on the Federal Cybersecurity Risk Management Assessment. Our annual results continue to demonstrate our commitment to protecting the data the American public entrusts to us. FY 2019 data will not be available until January 2020.

To improve how we do business, we will:

Increase the Number of People with Disabilities who Return to Work

Many beneficiaries who are disabled want to work and may attain self-sufficiency with adequate support. The Ticket to Work program and the VR cost reimbursement program help beneficiaries transition to employment and progress towards reduced reliance on disability benefits. In FY 2019, over 344,174 beneficiaries worked with VR agencies and Employment Networks (EN) to attempt to return to the workforce. We will continue to improve our outreach to beneficiaries about employment support programs. Ongoing mailings, marketing efforts, monthly webinars, and an interactive presence on social media have led thousands of beneficiaries to connect with ENs and State VR agencies to get the services they need to return to work.

Modernize the Social Security Statement

To improve customer service and the public's understanding of our programs, we are modernizing the online Social Security Statement (Statement) available through the *my* Social Security portal. The modernized online Statement will not only continue to provide the public with their earnings records, Social Security and Medicare taxes paid, and future benefit estimates, it will also provide access to tools, calculators, supplemental fact sheets, and other applicable information in a central location. The information provided will be customized based on the user's age and earnings history, providing a more relevant experience. Together, it will assist individuals with retirement planning and learning about benefit eligibility. In FY 2019, we began modifying the *my* Social Security online Statement to integrate it with additional benefit estimation tools through the Benefit Entitlement Center, and we will continue to add new features.

Information Technology Modernization

Our staff rely on our IT infrastructure to serve the public and safeguard our programs. However, our infrastructure needs have evolved as technology has changed and the demands for our data and programs have increased. We developed some of our core business systems over 30 years ago, and we have struggled to keep pace as newer technologies advanced what is possible with the use of modern tools and emerging IT capabilities such as artificial intelligence. Our IT infrastructure has grown increasingly complex and costlier to maintain and secure as we applied incremental changes on top of prior revisions.

We initiated our *IT Modernization Plan* in FY 2018 to improve our service to the public. We will advance our IT infrastructure with 21st century technology and implement the technical flexibility necessary to adapt to future demands. To achieve our modernization goals, we will invest $691 million over 5 years, including the $325 million that the Congress provided in dedicated IT Modernization funding in FYs 2018 and 2019. In FY 2019, we modernized our database infrastructure and support capabilities; improved access to master file data to allow the eventual retirement of legacy software; consolidated and eliminated duplicate data; expanded our enterprise data warehouse; and delivered Old-Age, Survivors, and Disability Insurance Cost of Living Adjustment Notices online.

Strengthen Our Information Security Program and Modernize Our Cybersecurity Infrastructure

Maintaining the public's trust in our ability to protect sensitive data housed in our systems requires continuous monitoring of threats and continual improvement and strengthening of our cybersecurity program. Through constant assessment of the threat landscape and use of advanced cybersecurity controls, we can better protect against cybersecurity incidents and risks. We continue to emphasize the importance of information security through continual operational refinement and the maturation of security components in accordance with the standards set forth by government regulations.

In FY 2019, we mitigated vulnerabilities and enhanced our identity management platform to protect our IT assets. We enhanced our identity management platform, further automated our response to security events, and improved data at rest encryption to further protect our information assets. We deployed IT infrastructure, developed network models needed to enhance our network access controls, and strengthened our strategy to limit the impact of potential cyberattacks. We implemented new email and network safeguards to detect and prevent malware from entering our network. Additionally, we developed and implemented our plan to address key cybersecurity skill and knowledge gaps identified under the *Federal Cybersecurity Workforce Assessment Act*.

STRATEGIC GOAL 3:
ENSURE STEWARDSHIP

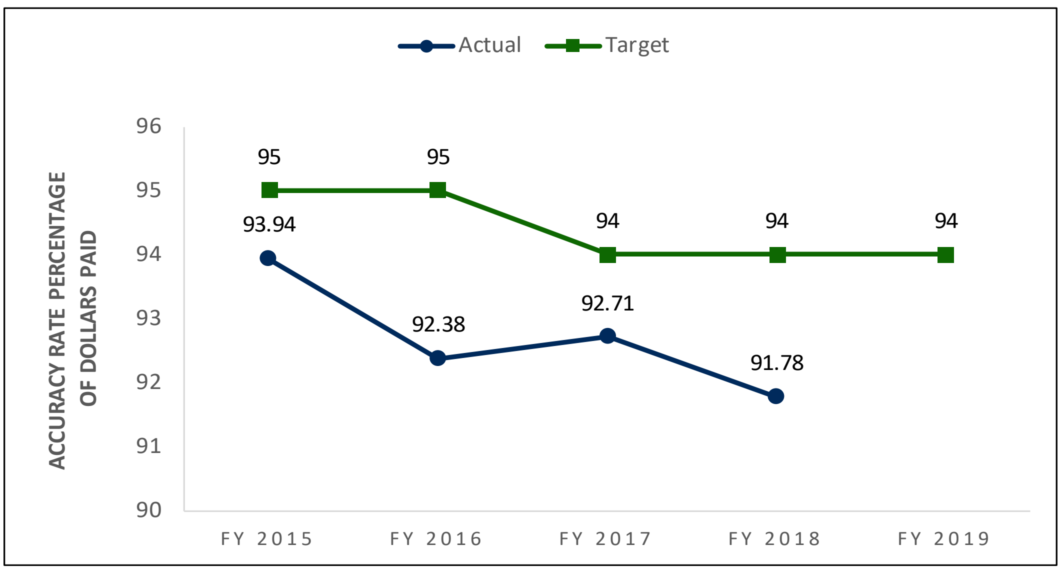
Strategic Objectives

- Improve Program Integrity
- Enhance Fraud Prevention and Detection Activities
- Improve Workforce Performance and Increase Accountability
- Improve Organizational Effectiveness and Reduce Costs

Antifraud facts:
www.socialsecurity.gov/antifraudfacts/

We selected the following performance measures to demonstrate our efforts to ensure stewardship:

Improve the integrity of the Supplemental Security Income program by focusing our efforts on reducing overpayments (APG)

