Office of the Inspector General

August 27, 1998

Kenneth S. Apfel
Commissioner of Social Security

Acting Inspector General

The Social Security Administration's Process to Segregate Continuing Disability Review Costs

The attached final report presents the results of our review, "The Social Security Administration's Process to Segregate Continuing Disability Review Costs" (A-01-98-51001). The objective of our review was to assess the process used by the Social Security Administration to collect and allocate continuing disability review administrative costs from funds designated for these reviews.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Pamela J. Gardiner, Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

THE SOCIAL SECURITY ADMINISTRATION'S PROCESS TO SEGREGATE CONTINUING DISABILITY REVIEW COSTS

August 1998 A-01-98-51001

EVALUATION REPORT

EXECUTIVE SUMMARY

OBJECTIVE

Our objective was to assess the process used by the Social Security Administration (SSA) to collect and allocate continuing disability review (CDR) administrative costs from funds designated for these reviews.

BACKGROUND

The purpose of the periodic CDR is to determine whether a disabled beneficiary is still medically eligible to receive benefits. Recently, under separate Acts, Congress mandated that specific CDRs and/or redeterminations be performed in addition to SSA's ongoing periodic CDR workload. The congressionally mandated reviews include: (1) redeterminations for children with a disability based on the comparable severity standard and/or maladaptive behavior, (2) redeterminations for all Supplemental Security Income (SSI) recipients attaining age 18, (3) CDRs for all low birth-weight babies, and (4) CDRs at least once every 3 years for all SSI recipients under age 18 if not permanently disabled.

In the Contract with America Advancement Act of 1996 (see Appendix A), more than $4 billion in funding was provided to conduct these CDRs. Furthermore, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, also called the Welfare Reform law, provided $250 million for additional SSI reviews. SSA is required to annually report to Congress on the number of CDRs completed, the cost to perform these reviews, and the expected program cost savings that will result from these reviews. In Fiscal Year (FY) 1996, shortly after Congress authorized additional funds for CDRs, SSA established financial controls to collect and allocate these CDR administrative costs.

RESULTS OF REVIEW

In FY 1996, SSA reported $207 million in FY 1996 CDR administrative costs to Congress, of which $14 million were identified as start-up costs. Although the collection and allocation process we reviewed was first put in place in FY 1996, it was implemented in the middle of the FY and most of the administrative costs reported to Congress were based upon estimates rather than outputs from this new process. SSA has yet to report its FY 1997 CDR administrative costs to Congress, but plans to provide these costs in its FY 1997 Annual Report on CDRs.

Our review focuses on the process SSA used to collect and allocate approximately $501 million in FY 1997 administrative costs to CDR and Welfare Reform activities.

In order to collect and allocate CDR and Welfare Reform administrative costs, SSA established a process which builds upon the current cost accounting system by adding steps to capture: (1) start-up costs related to the CDR and Welfare Reform workload and (2) ongoing costs related to specific Welfare Reform workloads. This process assigned 88 percent of the FY 1997 CDR/Welfare Reform administrative costs through an allocation process rather than specific identification. The remaining 12 percent of the administrative costs related to either CDR/Welfare Reform start-up costs reported by SSA components or the Office of Hearings and Appeals (OHA) administrative costs. Although the importance of start-up costs are expected to decline over time, the Disability Determination Services (DDS) offices, which reported the majority of FY 1997 start-up costs, were late in providing their start-up costs and may be underreporting actual start-up costs.

Although SSA has developed an adequate process to collect and allocate aggregate CDR/Welfare Reform administrative costs, Agency attempts to break out FY 1997 costs between the specific CDR and Welfare Reform activities cannot produce reliable numbers. For example, approximately $40.4 million of the $52.1 million in CDR/Welfare Reform start-up costs reported by Agency components could not be clearly allocated by type of review. In addition, SSA components were using different definitions of a Welfare Reform review when identifying the work activities.

