



Management's Discussion and Analysis



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 2018 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 2018 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 touch the lives of as many people as we do. We administer three programs under the *Social Security Act*:

- **Old-Age and Survivors Insurance:** Created 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) 2018, we paid OASI benefits to an average of about 52 million beneficiaries each month, and paid about \$837 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 2018, we paid DI benefits to an average of over 10 million beneficiaries each month, and paid about \$141 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 2018, we paid SSI benefits to a monthly average of over 8 million recipients (about 2.7 million of whom concurrently receive DI benefits), and paid over \$47 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.

We administer our programs in accordance with law and regulations. We have implemented enterprise risk management processes to improve the effectiveness of our organization and program administration. Our goals are informed by strategic opportunities as well as our assessment of identified risks.

HOW SOCIAL SECURITY BENEFITED AMERICA IN FISCAL YEAR 2018

- A combined total of over \$1 trillion was paid in Social Security and SSI benefits;
- As of June 30, 2018, about 88 percent of the American population age 65 and over received Social Security benefits;
- As of June 30, 2018, about 95 percent of individuals age 20–49 who worked in covered employment had survivors' protection for their young children and a surviving spouse caring for the children; and
- On average each month, almost 1.2 million blind or disabled children under age 18 received SSI benefits.



HOW WE SERVED AMERICA IN FISCAL YEAR 2018

- Issued 16.5 million new and replacement Social Security cards;
- Performed over 2.2 billion automated Social Security number verifications;
- Posted 284.3 million earnings items to workers' records;
- Handled over 31.9 million calls on our National 800 Number;
- Assisted 43 million visitors in field offices;
- Mailed nearly 350 million notices;
- Registered over 6.1 million users for *my Social Security*, a personalized online account;
- Processed over 163 million online transactions;
- Completed 10 million claims for benefits;
- Completed nearly 766,000 hearing dispositions;
- Completed almost 156,000 Appeals Council requests for review;
- Received over 18,000 disability cases in Federal court;
- Completed almost 897,000 full medical continuing disability reviews (CDR);
- Performed over 2.9 million non-medical redeterminations of SSI eligibility;
- Conducted 23 computer matching agreements for data exchanges with various Federal partners, resulting in \$7.1 billion in annual savings; and
- Provided access to the Social Security Benefit Statement (Statement), mailing 14.9 million paper Statements and allowing beneficiaries to access their Statements online more than 45 million times.



OUR ORGANIZATION

Approximately 62,500 Federal employees and 15,000 State employees serve the public from a network of more than 1,200 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 170,000 people visit and 250,000 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 30 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 2018, the public conducted over 163 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 \(www.socialsecurity.gov/org/\)](https://www.socialsecurity.gov/org/).



OVERVIEW OF OUR FISCAL YEAR 2018 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 \(www.socialsecurity.gov/asp\)](http://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 February 2018, we published our [Annual Performance Plan for FY 2019, Revised Performance Plan for FY 2018, and Annual Performance Report for FY 2017 \(www.socialsecurity.gov/agency/performance\)](http://www.socialsecurity.gov/agency/performance), as part of the [President's FY 2019 Budget Request \(www.socialsecurity.gov/budget/\)](http://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 2018, and describes how we ensure data integrity of our performance information.

Each September, a draft of the APR accompanies our budget submission 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 2018 Operating Plan \(www.socialsecurity.gov/budget/\)](http://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 2018 results in February 2019. The final APR will be available on our [Budget Estimates and Related Information website \(www.socialsecurity.gov/budget/\)](http://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 2018. The following table shows our operating expenses by Strategic Goal.



FY 2018 Operating Expenses by Strategic Goal (Dollars in Millions)

Deliver Services Effectively	\$ 8,557
Improve the Way We Do Business	\$ 1,405
Ensure Stewardship	\$ 2,986

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 are:

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.



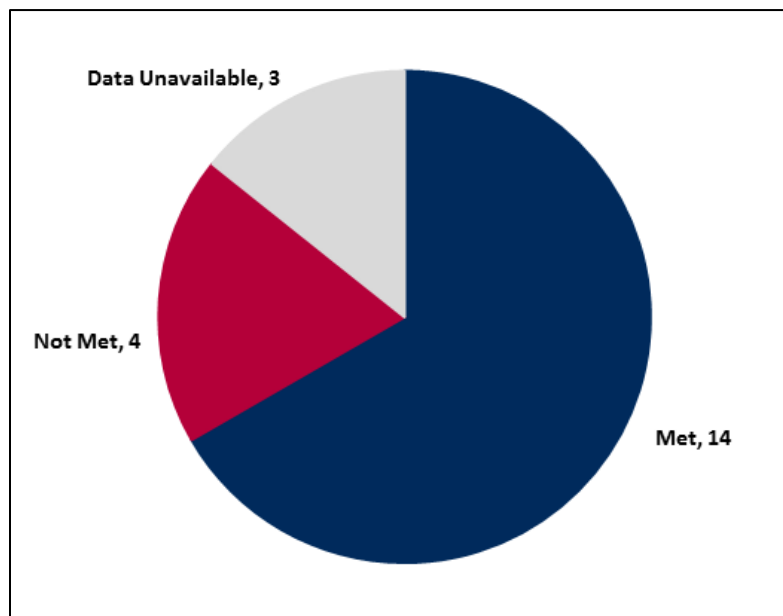
SUMMARY OF FISCAL YEAR 2018 PERFORMANCE

This summary highlights the approaches we used to achieve the performance measures and targets set in support of our goals during FY 2018. 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.

Final data for 2 of the 9 performance measures and targets we highlighted in the *Management's Discussion and Analysis* were not available at the time we published this report. We will include those overall results in our FY 2019 *Agency Financial Report*. We met our targets for 5 of the 7 performance measures with available data.

Overall, we met our targets for 14 of the 21 total performance measures (including APGs) that we use to track agency progress towards meeting our Strategic Goals and objectives. Final data for 3 of the 21 performance measures and targets were not available at the time we published this report. Data on those performance measures will be published in our *Annual Performance Plan for FY 2020*, *Revised Performance Plan for FY 2019*, and *Annual Performance Report for FY 2018* in February 2019.