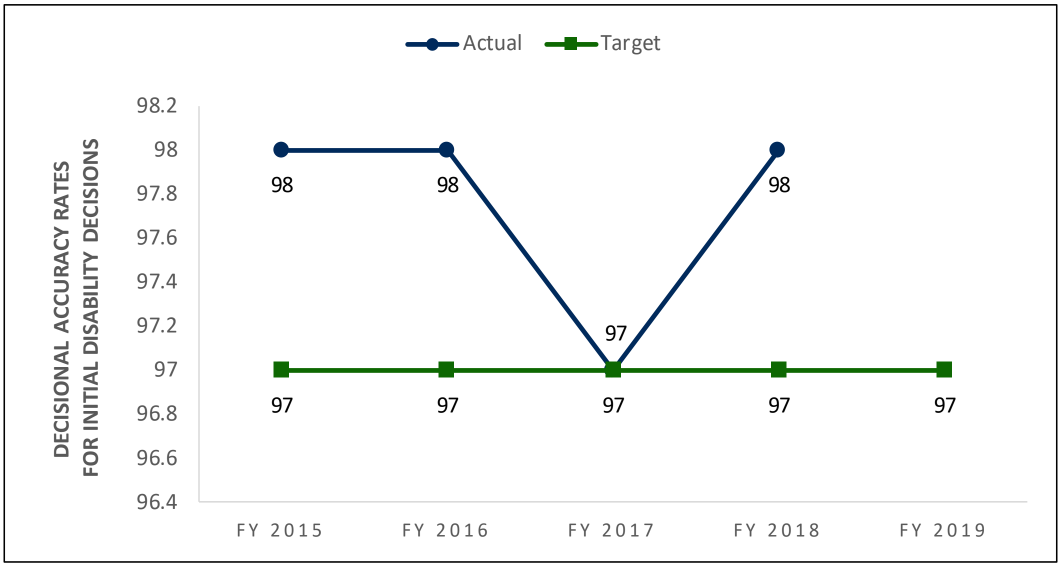


Analysis: We rely on SSI recipients to timely report changes in income, resources, and living arrangements in order to accurately determine their eligibility for the program and payment amount. Without timely reports, we incur improper payments.

In addition to our key program integrity workloads, we have an aggressive strategy, utilizing various initiatives, to reduce improper payments: Access to Financial Institutions program, identifying non-home real property, enhancing the SSI wage-reporting process, quality reviews, reducing underpayments to vulnerable populations, increasing post-entitlement accuracy, improving death data processing, expanding Benefit Payment Offset, conducting a debt risk assessment, modifying our Treasury Offset Program, developing a Debt Management Product, and additional data exchanges to prevent improper payments.

In support of our efforts to improve payment accuracy, we are making progress towards implementing an online debt collection application and creating an automated process to improve accuracy in our payment records. We will also modernize and simplify the waiver and appeal process. FY 2019 data will not be available until summer 2020.

Ensure the quality of our decisions by achieving the State disability determination services decisional accuracy rate for initial disability decisions



Note: Decisional accuracy is the percentage of correct initial State disability determinations and is based on the net error rate (i.e., the number of corrected deficient cases with changed disability decisions), plus the number of deficient cases not corrected within 90 days from the end of the period covered by the report, divided by the number of cases reviewed.

Analysis: The public expects us to make timely and accurate decisions. In FY 2018, we demonstrated the quality of our decisions by achieving a decisional accuracy of 98 percent for initial disability decisions. We have consistently met our target for this measure since FY 2010. FY 2019 data will not be available until January 2020.

To ensure stewardship, we will:

Promote Timely Wage Reporting

Changes in a person's work and wages are a leading cause of improper payments in the DI and SSI programs. Currently, we use a number of sources to verify wage amounts, including pay stubs submitted by recipients, annual earnings data from the Internal Revenue Service, and payroll information from The Work Number. However, verifying wages is a manual process, and we continue to rely on beneficiaries to report wages.

In FY 2017, we implemented an online tool, myWR, which allows DI beneficiaries to report earnings electronically on computers, mobile devices, and smartphones through *my* Social Security. In FY 2018, we expanded myWR to allow SSI recipients and concurrent (SSI and DI) beneficiaries, their representative payees, or their deemors (e.g., an ineligible spouse or parent living with the recipient) to report earnings electronically.

In FY 2019, users successfully submitted over 99,000 myWRs. In addition, we developed requirements, conducted market research, and released the solicitation for a contracting opportunity for payroll data providers, which allowed us to collect over 11.8 million consent authorizations from applicants, beneficiaries, and recipients.

Modernize our Debt Management System

We have multiple systems that manage programmatic debts. We are engaged in a multi-year initiative to develop a modernized enterprise Debt Management System to help us better collect, store, monitor, and report our program debt activity. The primary goals of this initiative are to use modern technology to create an enterprise authoritative source of debt management data, increase debt collections, more efficiently address our overpayment workloads, and resolve compliance and audit issues.

Enhance Fraud Prevention and Detection Activities

Combatting fraud is an agency priority, and we take seriously our responsibility to prevent and detect fraud. With the Office of the Inspector General, we jointly operate Cooperative Disability Investigations (CDI) units with State DDSs and State and local law enforcement. In FY 2019, we added 3 CDI units, resulting in 46 CDI units covering 40 states, all U.S. territories, and the District of Columbia. Generally, these units investigate suspected fraud before the agency awards benefits and during the continuing disability review process.

In addition to our core program integrity efforts with the CDI units and assisting with fraud prosecutions, we have centralized our anti-fraud efforts to take advantage of data analytics and predictive models to prevent fraud, ensure consistent anti-fraud policies, refine employee training, and solidify relationships with other Federal, State, and private partners to identify individuals who wrongfully obtain DI and SSI payments.