CONCLUSIONS AND RECOMMENDATIONS

Although SSA has been able to capture useful information related to CDR and Welfare Reform administrative costs, the allocation process is complex and it can be difficult to differentiate costs related to CDR versus Welfare Reform activities. As a result, reporting both CDR and Welfare Reform information to Congress is the best approach. By reporting CDR and Welfare Reform administrative costs in the same report, SSA can present the entire earmarked disability review workload, qualify sections where allocation has been difficult, and present more reliable costs than would be the case if CDR costs were presented apart from the Welfare Reform costs.

In collecting, allocating, and reporting CDR administrative costs, we recommend that SSA:

- provide additional instructions to DDS offices explaining the types of costs that should be reported in CDR/Welfare Reform special accounts and the timetable for providing these costs to SSA;

- clarify the definition of a periodic CDR versus a Welfare Reform review and provide the new definitions to the SSA components reporting information related to these costs; and

- provide both periodic CDR and Welfare Reform administrative costs in future Annual Reports on CDRs.

AGENCY COMMENTS

In response to our draft report, SSA agreed with our recommendations. Specifically, SSA agreed to: (1) prepare additional instructions that will provide an explanation of the types of costs that should be reported concerning CDR/Welfare Reform cases and the timetable for making such reports, (2) differentiate periodic CDRs from Welfare Reform reviews to the most specific degree that is reasonably possible, and (3) provide information on administrative spending against total earmarked funds covering both periodic CDRs and Welfare Reform work in the Annual Report on CDRs.

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INTRODUCTION

OBJECTIVE

Our objective was to assess the process used by SSA to collect and allocate CDR administrative costs from funds designated for these reviews.

BACKGROUND

The purpose of a periodic CDR is to determine whether a disabled beneficiary is still medically eligible to receive benefits. Recently, under separate Acts, Congress mandated that specific CDRs and/or redeterminations be performed in addition to SSA's ongoing periodic CDR workload.[1] In some of these Acts (see Appendix A), additional funding was provided to conduct these reviews. In addition, SSA is required to provide Congress with an annual status report on the number of CDRs performed, the cost of these CDRs, and the expected savings resulting from the reviews. SSA has updated its cost accounting system to collect and allocate the administrative costs related to these required reviews.

Required Reviews

Since 1994, a number of Acts have required CDRs and/or redeterminations for specific disability populations. The congressionally mandated reviews include:

- at least 100,000 CDRs annually on SSI recipients for the period October 1995 through September 1998;
- redeterminations by January 1, 1997 for recipients for whom drug addiction and/or alcoholism (DAA) is a contributing factor material to the finding of disability and who timely appealed their benefit termination based on DAA;
- redeterminations for children with a disability based on the comparable severity standard and/or maladaptive behavior;
- redeterminations for all SSI recipients attaining age 18;
- CDRs for all low birth-weight babies; and
- CDRs at least once every 3 years for all SSI recipients under age 18 if not permanently disabled.

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[1] Periodic CDRs relate to reviews performed from time to time to determine if the individual continues to be disabled, as compared to work issue CDRs related to reviews initiated when work activity is reported by an individual.

One of these Acts, the Contract with America Advancement Act of 1996 (Public Law [P.L.] 104-121), provided more than $4 billion in funds to SSA for FYs 1996 through 2002 for the purpose of conducting CDRs.[2] Another Act, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), often referred to as the Welfare Reform Act, authorized $150 million in FY 1997 and $100 million in FY 1998 in additional funds to assist with these CDR and redetermination mandates.[3] The Congress appropriated $260 million for CDRs in FY 1996 and a total of $510 million for CDRs and Welfare Reform reviews in FY 1997.

The Contract with America Advancement Act requires the Commissioner of Social Security to report to Congress annually for FYs 1996 through 2002 on CDRs, including the:

- amount spent on CDRs in the FY covered by the report, and the number of reviews conducted, by category of review;
- results of CDRs in terms of cessations of benefits or determinations of continuing eligibility, by program; and
- estimated savings over the short-, medium-, and long-term to the Disability Insurance (DI), SSI, Medicare, and Medicaid programs from CDRs which result in cessations of benefits and the estimated present value of such savings.