Summary of Our FY 2018 Performance Measure Results



STRATEGIC GOAL 1: DELIVER SERVICES EFFECTIVELY

Strategic Objectives

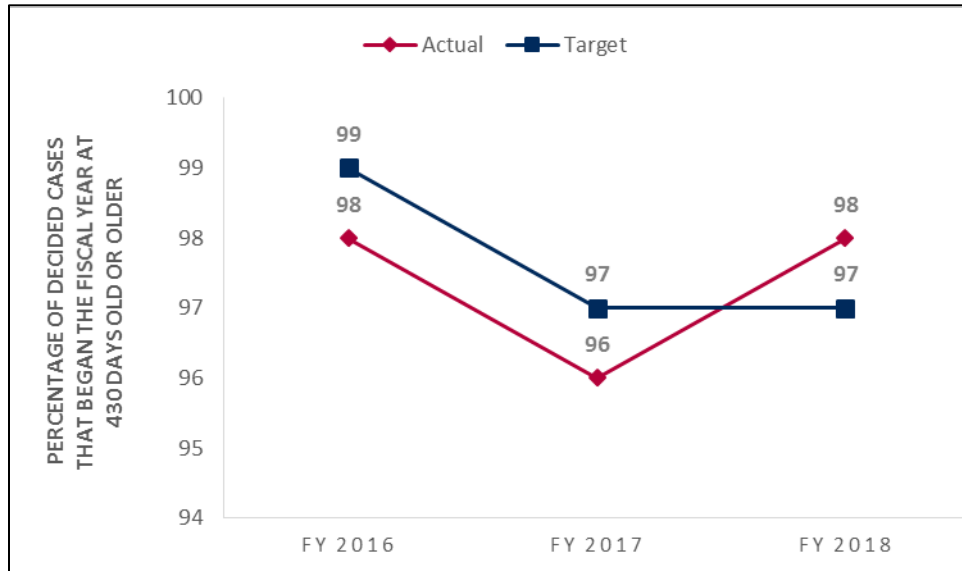
- Improve Service Delivery
- Expand Service Delivery Options



[Create an account:
www.socialsecurity.gov/myaccount](https://www.socialsecurity.gov/myaccount)

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

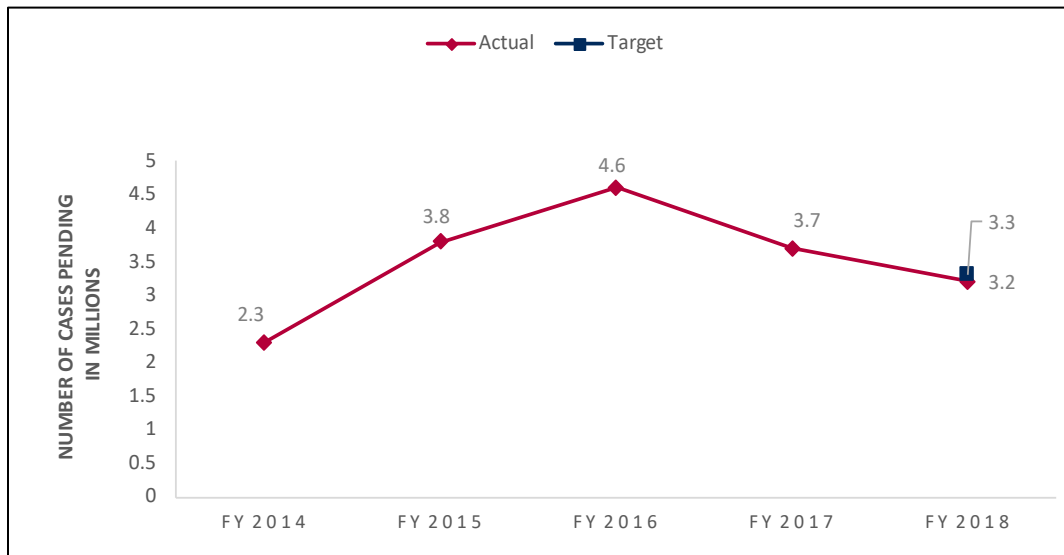
Improve customer service in the hearings process by prioritizing those individuals who have waited the longest for a hearing decision (APG)



Analysis: Reducing our hearings pending 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 2018, for the first time in 3 years, we were able to meet our goal by completing 98 percent of the cases that began the fiscal year 430 days old or older.

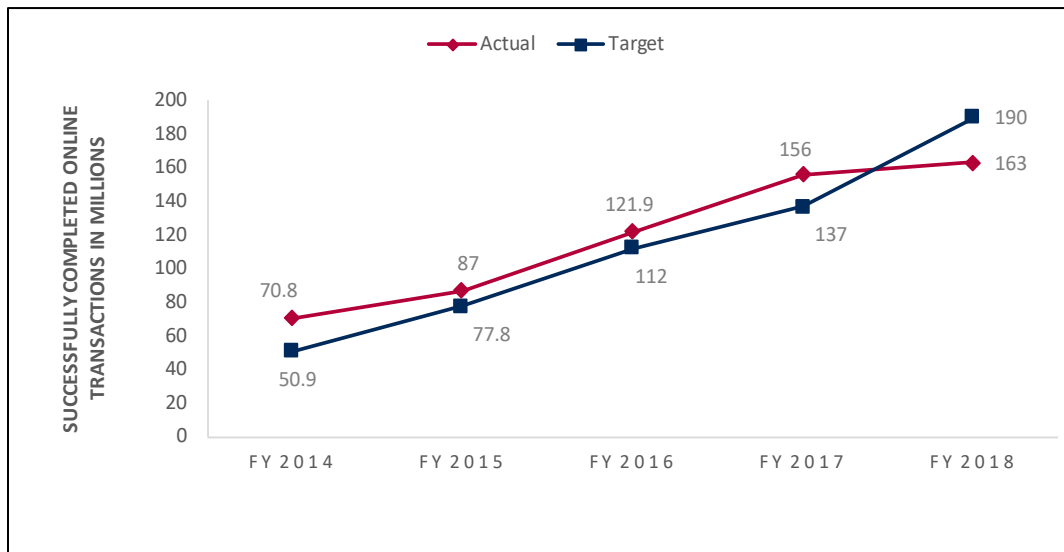


Improve customer service by reducing the number of actions pending at the processing centers



Analysis: In FY 2018, we established reducing the number of actions pending in our processing centers (PC) as a new performance measure. While this workload has always been a high priority for the agency, we wanted to emphasize our commitment to improving customer service. Since the end of FY 2017, we have reduced the PC backlog by over 500,000 actions.

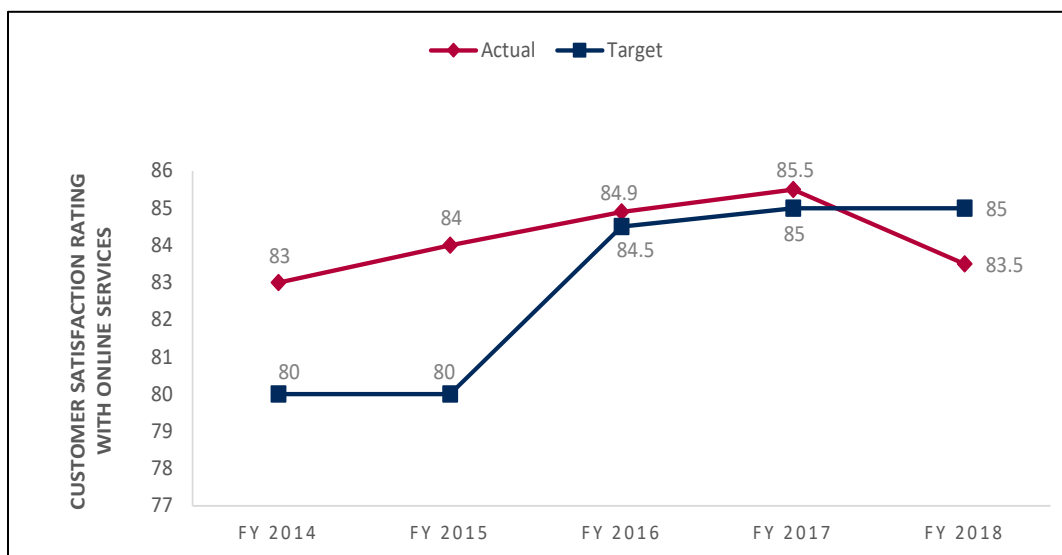
Increase the number of successfully completed online transactions