We are focused on a holistic analytical approach to our fraud risk management and prioritize our anti-fraud efforts consistent with the *Fraud Reduction and Data Analytics Act of 2015* and the Government Accountability Office's framework for managing fraud risks in Federal programs. We continue to expand the use of data analytics and predictive modeling to enhance fraud prevention and detection in our programs. We integrate data from multiple sources and use industry-proven predictive analytics software to identify high-risk transactions for further review. With these models, we better identify suspicious and evolving patterns of activities in our workloads and prevent fraudulent actions before payments are made. In FY 2019, we completed fraud risk assessments of our electronic services and administrative areas, and developed a fraud model to mitigate risks. We also plan to initiate additional risk assessment activities to expand beyond disability and online services.

Looking Forward – Facing Our Challenges

Public service drives every decision we make. Our top priorities are to improve public service – particularly reducing National 800 Number, field office, and hearings wait times, and modernizing our disability policies and our IT, including providing more digital and automated service options.

While the agency has made significant progress in addressing some key challenges in recent years, we have much more work to do. We are taking a hard look at how we spend our funding, what the public gains from our IT investments, and the effectiveness of our current business processes to look for efficiencies and process changes that will help us improve service to the public while we also maintain our stewardship responsibility.

With the special hearings backlog funding we received and our dedicated employees, we have made tremendous progress in reducing the hearings backlog and wait times. As of the end of FY 2019, we reduced the backlog to about 575,000 cases, the lowest level since FY 2004. In addition, the average wait time for a hearing decision is 506 days, a 25 percent improvement from the height of 633 days in September 2017. By the end of FY 2021, we expect to have an average wait time of 240 days.

While we are on a steady course to eliminate the hearings backlog, we are also committed to finding solutions to address service issues in our frontline operations. Our field offices are often the first point of contact for our customers and provide ongoing support in our communities. We will continue to explore ways to reduce wait times and pending workloads in our offices and improve our communications with the public. Taking a fresh view will help us identify and solve problems, including how we can drive effective change. We will focus our hiring on frontline operations to serve the public.

Millions of customers also depend on our National 800 Number technicians to answer critical and time sensitive questions. One of our first areas of improvement will be our National 800 Number, which has long wait times and high busy rates that are unacceptable. We have made hiring for the National 800 Number a top priority while also bringing in industry experts to help us look at how we can modernize our service and use our new unified communications platform to provide more automated solutions that can better serve the public and allow our staff to focus on the most complex work.

We cannot deliver timely and accurate services to the public in the future without modernizing our IT. We made tremendous progress in our modernization efforts, thanks to the support of the Administration, Congress, and the hard work of our employees. Technology has become valuable in optimizing resources and delivering on customer expectations, so we must continue to move forward and replace all of our outdated systems with modern systems that meet 21st century needs.

Streamlining agency policies is essential to gaining efficiencies. Over the course of time, policies have become more and more complicated leading to errors, complexity for our employees and the public, and the inability to automate. We will explore simplification opportunities and identify outdated rules and regulations that we will consider updating or removing.

We continue to be focused on our mission, and look forward to making the agency an even stronger, more responsive and modern organization.

HIGHLIGHTS OF FINANCIAL POSITION

OVERVIEW OF FINANCIAL DATA

We received an unmodified opinion on our financial statements from Grant Thornton, LLP. Our financial statements combined the results from the programs we administer, which include the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs (referred to as OASDI when discussing them in combination), and the Supplemental Security Income (SSI) program. OASI and DI have separate funds, which are financed by payroll taxes, interest on investments, and income taxes on benefits. General revenues from the U.S. Treasury finance SSI. Our financial statements, notes, and additional information are located in the *Financial Section* of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2017 through 2019 (excluding key amounts from our Statements of Social Insurance and Statements of Changes in Social Insurance Amounts, which we present in the Table of Key Social Insurance Measures located in the Overview of Social Insurance Data section).

Table of Key Financial Measures[1]
(Dollars in Billions)

Net Position (end of fiscal year)			
	2019	2018	2017
Total Assets	$2,945.9	$2,939.3	$2,934.8
Less Total Liabilities	$118.9	$117.0	$115.3
Net Position (assets net of liabilities)	$2,827.0	$2,822.3	$2,819.6
Change in Net Position (end of fiscal year)			
	2019	2018	2017
Net Costs	$1,101.3	$1,038.6	$999.1
Total Financing Sources[2]	$1,106.0	$1,041.3	$1,044.1
Change in Net Position	$4.7	$2.7	$45.0

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Total Financing Sources includes both the Total Financing Sources and Total Budgetary Financing Sources lines from the Statement of Changes in Net Position located in the *Financial Section* of this report.

Balance Sheet: The Balance Sheet, located in the *Financial Section* of this report, presents as of a specific point in time, amounts of economic benefits we own or manage (assets), amounts we owe (liabilities), and residual amounts we retain, comprising the difference (net position).

Total assets for FY 2019 are $2,945.9 billion, a 0.2 percent increase over the previous year. Of the total assets, $2,928.2 billion relates to funds from dedicated collections for the OASI and DI programs. By statute, we invest those funds not needed to pay current benefits in interest-bearing Treasury securities. Investments, which account for approximately 98.5 percent of our assets, increased $6.3 billion over the previous year.

Liabilities grew in FY 2019 by $1.9 billion primarily because of the growth in benefits due and payable, which is attributable to an increase in the number of OASI beneficiaries, and the 2.8 percent cost of living adjustment (COLA) provided to beneficiaries in 2019. The majority of our liabilities (89.2 percent) consist of benefits that have accrued as of the end of the fiscal year, but have not been paid. By statute, payment of OASI and DI program benefits for the month of September does not occur until October. Our net position grew $4.7 billion to $2,827.0 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost, located in the *Financial Section* of this report, presents the annual cost of operating our three major programs: OASI, DI, and SSI. The Other category on the Statement of Net Cost consists primarily of our administrative costs not related to the OASI, DI, and SSI programs, and contains non-material activities.

Our net cost of operations includes the gross costs we incurred less any exchange revenue earned from activities. In FY 2019, our total net cost of operations increased $62.7 billion to $1,101.3 billion, primarily due to a 2.6 percent increase in the number of OASI beneficiaries, and the 2.8 percent COLA provided to beneficiaries in 2019. The OASI, DI, and SSI net cost increased by 6.6 percent, 1.1 percent, and 10.2 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 3.9 percent, 0.7 percent, and 6.2 percent, respectively.

