



## SOCIAL SECURITY

November 7, 2008

To: The Honorable Michael J. Astrue  
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2008 and 2007 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements*, *Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

### **Objective of a Financial Statement Audit**

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

PwC's audit was made in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements because of error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

### **Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations**

The *Chief Financial Officers (CFO) Act of 1990* (P.L. 101-576), as amended, requires that SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2008 financial statements. PwC also audited the FY 2007 financial statements, presented in SSA's Performance and Accountability Report for FY 2008 for comparative purposes. PwC issued an unqualified opinion on SSA's FY 2008 and 2007 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2008 and was fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. PwC identified no reportable instances of noncompliance with the laws, regulations or other matters tested.

## OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2008 financial statements by

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit, assessing SSA's internal control, and substantive testing;
- Reviewing PwC's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04;
- Coordinating the issuance of the audit report; and
- Performing other procedures we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2008, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.  
Inspector General

Enclosure

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## Report of Independent Auditors

To the Honorable Michael J. Astrue  
Commissioner  
Social Security Administration

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2008 and 2007, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2008.
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

The following sections outline each of these conclusions in more detail.

### OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2008 and 2007, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and appearing on pages 90 through 120 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2008 and 2007, and its net cost of operations, changes in net position, and budgetary resources for the years then ended and the financial condition of its social insurance programs as of January 1, 2008 ,January 1, 2007, and January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.



Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

#### **REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL**

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on page 39 of this Performance and Accountability Report (PAR) that SSA's internal control over financial reporting was operating effectively as of September 30, 2008 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Manager's Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2008, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.

We did note matters involving the internal control and its operation that we will communicate in a separate letter.

#### **REPORT ON COMPLIANCE AND OTHER MATTERS**

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the compliance with laws and regulations including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin



No. 07-04 and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the Federal Financial Management Improvement Act (FFMIA) of 1996, we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We limited our tests of compliance to the provisions of laws and regulations cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 and no instances of substantial non-compliance that are required to be reported under FFMIA.

#### **OTHER INFORMATION**

The Management's Discussion and Analysis (MD&A) included on pages 5 through 41, and Required Supplementary Information (RSI) included on pages 1 and 126 through 142 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 126 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 122 to 125 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 2 through 4, 43 through 89, 121, 143, 144, and 148 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Inspector General of SSA, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is fluid and cursive, with "Pricewaterhouse" on the first line and "Coopers LLP" on the second line.

November 7, 2008