Analysis: While implementing new online services over the past four years, we realized significant increases in the volume of online transactions. As we realized these increases, we continued to set aggressive stretch targets. In FY 2016, we implemented Dynamic Help, which contributed more than 20 million transactions in its first year and in FY 2017, we implemented a web base-based application (myAPS) that allows claimants to view benefit claims that are currently pending or recently adjudicated, which contributed over 9 million transactions. In FY 2018, implementation of major online services for Supplemental Security Income (SSI) recipients and concurrent beneficiaries occurred in the late third and fourth quarter; making it impossible for them to substantially impact our transaction volumes in a sizable

way until FY 2019. As a result, the volume of these new services are in the thousands and not the millions. We expect to see continued increased online transactions going forward as we implement new services.

Increase customer satisfaction with our online services



Analysis: This goal measures overall customer satisfaction with eight agency online services, including [our main page \(www.socialsecurity.gov\)](http://www.socialsecurity.gov), based on the ForeSee E-Government Satisfaction Index. The FY 2018 target of 85 was based on data that included an error in the main page survey process, which led to inflated scores for the main page. The necessary correction was made mid-FY 2018 and the customer satisfaction score dropped significantly from the upper-70s to the mid-60s in most months. However, the FY 2018 target of 85 was not changed. The main page receives a disproportionate number of ratings from customers who are frustrated with some aspect of our service delivery (whether related to eServices or not) and cannot find another, readily available method for sharing their concerns, which substantially affect the overall score.

Our efforts to deliver services effectively include:

REDUCE THE HEARINGS BACKLOG

We have made good progress, reducing the number of people awaiting a hearing decision for 21 consecutive months. In early March 2018, we reduced the number of hearings pending below one million for the first time since October 2014. In FY 2018, we reduced the number of people waiting for a hearing decision to 858,000--nearly a 19 percent reduction from FY 2017. The decrease in pending is a leading indicator to reduced wait times. We expect a significant decrease in the average wait over the next three years.

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. We also plan to expand our video hearings network, create quality assurance tools to improve policy compliance of drafted decisions, and design a new hearings and appeals case process system.

REDUCE THE PROCESSING CENTER BACKLOG

Currently, the PCs are working off a backlog of pending actions. In FY 2018, our workload strategies involved screening cases that could be completed quickly and controlling the volume and age of our workloads. We also



provided hiring and overtime in the PCs, and we began implementing new automation, workflow enhancements, and quality initiatives to improve performance.

In FY 2018, we reduced the PC backlog by over 500,000 actions from the end of FY 2017. PC pending actions were 36 percent lower at the end of FY 2018 compared to our all-time high of more than 5 million pending actions in January 2016. Our hiring, automation, business process, and quality initiatives will continue to decrease the pending actions.

PROVIDE REAL-TIME ASSISTANCE TO ONLINE USERS

Improving the service experience for our customers is one of our highest priorities. Click-to-Chat is a new feature for [my Social Security](#) that will allow users to communicate with us online in real time. We launched this feature in June 2018 for 10 percent of [my Social Security](#) users, and in August, we increased it to 30 percent of users.

EXPAND THE AVAILABILITY OF THE ONLINE SOCIAL SECURITY REPLACEMENT CARD APPLICATION

Replacing Social Security cards is one of our most requested services. Each year, we process about 10 million Social Security number replacement cards in our field offices. Adults with a [my Social Security](#) account, who meet certain criteria, may apply for a replacement card through the Internet Social Security Number Replacement Card (iSSNRC) online application.

Since we launched iSSNRC in November 2015, we have increased the number of States where people can request a replacement Social Security card. In FY 2018, we issued approximately 856,000 replacement cards through the iSSNRC application and currently offer iSSNRC in 31 States and the District of Columbia. In June 2018, we expanded iSSNRC to residents of Louisiana, Rhode Island, and Missouri. We will continue to expand iSSNRC nationwide.

ENHANCE [my Social Security](#)

[my Social Security](#) is our online portal for the public. It is a convenient, safe online option for anyone interested in viewing his or her Social Security records or conducting business with us. With about 6 million people creating a new [my Social Security](#) account each year, we had nearly 39 million users registered at the end of FY 2018.

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. For example, we implemented an online tool, myWageReport (myWR), that allows users to report earnings electronically on computers, mobile devices, and smartphones.

STRATEGIC GOAL 2: IMPROVE THE WAY WE DO BUSINESS

Strategic Objectives

- Streamline Policies and Processes
- Accelerate Information Technology Modernization

Report Wages from Your Mobile Device

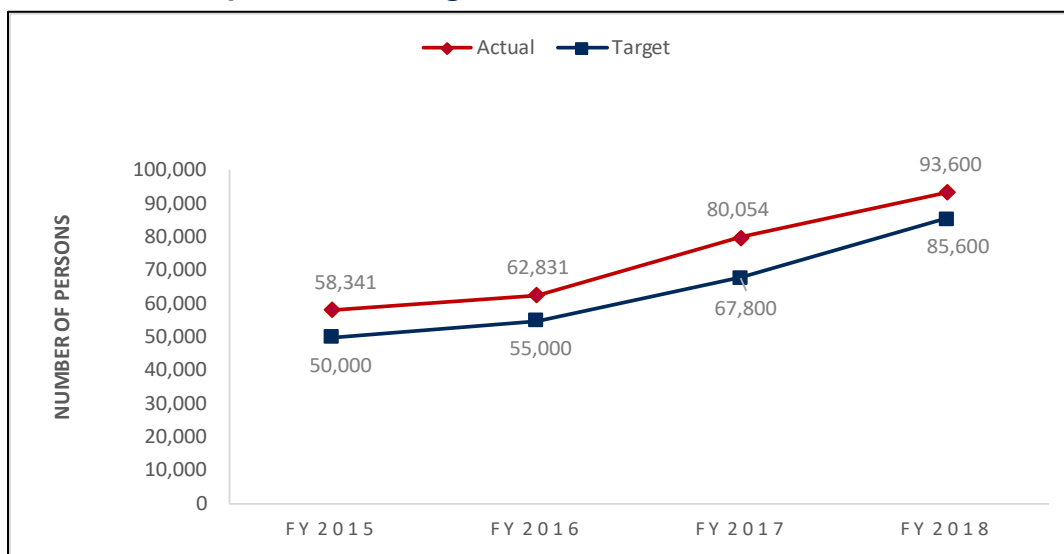


Available now in

Google Play: play.google.com/store and
Apple app: www.apple.com/itunes/charts/free-apps/