In FY 2019, our total benefit payment expenses increased by $62.2 billion, a 6.1 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2019 and FY 2018 for each of our three major programs. The increase in SSI benefit payment expense is primarily due to 12 months of benefit payments in FY 2019 versus 11 months in FY 2018. The October 2017 payments were accelerated into FY 2017 since the October 1, 2017 disbursement date fell on a weekend. Refer to Note 1, Summary of Significant Accounting Policies, for additional information on SSI benefit payments.

Benefit Changes in Our Major Programs During Fiscal Years 2019 and 2018

	FY 2019	FY 2018	% Change
OASI			
Benefit Payment Expense	$892,619	$836,919	6.7%
Average Monthly Benefit Payment	$1,402.83	$1,347.46	4.1%
Number of Beneficiaries	53.81	52.45	2.6%
DI			
Benefit Payment Expense	$142,482	$140,939	1.1%
Average Monthly Benefit Payment	$1,103.77	$1,066.01	3.5%
Number of Beneficiaries	9.98	10.21	(2.3)%
SSI			
Benefit Payment Expense	$51,990	$47,027	10.6%
Average Monthly Benefit Payment	$566.71	$551.63	2.7%
Number of Beneficiaries	8.10	8.15	(0.6)%

Notes:

1. Benefit payment expense and the number of beneficiaries are presented in millions.
2. The average monthly benefit payment for OASI, DI, and SSI programs are presented in actual dollars.

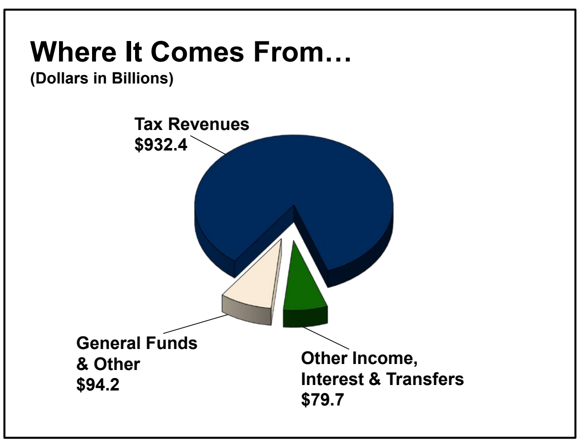
Statement of Changes in Net Position: The Statement of Changes in Net Position, located in the *Financial Section* of this report, presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. The Statement shows an increase of

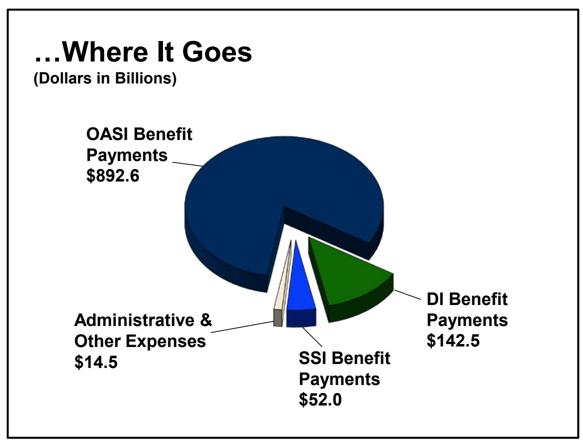
$4.7 billion in the net position of our agency, which is attributable to financing sources in excess of our agency's net cost. At this time, the total of DI tax revenues and interest earned continue to exceed benefit payments made to beneficiaries, keeping the program solvent. OASI benefit payments expense exceeded tax revenues and interest earned in FY 2019, resulting in the program using Trust Fund reserves to cover the excess payments. The passage of Public Law 114-74, *Bipartisan Budget Act of 2015*, authorized a temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions Act* payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and continued through December 31, 2018, after which the allocation returned to the prior distribution. This reallocation of payroll taxes resulted in additional DI cumulative results of operations brought forward in FY 2019, which, when combined with the current year receipts less amounts used, resulted in DI's net position increasing $5.7 billion from $72.9 billion to $78.6 billion.

We use most of the resources available to us to finance current OASDI benefits and to accumulate investments to pay future benefits. When we need funds to pay administrative expenses or benefit entitlements, we redeem investments to supply cash to cover the outlays. Our administrative expenses as a percent of benefit expenses are 1.3 percent.

In FY 2019, total financing sources, as shown in the Table of Key Financial Measures displayed earlier in this section, increased by $64.7 billion to $1,106.0 billion. The primary source of this increase is additional OASI tax revenues received in FY 2019. The $1,106.0 billion in total financing sources from the Statement of Changes in Net Position will not match the amounts reported in the chart "Where It Comes From…" as seen below. The activity reported in the chart includes $0.3 billion in exchange revenue. Our exchange revenues primarily include payments of fees we receive from States choosing to have us administer their State Supplementation of Federal SSI benefits. These amounts are reported on the Statement of Net Cost and are not classified as a financing source.

The following charts summarize the activity on our Statement of Net Cost and Statement of Changes in Net Position by showing the sources and uses of funds for FY 2019.





Note:

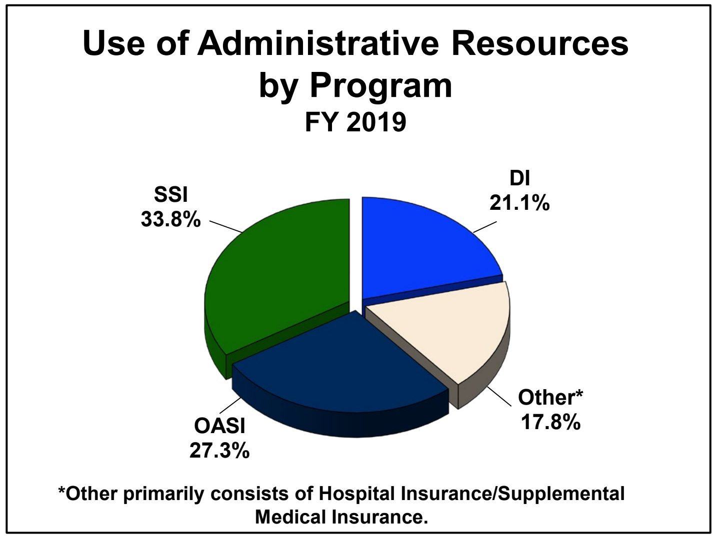
1. The individual items included in the "Where It Comes From…" chart total $1,106.3 billion. Of this total, 0.3 billion relates to exchange revenue, which is not included on the Statement of Changes in Net Position.