The Act also states that:

> *". . . the Commissioner of Social Security shall ensure that funds made available for continuing disability reviews . . . are used, to the greatest extent practicable, to maximize the combined savings in the old-age, survivors, and disability insurance, supplemental security income, Medicare, and medicaid programs."*

Cost Accounting Information

In order to comply with Congress' request for cost information related to CDR work, SSA's Office of Finance, Assessment and Management (OFAM) established new controls to properly collect and allocate CDR administrative costs. Prior to these new reporting requirements, SSA collected extensive performance and cost data from SSA components. This data assists the Agency with allocating its costs among the various funding and reimbursement sources available for Agency activities, including the Old-Age and Survivors Insurance trust fund, the DI trust fund, the Medicare trust fund, the

[2] The Act authorized funds to be spent on performing the required periodic CDRs in addition to the normal workload: for FY 1996, $260 million; for FY 1997, $360 million; for FY 1998, $570 million; and for FY 1999 though FY 2002, $720 million annually.

[3] These funds were also earmarked for redetermining the SSI eligibility of noncitizens.

Department of Labor,[4] the Health Care Financing Administration, the States,[5] and the General Fund.

The most significant changes in the cost accounting process to assist the Agency with collecting and allocating CDR and Welfare Reform administrative costs include:

- specific cost accounting numbers (CAN) assigned to SSA components (see Appendix B) to capture start-up costs related to processing CDR and Welfare Reform reviews; and

- specific Welfare Reform review categories to measure work activities at the SSA components involved in processing Welfare Reform workloads.

Appendix C provides more information on the specific steps taken by SSA to collect and allocate CDR and Welfare Reform costs.

Under the new cost collection process, SSA's FY 1997 CDR/Welfare Reform costs were collected from four primary sources (see Figure 1):

- **Start-up Cost CANs:** SSA set up specific CANs for CDR/Welfare Reform start-up costs identified at SSA components.

- **OFAM Allocation:** OFAM is responsible for collecting and allocating administrative costs for most SSA components, with the exception of DDS offices and OHA. OFAM receives work activity information from SSA components through periodic work sampling. This work sampling is performed weekly in SSA's offices by an assigned individual who determines what each employee in the office is working on at a particular point in time. This sampling data is one of the primary sources of information used by OFAM in allocating costs to CDR and Welfare Reform workloads.

- **Division of Field Disability Operations (DFDO) Allocation:** DFDO is responsible for allocating administrative costs at the DDS-level. This information is then reported to OFAM. DFDO allocates administrative costs to CDR and Welfare Reform workloads by generating an average cost per case for each State.

- **OHA Costs:** Hearings and appeal administrative costs related to the CDR/Welfare Reform workload are collected and reported to OFAM by OHA.[6]