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

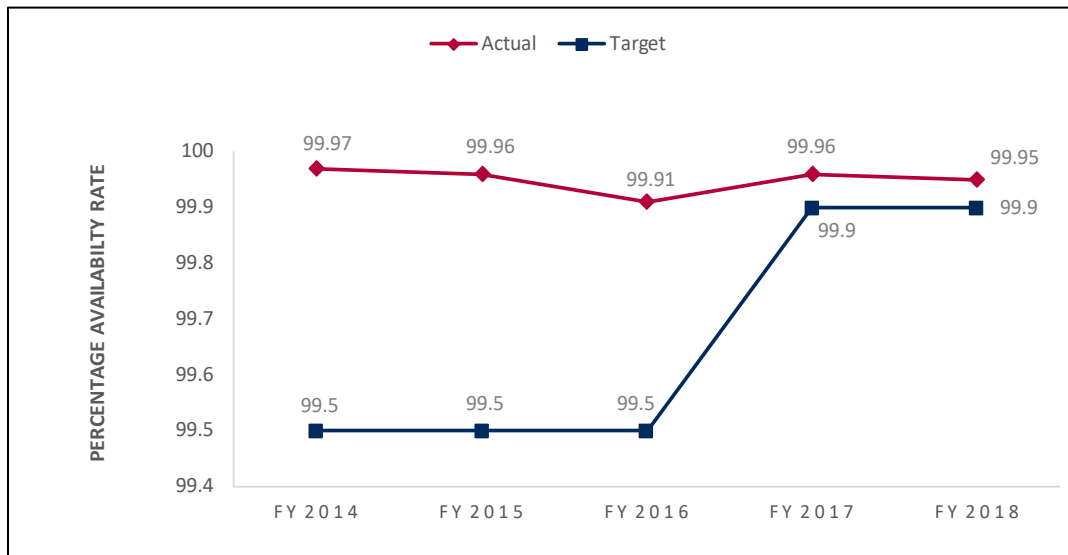
Increase labor force participation: Increase the number of persons with disabilities receiving employment support services who achieve the consequential earnings threshold of the trial work level



Analysis: Our Ticket to Work and Vocational Rehabilitation (VR) cost reimbursement programs have helped beneficiaries transition to employment. In FY 2018, 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.



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 meeting our obligation to 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 2018, 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 Actual	FY 2018 Target	Target Achieved
Performance	“Managing risk” score achieved	Achieve an overall score of “managing risk” on the Federal Cybersecurity risk Management Assessment	Met

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 entrusted to us by the American public.



Some of the initiatives we are undertaking to improve how we do business include:

INCREASE THE NUMBER OF PEOPLE WITH DISABILITIES WHO RETURN TO WORK

Many beneficiaries who are disabled want to work, and with adequate support, may attain self-sufficiency. The Ticket to Work and the VR cost reimbursement programs help beneficiaries transition to employment and progress towards reduced reliance on disability-related benefits. In FY 2018, over 350,000 beneficiaries worked with VR agencies and Employment Networks (EN) to attempt to return to the workforce. We will continue to enhance our Internet Ticket Operation Support System (iTOPSS), used by EN and VR service providers in their business with us. iTOPSS eliminates paper claims and streamlines the payment process. We will continue to improve our outreach to beneficiaries. Ongoing mailings, marketing efforts, monthly webinars, and interactive presence on social media have led to thousands of beneficiaries connecting 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 Social Security Statement. Our focus is to enhance the online Social Security Statement available through [my Social Security](#) accounts. The modernized online Statement will not only continue to provide the public with their earnings records, Social Security and Medicare taxes paid, and future benefits estimates, it will also provide an interactive, customized user experience appropriate to age and earnings background. The public will have access to tools and calculators and applicable information in a central location to assist with retirement planning, benefit eligibility, and decisions on their benefit applications. We will modify the [my Social Security](#) online Statement to integrate it with additional benefit estimation tools and add new features.

STRENGTHEN OUR INFORMATION SECURITY PROGRAM AND MODERNIZE OUR CYBERSECURITY INFRASTRUCTURE

Continual improvement and strengthening of our cybersecurity program is imperative to maintaining the public's trust in our ability to protect the sensitive data housed in our systems. As cyberattacks continue to evolve and become increasingly aggressive, we must be vigilant and protect against network intrusions and improper access of data. Through constant assessment of the threat landscape and use of advanced cybersecurity controls in the creation of modernized IT systems and existing systems, we can better protect against cybersecurity incidents and risks.

We plan to implement new capabilities for identifying and mitigating vulnerabilities within our IT assets. We will enhance our identity management platform, further automate our response to security events, and improve data at rest encryption to further protect our information assets. We will deploy IT infrastructure, develop network models needed to enhance our network access controls, and strengthen our strategy to limit the impact of potential cyber attackers.



STRATEGIC GOAL 3: ENSURE STEWARDSHIP

Strategic Objectives

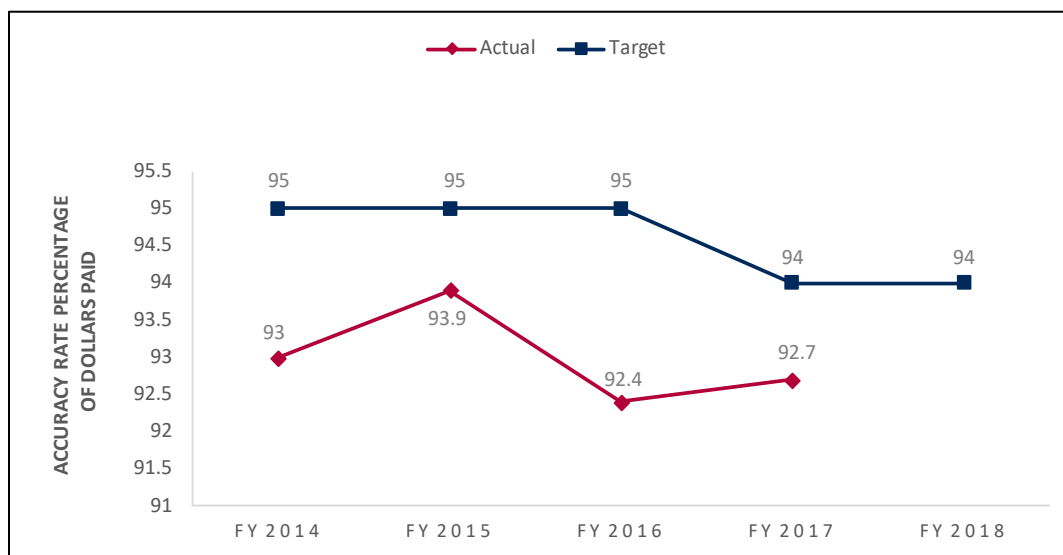
- Improve Program Integrity
- Enhance Fraud Prevention and Detection Activities
- Improve Workforce Performance and Increase Accountability
- Improve Organizational Effectiveness and Reduce Costs



[Antifraud facts:](http://www.socialsecurity.gov/antifraudfacts/)
www.socialsecurity.gov/antifraudfacts/