The SSI program's Cumulative Results of Operations are negative due to unfunded Benefits Due and Payable liabilities. Unadjudicated and adjudicated, or pending, claims make up a significant portion of SSI's Benefits Due and Payable activity. SSI will pay for these benefits using future years' resources. While the activity is unfunded, we still record an expense, which creates the negative Cumulative Results of Operations since we do not record an associated financing source.

Statement of Budgetary Resources: The Statement of Budgetary Resources, located in the *Financial Section* of this report, provides information on the budgetary resources available to our agency for the year and shows the status of those resources at the end of FY 2019. The Statement shows that we had $1,165.0 billion in budgetary resources, of which $5.5 billion remained unobligated at year-end. We recorded total net outlays of $1,101.8 billion by the end of the year. Budgetary resources increased $63.1 billion, or 5.7 percent, from FY 2018, while net outlays increased $61.9 billion, or 6.0 percent. The increase in budgetary resources is primarily due to an increase in OASI tax revenues in FY 2019. The increase in net outlays is primarily due to an increase in the number of OASI beneficiaries and the 2.8 percent COLA provided to beneficiaries in 2019.

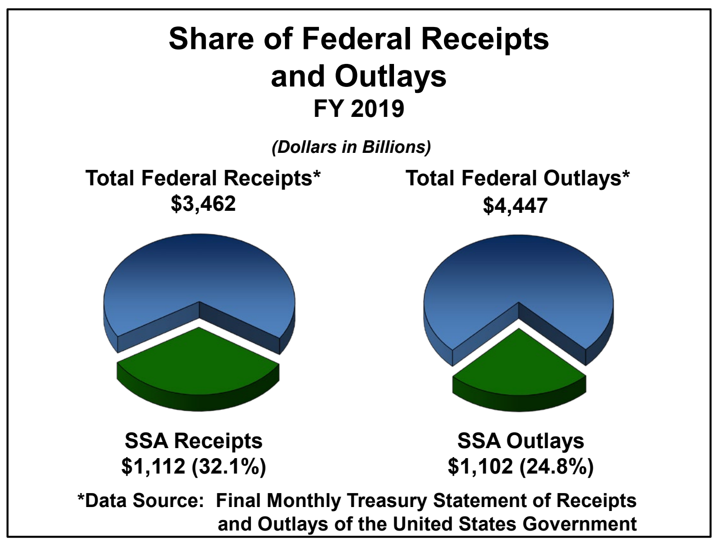
Use of Administrative Resources

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2019 in terms of the programs we administer or support. Although the DI program comprises only 13.1 percent of the total benefit payments we make, it consumes 21.1 percent of annual administrative resources. Likewise, while the SSI program comprises only 4.8 percent of the total benefit payments we make, it consumes 33.8 percent of annual administrative resources. State disability determination services decide whether the claimants for DI and SSI disability benefits are disabled. In addition, disability determination services perform continuing disability reviews of individuals receiving DI and SSI disability payments to ensure continued eligibility for benefits. The FY 2018 use of administrative resources by program was 27.3 percent for the OASI program, 21.8 percent for the DI program, 33.0 percent for the SSI program, and 17.9 percent for Other.



Share of Federal Operations

The programs we administer constitute a large share of the total receipts and outlays of the Federal Government, as shown in the chart to the right. Receipts for our programs in FY 2019 represented 32.1 percent of the $3.5 trillion in total Federal receipts, an increase of 0.6 percent over last year. Outlays decreased by 0.5 percent to 24.8 percent of Federal outlays.



OVERVIEW OF SOCIAL INSURANCE DATA

Table of Key Social Insurance Measures[1]
(Dollars in Billions)

Statements of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2019	**2018**	**2017**
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), current year valuation	-$16,764	-$16,057	-$15,357
Present value of future net cash flows[2] for current and future participants over the next 75 years (open group measure), prior year valuation	-$16,057	-$15,357	-$14,169
Change in present value	-$707	-$701	-$1,187

Notes:

1. Totals do not necessarily equal the sum of rounded components.
2. Future net cash flows are estimated over the appropriate 75-year period.

Statements of Social Insurance: The Statements of Social Insurance, located in the *Financial Section* of this report, present the following estimates:

- The present value of estimated future noninterest income to be received from or on behalf of current participants who have attained retirement eligibility age (age 62 and over) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income to be received from or on behalf of current participants who have not yet attained retirement eligibility age (ages 15–61) and the estimated future cost of providing scheduled benefits to those same individuals;
- The present value of estimated future noninterest income less estimated future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, plus the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period;
- The present value of estimated noninterest income to be received from or on behalf of future participants (those under age 15, and to be born during the period) and the cost of providing scheduled benefits to those same individuals; and
- The present value of estimated future noninterest income less estimated future cost for the open group, which represents all current and future participants (including those to be born during the projection period) who are now participating or are expected to eventually participate in the OASDI programs, plus the asset reserves in the combined OASI and DI Trust Funds as of the beginning of the valuation period.

The present value of estimated future net cash flows (estimated noninterest income less estimated cost for scheduled future benefits) for all current and future participants over the next 75 years (open group measure) decreased from -$16.1 trillion, as of January 1, 2018, to -$16.8 trillion, as of January 1, 2019. The deficit, therefore, increased in magnitude by about $0.7 trillion. Including the asset reserves in the combined OASI and DI Trust Funds increases this open group measure by about $2.9 trillion, to -$13.9 trillion, for the 75-year valuation period.

The present value of estimated future net cash flows for all current participants (who attain age 15 or older in the first year of the projection period) over the next 75 years, *plus* the asset reserves in the combined OASI and DI Trust

Funds as of the beginning of the period, is -$34.7 trillion (closed group measure). Including future participants (those under age 15, and to be born during the projection period) over the next 75 years decreases the projected deficit by $20.8 trillion to the open group measure of -$13.9 trillion.