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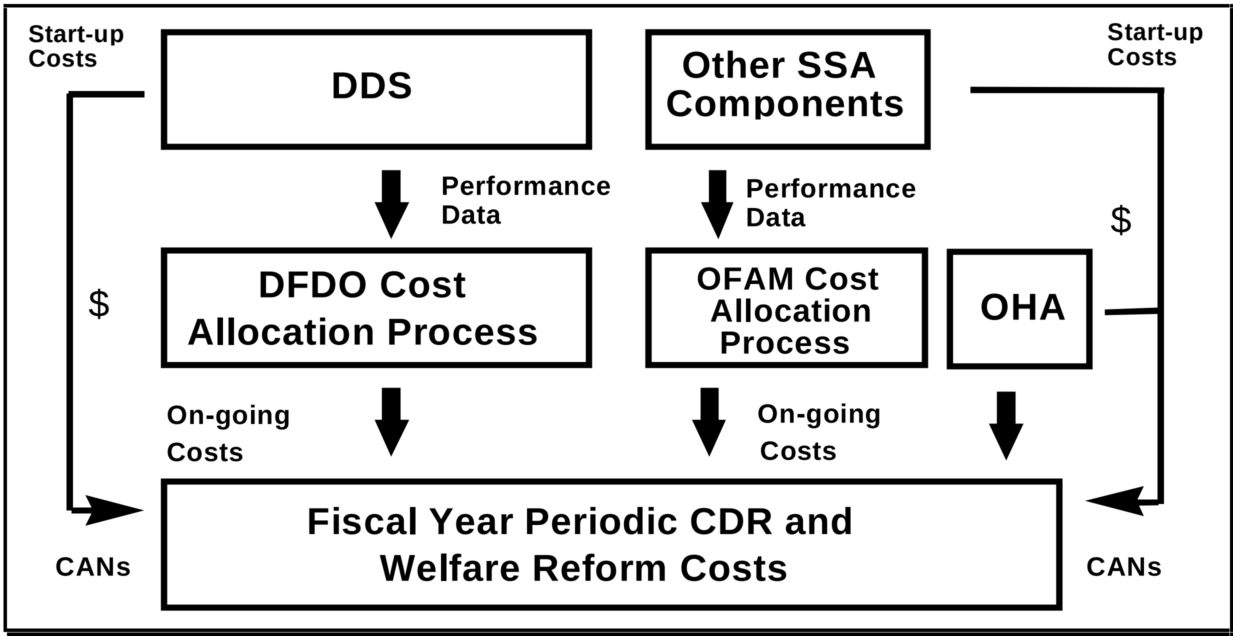
[4] The Department of Labor reimburses SSA for taking claims and performing other services related to the Black Lung program, a benefit program for coal mine workers and their dependents and survivors.

[5] The Health Care Financing Administration and States reimburse SSA for services related to the Medicaid program.

Figure 1: Flow of FY 1997 CDR/Welfare Reform Cost Data



SCOPE AND METHODOLOGY

To accomplish our objective, we:

- reviewed the June and December 1996 OFAM guidance sent to SSA components outlining how to report CDR and Welfare Reform administrative costs;
- reviewed the December 1996 Office of Budget guidance on the CDR and Welfare Reform reporting process, as well as a memo from the Office of Budget to the Office of Management and Budget explaining how SSA intended to collect these administrative costs;
- reviewed congressional legislation authorizing CDR and Welfare Reform administrative costs and mandating accountability;
- interviewed SSA officials to determine: (1) what CDR and Welfare Reform costs and information were actually being collected, and (2) whether SSA components were complying with the financial reporting requirements;

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[6] OHA also reports its CDR/Welfare Reform start-up costs to OFAM through a special CAN.

- interviewed officials at both SSA regional offices (RO) and DDS offices to obtain their impressions of the cost reporting process;

- reviewed administrative cost data and other information provided by SSA components to determine how the information is being used in the allocation process; and

- reviewed cost allocation worksheets provided to the Office of the Inspector General in January 1998 to determine whether the process used to collect and allocate administrative costs is adequate.

Our review included an examination of the process used by SSA to collect and report CDR/Welfare reform administrative costs. It did not include a verification of either the financial figures or the workload data reported by these components. Our review covered the collection of a majority of CDR/Welfare Reform costs collected by SSA, including all DDS costs, all start-up costs, and all Agency components reporting information with the exception of OHA. The collecting and reporting of OHA's ongoing costs were not part of this review since that office has its own accounting system and the costs involved totaled less than 2 percent of CDR/Welfare Reform costs.

We did not review the underlying cost accounting system used by SSA in allocating all of its costs, but rather analyzed the process to collect and allocate CDR and Welfare Reform costs to determine whether it was reasonable. A separate review of SSA's overall cost accounting systems was conducted by PriceWaterhouse Coopers in 1997.