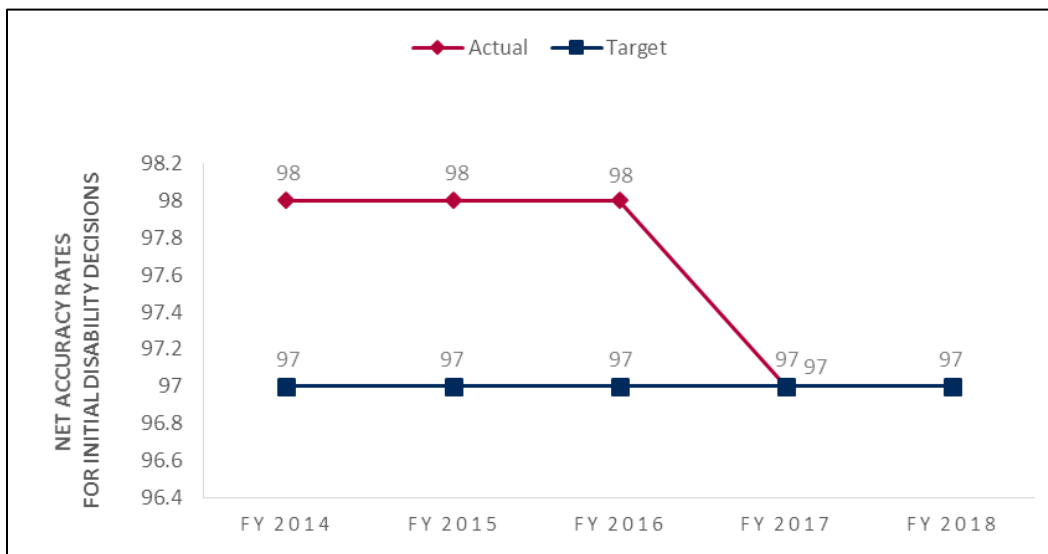
We selected the following performance measures to demonstrate our efforts to ensure stewardship:

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



Analysis: We depend on SSI recipients to timely report changes in income, resources, and living arrangements to accurately determine their eligibility for the program and payment amount. Without timely reports, we incur improper payments. We are actively working to increase our payment accuracy by using more data and technology, which include: providing an additional option for reporting earnings using authority from the *Bipartisan Budget Act of 2015*, Section 826, *Electronic Reporting of Earnings*, applying an automated process for receiving commercial records on real property ownership, and using the automated Access to Financial Institutions process during SSI initial applications. Funding for completion of program integrity activities also supports our ability to evaluate continued eligibility by conducting SSI non-medical redeterminations. Our IT modernization efforts should assist in reducing improper payments in this area. FY 2018 data is not available until summer 2019.

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



Note: Net 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 2017, we demonstrated the quality of our decisions by achieving the disability determination services (DDS) net accuracy of 97 percent for initial disability decisions. We have consistently met our target for this measure since FY 2010. FY 2018 data is not available until January 2019.

Some of the initiatives we are undertaking to ensure stewardship include:

PROMOTE THE USE OF myWAGEREPORT ONLINE REPORTING

Wages are a leading cause of improper payments in the SSI program. Currently, we use payroll data provider information from The Work Number to verify wage amounts that an individual alleges, however, this verification is a manual process.

We implemented an online tool, myWR, that allows users to report earnings electronically on computers, mobile devices, and smartphones. This application is an alternative to the existing downloadable wage reporting application and telephone wage reporting. In June 2018, we expanded the myWR application to allow SSI and concurrent beneficiaries, their representative payees, or their deemors (e.g., an ineligible spouse or parent living with the recipient) to have a convenient option to report earnings electronically. We plan to conduct user research and usability testing for obtaining cafeteria benefit plan information through myWR, which will expand the reporting population and reduce improper payments. A cafeteria plan is a written benefit plan offered by an employer, which consists of qualified benefits that the Internal Revenue Service does not consider part of an employee's gross income. In addition, we plan to allow customers to report when they have started working for a new employer on myWR. By automating this process, we expect to update our records more quickly and reduce a customer's need to visit a field office.



MODERNIZE OUR DEBT MANAGEMENT SYSTEM

We have multiple systems that manage programmatic debts. In FY 2018, we began 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 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. We also plan to implement an online bill payment option for the public that uses the Department of the Treasury's Pay.gov portal.

EXPAND OUR COOPERATIVE DISABILITY INVESTIGATIONS PROGRAM

Our Cooperative Disability Investigations (CDI) units are jointly operated by SSA, the Office of the Inspector General, State DDS, and State and local law enforcement. Generally, CDI units investigate suspected fraud before the agency awards benefits and during the continuing disability reviews process when fraud may be involved.

We currently have 43 CDI units, covering 37 states, the District of Columbia, and the Commonwealth of Puerto Rico. In FY 2018, we expanded to Honolulu, Hawaii, Indianapolis, Indiana, and Albuquerque, New Mexico. Hawaii's CDI unit will provide CDI coverage for Guam, American Samoa, and the Northern Mariana Islands. We will continue expansion to cover all 50 States and U.S. territories.

ENHANCED FRAUD PREVENTION AND DETECTION ACTIVITIES

Combatting fraud is an agency priority, and we take seriously our responsibility to prevent and detect fraud. 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 Social Security and SSI payments.

We will focus 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. We will continue to expand the use of data analytics and predictive modeling to enhance fraud prevention and detection in our programs. We will integrate data from multiple sources and use industry-proven predictive analytics software to identify high-risk transactions for further review. With these models, we will better identify suspicious and evolving patterns of activities in our workloads and prevent fraudulent actions.

In FY 2018, we deployed a disability fraud model to identify anomalous relationships within disability claims at the hearings level. The model shows an initial success in using data analytics to detect potential fraud, and serves as a prototype for similar models in the future to target specific program risks. We plan to complete a fraud risk assessment of our electronic services, develop an additional fraud model to mitigate risks identified in our disability fraud risk assessment, and re-engineer the current fraud allegation referral process. We will also initiate additional risk assessment activities to expand beyond disability and online services.



LOOKING FORWARD – FACING OUR CHALLENGES

The American public deserves a Social Security Administration that delivers timely, quality Social Security services, is an efficient and effective organization, and is a good steward of the taxpayers' dollars. For more than 80 years, we have been a steward of the public's investment by providing rigorous oversight over our programs while also offering competent service.

Our priorities and goals will focus on our efforts to reduce hearings and PC backlogs, and modernize our IT systems.

We have a complex disability program with a backlog of people waiting for a hearing decision. At the end of FY 2017, over 1 million people were waiting an average of 605 days for a decision on their hearing request. Eliminating the hearings backlog and reducing the time it takes to get a hearing decision remains one of our most critical priorities. With our CARES plan, combined with the dedicated hearings backlog funding, we plan to eliminate the hearings backlog and reduce the average wait for a hearing decision to 270 days by the end of FY 2021.

We have a backlog in our PCs, which among other workloads, address the changes that occur when people are receiving benefits—changes that are necessary to prevent improper payments. Our PCs handle actions that arise after we determine benefit eligibility and support our field and hearing offices by handling the most-complex benefit payment decisions, appeal decisions, collecting debt, correcting records, and performing program integrity work. We will improve service delivery by further prioritizing work and by using automation to reduce the PC backlog.