Statements of Changes in Social Insurance Amounts: The Statements of Changes in Social Insurance Amounts, located in the *Financial Section* of this report, reconcile the change (between the current valuation period and the prior valuation period) in the present value of estimated future noninterest income less estimated future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes.

From January 1, 2018 to January 1, 2019: The present value as of January 1, 2019 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2093. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.4 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $1.0 trillion;
- Changes in programmatic data and methods increased the present value of estimated future net cash flows by $0.5 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- Incorporating recent mortality data, which led to higher projected death rates for all future years;
- Lowering the ultimate annual rate of change in total-economy labor productivity from 1.68 percent to 1.63 percent, reflecting an expected slower rate of productivity growth in the long term;
- Decreasing the difference between the ultimate growth rates for the Consumer Price Index for Urban Wage Earners and Clerical Workers and the gross domestic product implicit price deflator (the "price differential") from 0.40 percentage point to 0.35 percentage point;
- Lowering the ultimate real interest rate by 0.2 percentage point, from 2.7 percent to 2.5 percent; and
- Lowering the ultimate disability incidence rate from 5.4 to 5.2 per thousand exposed, and incorporating recent disability data.

From January 1, 2017 to January 1, 2018: The present value as of January 1, 2018 decreased (became more negative) by $0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2092. Changes for this valuation, and their effects on the present value of estimated future net cash flows, are as follows:

- Changes in demographic data, assumptions, and methods increased the present value of estimated future net cash flows by $0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by $0.5 trillion;
- Changes in programmatic data and methods increased the present value of estimated future net cash flows by $0.2 trillion; and
- Changes in law or policy increased the present value of estimated future net cash flows by less than $0.1 trillion.

Significant changes made for this valuation included:

- Eliminating a previously assumed temporary rise in the projected total fertility rate to a level above the ultimate rate;
- Incorporating recent mortality data, which led to higher projected death rates for all future years; and
- Updating the sample of newly-entitled worker beneficiaries used to project average benefit levels from a 2013 sample to a 2015 sample.

OASI and DI Trust Fund Solvency

Pay-As-You-Go Financing

The OASI and DI Trust Funds are deemed solvent as long as asset reserves are sufficient to finance program obligations in full and on a timely basis. Such solvency is indicated, for any point in time, by the maintenance of positive OASI and DI Trust Fund asset reserves. In recent years, current income has exceeded program obligations for the OASDI program; therefore, the combined OASI and DI Trust Fund asset reserves have been growing.

The following table shows that the combined OASI and DI Trust Fund asset reserves, expressed in terms of the number of months of program obligations that these asset reserves could finance, has been declining slowly, from 36.8 months at the end of FY 2015, to 36.1 months at the end of FY 2016, to 35.1 months at the end of FY 2017, and to estimated values of 33.2 and 31.6 months at the end of FY 2018 and FY 2019, respectively. The historical values shown in the table for the DI Trust Fund had been declining through the end of FY 2015 because expenditures increasingly exceeded income. This trend began to reverse in FY 2016 due to the *Bipartisan Budget Act of 2015*, which reallocated a portion of the payroll tax rate from the OASI Trust Fund to the DI Trust Fund. The values for DI are projected to continue to increase through the end of FY 2019.

Number of Months of Expenditures
Fiscal-Year-End Asset Reserves Can Pay[1,2]

	2015	2016	2017	2018	2019
OASI	43.1	42.0	40.2	37.5	35.4
DI	3.4	3.8	5.7	7.5	7.6
Combined	36.8	36.1	35.1	33.2	31.6

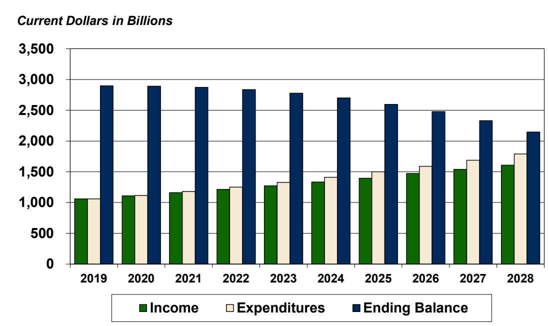
Notes:

1. Computed as 12 times the ratio of end-of-year asset reserves to outgo in the following fiscal year.
2. Values for FY 2018 and FY 2019 are estimates based on the intermediate set of assumptions of the 2019 Trustees Report.

Short-Term Financing

A trust fund for a program is deemed adequately financed for the short term when actuarial estimates of its asset reserves for the beginning of each calendar year are at least as large as the program's obligations for the year. Estimates in the 2019 Trustees Report indicate that, on a hypothetical combined basis, the OASI and DI Trust Funds are adequately financed over the next 10 years. Under the intermediate set of assumptions of the 2019 Trustees Report, OASDI estimated cost of $1,789 billion and income of $1,606 billion for 2028 are 79 percent and 60 percent higher than the corresponding amounts in 2018 ($1,000 billion and $1,003 billion, respectively). From the end of 2018 to the end of 2028, asset reserves are projected to decrease by 26 percent, from $2.9 trillion to $2.1 trillion.

OASDI Income, Expenditures, and Asset Reserves in the Short Term



Long-Term Financing

Social Security's financing is not projected to be sustainable over the long term with the tax rates and benefit levels scheduled in current law. Program cost will exceed noninterest income in all years of the 75-year projection period. In 2035, the combined OASI and DI Trust Fund asset reserves will be depleted according to the projections by Social Security's Trustees. Tax revenues are projected to be sufficient to support expenditures at a level of 80 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2035, declining to 75 percent of scheduled benefits in 2093.

The primary reasons for the projected long-term inadequacy of financing under current law relate to changes in the demographics of the United States: birth rates dropping substantially after 1965, retirees living longer, and baby boomers beginning their retirement. In present value terms, the 75-year shortfall is $13.9 trillion, which is 2.61 percent of taxable payroll and 0.9 percent of gross domestic product over the same period. Some of the possible reform alternatives being discussed – singularly or in combination with each other – are:

- Increasing payroll taxes;
- Slowing the growth in benefits;
- Finding other revenue sources (such as general revenues); or
- Increasing expected returns by investing the OASI and DI Trust Fund asset reserves, at least in part, in private securities.