We conducted our review between October 1997 and February 1998 in Baltimore, Maryland, and in Boston, Massachusetts. The review was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

RESULTS OF REVIEW

In FY 1996, SSA reported $207 million in FY 1996 CDR administrative costs to Congress, of which $14 million were identified as start-up costs. Although the collection and allocation process we reviewed was first put in place in FY 1996, it was implemented in the middle of the FY and most of the administrative costs reported to Congress were based upon estimates rather than outputs from this new process. SSA has yet to report its FY 1997 CDR administrative costs to Congress, but plans to provide these costs in its FY 1997 Annual Report on CDRs.[7] Our review focuses on the process SSA used to collect and allocate approximately $501 million in FY 1997 administrative costs to CDR and Welfare Reform activities.

In order to collect and allocate CDR and Welfare Reform administrative costs, SSA established a process which builds upon the current cost accounting system by adding steps to capture: (1) start-up costs related to the CDR and Welfare Reform workload and (2) ongoing costs related to specific Welfare Reform workloads. This process assigned 88 percent of the FY 1997 CDR/Welfare Reform administrative costs through an allocation process rather than specific identification. The remaining 12 percent of the administrative costs related to either CDR/Welfare Reform start-up costs reported by SSA components or OHA administrative costs. Although the importance of start-up costs are expected to decline over time, DDS offices, which reported the majority of FY 1997 start-up costs, were late in providing their start-up costs and may be underreporting actual start-up costs.

Although SSA has developed an adequate process to collect and allocate aggregate CDR/Welfare Reform administrative costs, Agency attempts to break out FY 1997 costs between the specific CDR and Welfare Reform activities do not produce reliable numbers. For example, approximately $40.4 million of the $52.1 million in CDR/Welfare Reform start-up costs reported by Agency components could not be clearly allocated by type of review. In addition, SSA components were using different definitions of a Welfare Reform review when identifying their work activities.

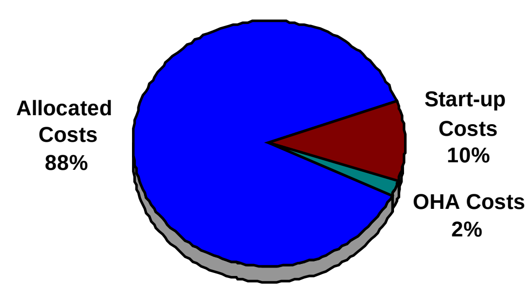
[7] SSA officials stated that they expect to provide the FY 1997 Annual Report on CDRs to Congress by the summer of 1998.

COSTS ALLOCATED TO COMPONENTS

Allocated Costs

In January 1998, OFAM provided the most current break-out of FY 1997 CDR/Welfare Reform costs. This information shows that approximately 88 percent of the $501 million in administrative costs associated with these reviews were determined through an allocation process by either DFDO or OFAM. The remaining 12 percent represent CDR/Welfare Reform start-up costs and OHA costs. In future years, as the work continues, the amount of start-up costs should decline until almost all of the costs are determined through the allocation process. Figure 2 shows this cost break out.

Figure 2: <u>FY 1997 CDR and Welfare Reform Allocated Costs versus Start-up and OHA Costs</u>



Note: OHA start-up costs are included in the start-up costs above and not in OHA costs.

After reviewing the Agency's collection and allocation process, we determined that the process was adequately identifying CDR/Welfare Reform administrative costs in the aggregate. Most of the costs were allocated to SSA components based upon either work sampling or workload data directly related to the work of the component. However, some components were allocated costs based upon their support role, even though they did not directly process CDR/Welfare Reform workloads. For example, both OFAM and the Office of Communications were allocated administrative costs for their support of the CDR/Welfare Reform reporting process.