We maintain the benefit, earnings items, and certain vital records of nearly every member of the public on systems designed over 30 years ago. Technological change is accelerating at a relentless pace and offers us opportunities to change, transform, and improve the way we serve the public. Yet these newer technologies can be disruptive to legacy systems, business processes, and ultimately to the way we work. Our dated IT infrastructure has grown increasingly fragile, costlier to maintain, more challenging to secure, and it does not efficiently meet current demands for our services.

Our *IT Modernization Plan* will replace our core systems with new components and platforms, engineered for maximum usability, operability, and future adaptability. We have already begun laying the foundation for this effort by incorporating agile methodology in our engineering practices, redesigning the way we access our legacy data to efficiently match its intended uses, and running production workloads in the cloud.

Recent breaches at other Federal and State agencies and in the private sector underscore the importance of securing networks and sensitive data. While our cybersecurity program is comparable to that of other Federal agencies, it remains costly and difficult to integrate with our current legacy systems. We use knowledge of the threat landscape, advanced technologies, and skilled cyber professionals to secure our networks from threats, both foreign and domestic. Cyberattacks are ever changing, and we must remain vigilant to prevent any intrusion on our networks.

We will continue to work down our hearings and PC backlogs to ensure we are making proper and timely payments and improve service on our National 800 Number and in local field offices. Lastly, we will continue to enhance our efforts to protect our programs, systems, and beneficiaries and more efficiently manage our agency.



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 appear on pages 39 through 96 of this report. The following table presents key amounts from our basic financial statements for fiscal years (FY) 2016 through 2018 (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 Measures¹
(Dollars in Billions)

Net Position (end of fiscal year)			
	2018	2017	2016
Total Assets	\$2,939.3	\$2,934.8	\$2,888.4
Less Total Liabilities	\$117.0	\$115.3	\$113.7
Net Position (assets net of liabilities)	\$2,822.3	\$2,819.6	\$2,774.6
Change in Net Position (end of fiscal year)			
	2018	2017	2016
Net Costs	\$1,038.6	\$999.1	\$982.2
Total Financing Sources²	\$1,041.3	\$1,044.1	\$1,012.5
Change in Net Position	\$2.7	\$45.0	\$30.3

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 displayed on page 42.

Balance Sheet: The Balance Sheet displayed on page 40 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 2018 are \$2,939.3 billion, a 0.2 percent increase over the previous year. Of the total assets, \$2,922.5 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 \$4.8 billion over the previous year.



Liabilities grew in FY 2018 by \$1.7 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 2.0 percent cost of living adjustment (COLA) provided to beneficiaries in 2018. The majority of our liabilities (89.4 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 \$2.7 billion to \$2,822.3 billion, reflecting the higher growth in assets than liabilities.

Statement of Net Cost: The Statement of Net Cost displayed on page 41 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 2018, our total net cost of operations increased \$39.5 billion to \$1,038.6 billion, primarily due to a 2.5 percent increase in the number of OASI beneficiaries. The OASI net cost increased by 5.5 percent, while the DI and SSI net cost decreased 0.2 percent and 7.6 percent respectively. Operating expenses increased for the OASI, DI, and SSI programs by 3.1 percent, 0.5 percent, and 1.7 percent, respectively.

In FY 2018, our total benefit payment expenses increased by \$39.2 billion, a 4.0 percent increase. The table below provides the benefit payment expense information, number of beneficiaries, and the percentage change for these benefit items during FY 2018 and FY 2017 for each of our three major programs.

Benefit Changes in Our Major Programs During Fiscal Years 2018 and 2017

	FY 2018	FY 2017	% Change
OASI			
Benefit Payment Expense	\$836,919	\$793,155	5.5%
Average Monthly Benefit Payment	\$1,347.46	\$1,304.21	3.3%
Number of Beneficiaries	52.45	51.19	2.5%
DI			
Benefit Payment Expense	\$140,939	\$141,206	(0.2)%
Average Monthly Benefit Payment	\$1,066.01	\$1,037.89	2.7%
Number of Beneficiaries	10.21	10.45	(2.3)%
SSI			
Benefit Payment Expense	\$47,027	\$51,355	(8.4)%
Average Monthly Benefit Payment	\$551.63	\$542.69	1.6%
Number of Beneficiaries	8.15	8.23	(1.0)%

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 displayed on page 42 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 \$2.7 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 exceeded tax revenues and interest earned in FY 2018, 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*, authorizes a temporary reallocation of the DI Trust Fund's portion of the *Federal Insurance Contributions*

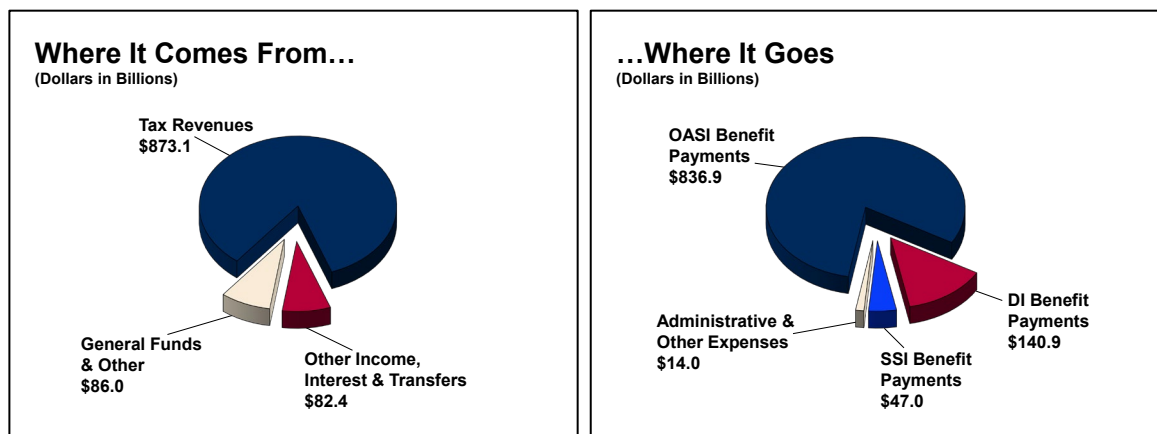


Act payroll tax by 0.57 percentage point. A total of 2.37 percentage points of the total combined 12.40 percent payroll tax was allocated to the DI Trust Fund starting January 1, 2016, and will continue through December 31, 2018, after which the allocation returns to the prior distribution. This reallocation of payroll taxes resulted in increased tax revenue for the DI Trust Fund, which resulted in DI's net position increasing \$26.7 billion from \$46.2 billion to \$72.9 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 1.4 percent.

In FY 2018, total financing sources, as shown in the Table of Key Financial Measures displayed on page 24, decreased by \$2.8 billion to \$1,041.3 billion. This is due primarily to a decrease in SSI authority received in FY 2018, due to 11 months of benefit payments in FY 2018 versus 12 months in FY 2017. The \$1,041.3 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 2018.



Note:

1. The individual items included in the "Where It Comes From..." chart total \$1,041.5 billion. Of this total, 0.3 billion relates to exchange revenue, which is not included on the Statement of Changes in Net Position. The adjusted total of \$1,041.2 does not tie to the total financing sources listed above, as the totals do not necessarily equal the sum of the rounded components.