Significant uncertainty surrounds the estimates for the Statements of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, refer to the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board located in the *Financial Section* of this report.

Limitations of the Financial Statements

The principal financial statements beginning on page 39 have been prepared to report the financial position and results of operations of the Social Security Administration, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Social Security Administration in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

Management Assurances

Fiscal Year 2019 Commissioner's Assurance Statement

SSA management is responsible for managing risks and maintaining effective internal control and financial management systems (FMS) to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Our assessment considered the design and operating effectiveness of our data quality controls to ensure they support *Digital Accountability and Transparency Act* reporting objectives as outlined in our *Data Quality Plan*. Based on the assessment results, we can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2019.

The agency'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. Management is also responsible for designing, implementing, and maintaining effective internal control over financial reporting. 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; and (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.

We conducted our assessment of the effectiveness of internal control over financial reporting, based on criteria established in the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Based on the assessment results, we concluded that, as of September 30, 2019, SSA's internal control over financial reporting is effective.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires Federal agencies to implement and maintain FMSs that comply substantially with: 1) Federal FMS requirements; 2) applicable Federal accounting standards; and 3) the U.S. Standard General Ledger at the transaction level. We conducted an assessment of our FMSs in accordance with the requirements of OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. Based on the assessment results, we determined our FMSs substantially comply with FFMIA and conform to the objectives of FMFIA. In making this determination, we considered all available information, including the auditor's opinion on our fiscal year 2019 financial statements, the report on the effectiveness of internal controls over financial reporting, and the report on compliance with laws and regulations. We also considered the results of the FMS reviews and management control reviews conducted by the agency and its independent contractor.

Andrew Saul
Commissioner
November 12, 2019

Agency Federal Managers' Financial Integrity Act Program

We have a well-established, agency-wide management control and financial management systems (FMS) program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We accomplish the objectives of the program by:

- Integrating management controls into our business processes and FMSs at all organizational levels;
- Reviewing our management controls and FMS controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until completion.

Our managers are responsible for ensuring effective internal control in their areas of responsibility. We require senior-level executives to submit an annual statement to the Commissioner providing reasonable assurance that functions and processes under their areas of responsibility were functioning as intended and that there were no major weaknesses that would require reporting, or a statement indicating they could not provide such assurance. This executive accountability assurance provides an additional basis for the Commissioner's annual assurance statement.

Our Executive Internal Control Committee, consisting of senior managers, ensures our compliance with FMFIA and other related legislative and regulatory requirements. If we identify a major control weakness, the Executive Internal Control Committee determines if the weakness is a material weakness that they would need to forward to our agency head for a final determination on whether to report a material weakness.

We incorporate effective internal controls into our business processes and FMSs through the life cycle development process. We incorporate the necessary controls into the user requirements, certify the controls are in place by having management review the new or changed processes and systems, and test the controls prior to full implementation to ensure they are effective.

We identify management control issues and weaknesses through audits, reviews, studies, and observations of daily operations. We conduct internal reviews of management and systems security controls in our administrative and programmatic processes and FMSs. These reviews evaluate the adequacy and efficiency of our operations and systems, and provide an overall assurance that our business processes are functioning as intended. The reviews also ensure management controls and FMSs comply with the standards established by FMFIA, the *Federal Financial Management Improvement Act of 1996*, and Office of Management and Budget (OMB) Circular Nos. A-123 and A-130.

For more information, please refer to the Summary of Financial Statement Audit and Management Assurances located in the *Other Reporting Requirements* section of this report.

Management Control Review Program

In compliance with OMB Circular No. A-123, we have an agency-wide review program for management controls in our administrative and programmatic processes. The reviews encompass our business processes, such as enumeration, earnings, claims and post-entitlement events, and debt management. We conduct these reviews at our field offices, processing centers, hearings offices, and at the State disability determination services. These reviews indicate our management control review program is effective in meeting management's expectations for compliance with Federal requirements.

Financial Management Systems Review Program

The agency maintains an FMS inventory and conducts reviews of the FMSs to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in the FMS inventory. On a three-year cycle, an independent contractor performs detailed reviews of our FMSs. During fiscal year (FY) 2019, the results of these reviews did not disclose any significant weaknesses that would indicate noncompliance with laws, Federal regulations, or Federal standards.

Government Accountability Office's, Standards for Internal Control in the Federal Government

In FY 2019, we engaged an independent accounting firm to assess the agency's compliance with the revised Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*. The standards provide the internal control framework and criteria that Federal managers should use to design, implement, and operate an effective internal control system that will provide us with reasonable assurance that we will achieve our operations, reporting, and compliance objectives. Based on the procedures performed, the independent accounting firm concluded we have an adequately designed system of internal controls that meets the GAO's standards.

Enterprise Risk Management

We continue to mature our Enterprise Risk Management (ERM) program in accordance with the requirements of OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. We are developing a multi-year strategy that will further integrate our existing internal control and risk management frameworks, and strategic planning and review processes. In FY 2020, we will continue enhancing our ERM program, further integrating business practices outlined in our ERM framework, and continue updating our risk profile and promoting risk awareness throughout the agency.

Financial Statement Audit

The Office of the Inspector General contracted with Grant Thornton LLP (Grant Thornton) for the audit of our FY 2019 financial statements. Grant Thornton found we present fairly the basic financial statements, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles for Federal entities.

Grant Thornton also found that the sustainability financial statements, which comprise the Statement of Social Insurance as of January 1, 2019, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2018 to January 1, 2019, are presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

Grant Thornton found we maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

In this year's financial statement audit, Grant Thornton cited three significant deficiencies, which contained elements identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, information systems risk management, and accounts receivable with the public (benefit overpayments). We successfully remediated the significant deficiency identified in prior years concerning the reliability of information used in certain control activities and are committed to resolving the remaining deficiencies through risk-based corrective action plans designed to strengthen our control environment.

For more information on the auditors' findings and our plans to correct the findings, please refer to the *Report of Independent Certified Public Accountants* section of this report.