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 displayed on page 43 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 2018. The Statement shows that we had \$1,101.9 billion in budgetary resources, of which \$4.6 billion remained unobligated at year-end. We recorded total net outlays of \$1,039.9 billion by the end of the year. Budgetary resources increased \$37.2 billion, or 3.5 percent, from FY 2017, while net outlays increased \$39.1 billion, or 3.9 percent. The increase in budgetary resources is primarily due to the OASI Trust Fund using additional Trust Fund reserves to cover increased benefit payment obligations in FY 2018. The increase in net

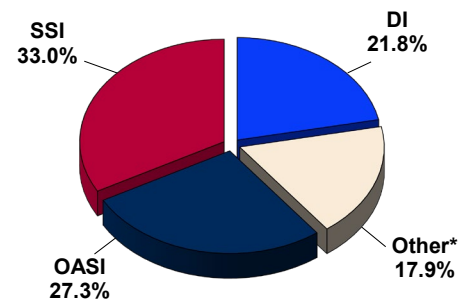


outlays is primarily due to an increase in the number of OASI beneficiaries and the 2.0 percent COLA provided to beneficiaries in 2018.

USE OF ADMINISTRATIVE RESOURCES

The chart to the right displays the use of all administrative resources (including general operating expenses) for FY 2018 in terms of the programs we administer or support. Although the DI program comprises only 13.8 percent of the total benefit payments we make, it consumes 21.8 percent of annual administrative resources. Likewise, while the SSI program comprises only 4.6 percent of the total benefit payments we make, it consumes 33.0 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 2017 use of administrative resources by program was 27.0 percent for the OASI program, 22.1 percent for the DI program, 33.2 percent for the SSI program, and 17.7 percent for Other.

**Use of Administrative Resources
by Program
FY 2018**



*Other primarily consists of Hospital Insurance/Supplemental Medical Insurance.

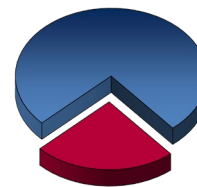
SSA'S SHARE OF FEDERAL OPERATIONS

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 2018 represented 31.5 percent of the \$3.3 trillion in total Federal receipts, a decrease of 0.3 percent over last year. Outlays increased by 0.1 percent to 25.3 percent of Federal outlays.

**SSA's Share of Federal Receipts
and Outlays
FY 2018**

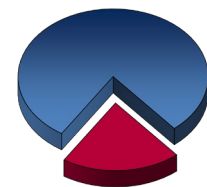
(Dollars in Billions)

Total Federal Receipts*
\$3,329



SSA Receipts
\$1,049 (31.5%)

Total Federal Outlays*
\$4,108



SSA Outlays
\$1,040 (25.3%)

*Data Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government



OVERVIEW OF SOCIAL INSURANCE DATA

Table of Key Social Insurance Measures¹
(Dollars in Billions)

Statements of Social Insurance Old-Age, Survivors, and Disability Insurance (calendar year basis)			
	2018	2017	2016
Present value of future net cash flows ² for current and future participants over the next 75 years (open group measure), current year valuation	-\$16,057	-\$15,357	-\$14,169
Present value of future net cash flows ² for current and future participants over the next 75 years (open group measure), prior year valuation	-\$15,357	-\$14,169	-\$13,440
Change in present value	-\$701	-\$1,187	-\$730

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: As displayed on page 44, the Statements of Social Insurance 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 -\$15.4 trillion, as of January 1, 2017, to -\$16.1 trillion, as of January 1, 2018. 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 -\$13.2 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 -\$31.9 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 \$18.8 trillion to the open group measure of -\$13.2 trillion.

Statements of Changes in Social Insurance Amounts: The Statements of Changes in Social Insurance Amounts displayed on page 45 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, 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.

From January 1, 2016 to January 1, 2017: The present value as of January 1, 2017 decreased (became more negative) by \$0.6 trillion, due to advancing the valuation date by one year and including the additional year, 2091. 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 decreased the present value of estimated future net cash flows by less than \$0.1 trillion;
- Changes in economic data, assumptions, and methods decreased the present value of estimated future net cash flows by \$0.6 trillion;
- Changes in programmatic data, assumptions, and methods decreased the present value of estimated future net cash flows by less than \$0.1 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 data led to higher death rates throughout the projection period and lower disabled worker incidence rates during the short-range period;
- Lower real-wage differential in the first 10 years of the projection period and lower near-term interest rates; and



- Reduction of the level of actual and potential gross domestic product by about 1 percent for all years after the short-range period.

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 37.6 months at the end of FY 2014, to 36.8 months at the end of FY 2015, to 36.1 months at the end of FY 2016, and to estimated values of 35.0 and 33.1 months at the end of FY 2017 and FY 2018, respectively. The historical values shown in the table for the DI Trust Fund declined at the end of FY 2014 and 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 2018.

**Number of Months of Expenditures
Fiscal-Year-End Asset Reserves Can Pay^{1,2}**

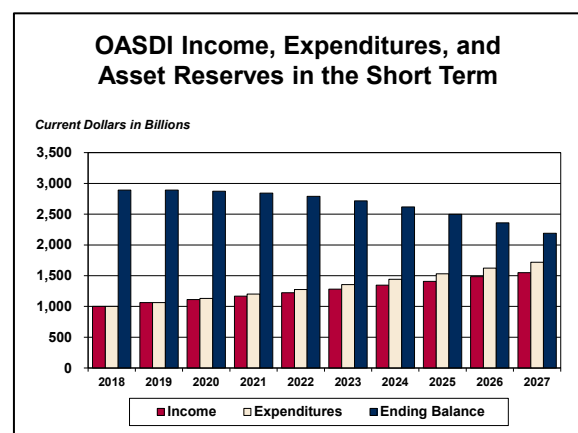
	2014	2015	2016	2017	2018
OASI	43.9	43.1	42.0	40.2	37.5
DI	5.7	3.4	3.8	5.6	7.2
Combined	37.6	36.8	36.1	35.0	33.1

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 2017 and FY 2018 are estimates based on the intermediate set of assumptions of the 2018 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 2018 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 2018 Trustees Report, OASDI estimated cost of \$1,719 billion and income of \$1,550 billion for 2027 are 80 percent and 55 percent higher than the corresponding amounts in 2017 (\$952 billion and \$997 billion, respectively). From the end of 2017 to the end of 2027, asset reserves are projected to decrease by 24 percent, from \$2.9 trillion to \$2.2 trillion.





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 2034, 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 79 percent of scheduled benefits after the combined OASI and DI Trust Fund depletion in 2034, declining to 74 percent of scheduled benefits in 2092.

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 \$13.2 trillion, which is 2.68 percent of taxable payroll and 1.0 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, pages 84 through 96 contain the *Required Supplementary Information: Social Insurance* disclosures required by the Federal Accounting Standards Advisory Board.

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

Federal Managers' Financial Integrity Act Assurance Statement Fiscal Year 2018

SSA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. We conducted our assessment of risk and internal control in accordance with the requirements of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, SSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018.

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 performed an evaluation 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 that evaluation, we concluded that, as of September 30, 2018 SSA's internal control over financial reporting is effective.

Nancy A. Berryhill
Acting Commissioner
November 9, 2018

AGENCY FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT PROGRAM

We have a well-established, agency-wide management control and financial management systems 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 financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems 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 Acting 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 Acting 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 financial management systems 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 financial management systems. 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 financial management systems comply with the standards established by FMFIA 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 a financial management systems inventory and conducts reviews of the financial management systems to ensure they meet Federal requirements. In addition to our financial systems, we also include all major programmatic systems in this financial management systems inventory. On a three-year cycle, an independent contractor performs detailed reviews of our financial management systems. During fiscal year (FY) 2018, 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 2018, 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 meet the GAO's standards.



ENTERPRISE RISK MANAGEMENT

OMB Circular No. A-123 requires the agency to implement an Enterprise Risk Management (ERM) Strategy that incorporates our internal control system, strategic planning, and strategic review processes. We are in the beginning stages of implementing our ERM program by maintaining a risk profile, developing a framework document, and increasing risk awareness throughout the agency.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

Federal Financial Management Improvement Act Assurance Statement Fiscal Year 2018

I have determined that the Social Security Administration's Financial Management Systems (FMS) are in substantial compliance with the *Federal Financial Management Improvement Act of 1996* for fiscal year (FY) 2018.

The Act requires Federal agencies to implement and maintain systems that comply substantially with: 1) Federal FMS requirements; 2) applicable Federal accounting standards; and 3) the Standard General Ledger at the transaction level.

In making this determination, I have considered all the information available to me, including the auditor's opinion on the agency's FY 2018 financial statements, the report on the effectiveness of internal controls over financial reporting, and the report on compliance with laws and regulations. I have also considered the results of the FMS reviews and management control reviews conducted by the agency and its independent contractor.

Nancy A. Berryhill
Acting Commissioner
November 9, 2018

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.

FINANCIAL STATEMENT AUDIT

The Office of the Inspector General contracted with Grant Thornton, LLP for the audit of our FY 2018 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, 2018, and the Statement of Changes in Social Insurance Amounts for the period January 1, 2017 to January 1, 2018, 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, 2018, 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 continued to cite three significant deficiencies identified in prior years. These significant deficiencies concern internal control over certain financial information systems controls, the reliability of information used in certain control activities, and accounts receivable with the public (benefit overpayments). We are committed to resolving these deficiencies as quickly as possible through our risk-based corrective action plans, and to strengthening 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.

During FY 2018, we continued to strengthen our information security program by implementing and improving our management controls to correct deficiencies cited by the auditors in our prior year financial statement audit. The agency also expanded our Security Assessment and Authorization efforts by completing Authority to Operate assessments and certifications for new modern computing environments and systems.

We strengthened our anti-fraud and identity theft safeguards by implementing strong multi-factor authentication for the [my Social Security](#) website. We also implemented new Federal standards for email and internet security, and strengthened protections for our privileged user accounts. We established sanctions to enforce mandatory awareness training, and made it easier for our users to identify and report suspected phishing attacks. We enhanced our ability to detect attempted intrusions. The agency is constantly performing penetration and vulnerability testing and will continue to work with third parties and other Federal Government agencies to further assess our network defenses.

For the FY 2018 FISMA audit, Grant Thornton assessed our overall maturity at Level 2 – Defined, acknowledging improvements and maturity of our program with a Level 3 – Consistently Implemented rating in the Protect function and maintaining a Level 3 in the Recover function. Grant Thornton recognized that we made progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines, making incremental steps to reach the Department of Homeland Security goal of a Level 4 – Managed and Measurable program.

The agency will continue to pursue a comprehensive risk-based remediation plan to address the root-cause of the deficiencies, and further strengthen our information security program. As we continue to design and implement new security controls, it takes time for these controls to effectively mature. 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 we have been entrusted with by every citizen and non-citizen. As we do with all auditor findings, we will continue to aggressively pursue a risk-based corrective action plan to address the remaining findings and build on our progress to date.

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 financial management systems inventory to reflect the most recent status of our systems modernization projects. We categorize our inventory of nine financial management systems under the broad categories of Program Benefits, Debt Management, or Financial/Administrative and continue the long-term development of our financial management systems following a defined strategy. For example, in the Program Benefits category, we are streamlining systems and incorporating new legislative requirements.

In FY 2017, we continued to expand the functionality of the Social Security Electronic Remittance System to include the collection of programmatic debt. We completed the development phase and piloted the system in 20 field offices. Full system rollout to all field offices was completed in December 2017. We accept checks, money orders, and debit/credit cards for programmatic debt payments.



We currently have multiple systems that manage programmatic debts. In FY 2018, we began 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 collection opportunities, more efficiently address our overpayment workloads, and resolve compliance and audit issues.

In FY 2019, we will implement an online debt collection payment option for the public that uses the Department of the Treasury's Pay.gov portal. In FY 2020, we will develop a public-facing overpayment waiver application for implementation in FY 2021.

For the Financial/Administrative systems category, OMB Memorandum M-10-26, *Immediate Review of Financial Systems IT Projects*, provided guidance on dividing financial system implementation projects into smaller, simpler segments with clear deliverables, focusing on the most critical business needs first, and having ongoing, transparent project oversight. Since the inception of the Social Security Online Accounting and Reporting System (SSOARS) project, our approach to implementation, modernization, and maintenance has been, and will continue to be, consistent with these principles.

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. SSOARS was the first Federal agency accounting system to successfully achieve Federal Financials Release 12, and we have upgraded SSOARS to Release 12.1.3.

The agency submitted the required reports for the *Digital Accountability and Transparency Act of 2014* (DATA Act) for the fourth quarter of last fiscal year and the first, second, and third quarters of this fiscal year. 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 and additional data to the Department of the Treasury.

NATIONAL ANTI-FRAUD COMMITTEE

The National Anti-Fraud Committee (NAFC), formed on April 3, 2014, provides a focal point for the agency's anti-fraud efforts. The NAFC is a visible demonstration of the agency's commitment to combatting fraud in its programs.

The NAFC's mission is to support national and regional strategies to combat fraud, waste, and abuse. The NAFC supports our goal to promote accountability to taxpayers by ensuring superior financial performance, budget management, and integrity in all payments, records, and processes.

As part of our efforts to prioritize initiatives and activities using a forward risk-based approach, the agency completed a comprehensive Disability Fraud Risk Assessment (DIB FRA). The assessment enables us to align our anti-fraud activities toward the assessed risks.

The NAFC 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. The Office of Anti-Fraud Programs coordinates all agency level activities related to the administration and execution of the NAFC and the DIB FRA.

The NAFC identified nine risks to address in FY 2018, appointed mitigation leads, and developed a strategy for reporting progress and status. The risk owners provide quarterly updates to the NAFC on the status of the mitigation actions. The NAFC will continue to monitor progress and recommend corrective action as appropriate to ensure our mitigation development activities achieve our stated objectives and our goal of establishing a mitigation plan for each selected risk.