Federal Information Security Modernization Act

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, requires Federal agencies to ensure adequate security protections for Federal information systems and information. Under this act, Federal agencies must submit annual FISMA reports to OMB. We submitted this year's report timely. Our report summarizes the results of our security reviews of major information systems and programs, our progress on meeting the Administration's cybersecurity priorities, and the results of other work performed during the reporting period using government-wide cybersecurity performance measures.

For the FY 2019 FISMA audit, Grant Thornton assessed our overall maturity at Level 2 – Defined, acknowledging the agency's establishment of an agency-wide information security program, including our risk-based approach to strengthening controls over our information systems.

In FY 2019, we made substantial improvements in enhancing the overall effectiveness of our cybersecurity program by increasing application security controls, leveraging cloud platforms, making substantial improvements for our asset and vulnerability management programs, strengthening our network and incident response capabilities, and focusing on security training delivery and completeness. We also increased emphasis on governance and oversight of the cyber program at the executive level by involving subject matter experts and leaders from components outside our information technology (IT) department, creating greater awareness of overarching issues and the related risk mitigation activities, and establishing more accountability for completion of programs of objectives and milestones. We are conducting regular bi-weekly cyber dialogue with agency senior leadership and responsible managers from these components, and we will continue to accelerate activities to remediate identified risks, and elevate cybersecurity awareness and accountability across all levels. We believe cybersecurity is not just an IT function; it is a strategic imperative for the agency to create coordinated agency-level attention across all organizational components.

The agency handles all auditor findings with the utmost importance, and we will continue to aggressively pursue an accelerated risk-based remediation approach to address the remaining findings and mature the agency's security posture. The agency will continue to practice a defense in-depth cyber strategy that employs a strong set of security controls, technologies, policies, and procedures to manage risk reasonably and to protect the confidentiality, integrity, and availability of information system resources. Properly securing the agency's information systems and protecting the public's personally identifiable information is our highest priority.

To improve our processes and capabilities, we will continue to design and implement new and enhanced security controls; however, it takes time for these controls to mature and effectively achieve the next level of maturity in the agency's security posture. While undergoing this process, we remain vigilant in our efforts by evaluating risk, deploying security controls, and keeping abreast of the ever-evolving threat landscape to safeguard the personally identifiable information that we have been entrusted with by every citizen and non-citizen.

We look forward to elevating our cybersecurity program to Level 4 maturity through a holistic approach, demonstrating progress through planned improvements to our cybersecurity program, enhancing our security posture with risk based decisions, and aggressive remediation of significant audit findings and program deficiencies.

Financial Management Systems Strategy

Over the years, we have worked hard to improve our financial management practices. We continue to develop new initiatives to enhance the existing financial and management information systems. Our actions demonstrate discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. Going forward, our goal is to achieve government-wide and internal financial management milestones established for improvement.

Annually, we review and update our FMS inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of nine FMSs under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our FMSs following a defined strategy.

In FY 2018, we began a multi-year initiative to develop a modernized enterprise Debt Management System. The Debt Management Product will modernize our Debt Management Systems with a comprehensive build that will enable us to collect, store, monitor, manage, and report our program debt activity with accuracy and timeliness. This modernization effort is an agile investment using modern technology to create an enterprise authoritative source of debt management data; increase collection opportunities; bring efficiencies to and eliminate operational workloads; and resolve compliance and audit recommendations.

In FY 2019, we continued expanding the Debt Management System and began development of an Intranet Waiver application that provides technicians, via an intranet webpage, the capability to capture, document, and support processing waiver requests. In FY 2020, we will continue development of the Intranet Waiver application and prepare for deployment of the new Debt Management System in FY 2021.

For the Financial/Administrative systems category, the Social Security Online Accounting and Reporting System (SSOARS) has been the agency's accounting system of record since implementation in 2003. SSOARS is a federally certified accounting system based on Oracle Federal Financials and consists of core accounting, payables, purchasing, and receivables. SSOARS produces management information reports and provides real-time integration with administrative and programmatic systems. We were the first Federal agency to successfully implement Oracle's Federal Financials Release 12. Release 12 contained important system software that helped us meet new, required Federal accounting functionality and standards.

In FY 2019, we began to implement three important upgrades to the SSOARS application and database. We are upgrading the application to Version 12.2.8 and the database to Version 12c. These upgrades are required to maintain adequate Oracle support for their products and to allow for critical quarterly software patching. Additionally, we are upgrading several Oracle software products that support SSOARS's ability to share data with other application systems. We will complete all upgrades in FY 2020.

Digital Accountability and Transparency Act

The agency submitted the required reports for the *Digital Accountability and Transparency Act of 2014* (DATA Act) for the fourth quarter of FY 2018 and the first, second, and third quarters of FY 2019. The agency is continuing to engage with the DATA Act community in developing better data definitions. The DATA Act effort will enhance the agency's transparency through improved consistency. In addition, through our DATA Act efforts, we will provide more detailed data to the USA Spending public website (www.USAspending.gov) and additional data to Treasury.

In compliance with OMB Memorandum M-18-16, *Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk,* we have developed a *Data Quality Plan* to ensure we have effective internal controls over the input and validation of data submitted to USAspending.gov. We leverage our existing FMFIA program activities to identify critical risk points and corresponding mitigating controls, and assess the design and operating effectiveness of our data quality controls to ensure they support DATA Act reporting objectives. We also consider the results of our assessment in our FMFIA annual assurance statement process.

National Anti-Fraud Committee

Our National Anti-Fraud Committee (NAFC) provides a forum for senior leadership to collaborate and provide strategic oversight on fraud challenges and solutions. NAFC's mission is to support national and regional strategies to combat fraud, waste, and abuse. The committee directs our fraud risk management activities at the agency level by determining the levels of risk tolerance and the amount of investment we will commit to mitigate the identified risks. NAFC supports our goal to promote accountability to taxpayers by ensuring superior financial performance, budget management, and integrity in all payments, records, and processes.

For more information on NAFC, and our other anti-fraud efforts, please refer to the Fraud Reduction and Data Analytics Act Report located in the *Other Reporting Requirements* section of this report.

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