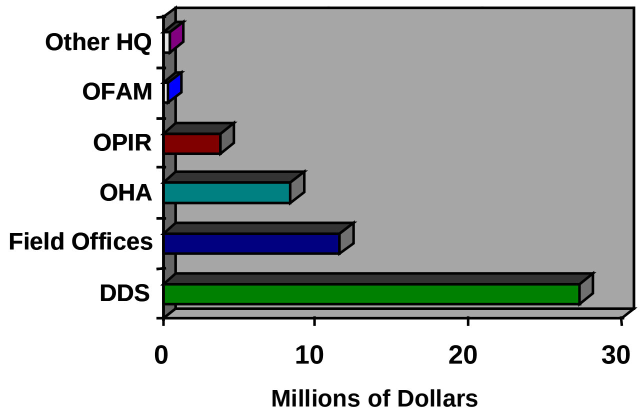
Start-Up Costs

About 53 percent of the $52.1 million in start-up costs reported by SSA components related to DDS activities (see Figure 3). The majority of the remaining costs were reported by either the field offices (FO) or OHA. SSA officials told us that DDS offices have been slow to report their start-up costs and often underreport these costs. As of late February 1998, only 23 of 53 State DDSs[8] had reported CDR/Welfare Reform start-up costs for FY 1997. When we asked about the reasons for DDS nonreporting, we were told by SSA officials that DDSs do not

[8] This number includes all 50 States, the District of Columbia, Guam, and Puerto Rico.

always understand the CDR/Welfare Reform reporting requirements. Both DFDO and RO officials told us they periodically remind DDS offices to isolate and report all of these costs.

Figure 3: FY 1997 CDR/Welfare Reform Start-up Costs



Note: Office of Program and Integrity Reviews (OPIR) start-up costs relate to quality assurance and consistency reviews.

In our conversations with DDS offices, one DDS official had originally told us in December 1997 that no CDR start-up costs had been incurred during FY 1997. However, this same DDS office later reported FY 1997 CDR start-up costs. When we asked the official why start-up costs were now being reported, he told us that he called a SSA regional official after our inquiry and found that certain personnel costs could be charged to the start-up CAN. He said the guidance on the allocation of personnel costs was unclear and only after working through the numbers with the regional contact could he isolate these costs.

CDR VERSUS WELFARE REFORM COSTS

Although SSA has been able to capture useful information related to CDR and Welfare Reform review costs, the allocation process is still complex and it can be difficult to differentiate costs related to CDRs versus Welfare Reform reviews. CDR/Welfare Reform start-up costs of $40.4 million could not be clearly allocated by type of review. In addition, SSA components reporting data for allocation purposes were using different definitions of a Welfare Reform review when identifying their work activities. As a result, although the process can adequately identify aggregate CDR/Welfare Reform administrative costs, the current break-out of these costs between CDR and Welfare Reform activities is unreliable.

Allocation of Start-Up Costs

As previously mentioned, SSA components were provided special CANs for CDR/Welfare Reform start-up costs in FY 1997. The $52.1 million in administrative costs captured in these start-up CANs during FY 1997 can represent either a periodic CDR start-up cost or a Welfare Reform start-up cost. The only exception was the CAN for use by ROs and FOs. These offices were provided two CANs: a CDR start-up CAN and a separate Welfare Reform start-up CAN. As a result, about $11.7 million in field-related start-up costs can be separated for reporting purposes, although the Agency had not separated them in the figures it provided to us. The other SSA components, reporting $40.4 million in start-up costs, cannot be separated in the same way.

We spoke to an OFAM official about the process for separating the $40.4 million in start-up costs grouped as both CDR and/or Welfare Reform costs. The official told us that an attempt to separate these start-up costs with any precision would be very difficult, if not impossible. Nonetheless, the preliminary worksheets show the start-up costs have been broken out for reporting purposes. For example, all of the field start-up costs are being reported under Welfare Reform, even though six of the regions reported more than $138,000 in periodic CDR costs. The preliminary classification of other start-up costs was also unreliable. For instance, all of the DDS start-up costs of $27.3 million were reported under periodic CDRs, even though DDS offices were also performing medical reviews under Welfare Reform. The Office of Quality Assurance and Performance Assessment's (OQA) $3.8 million in start-up costs were also reported under periodic CDR costs, even though OQA's work involved Welfare Reform cases. Finally, OHA's $8.4 million in start-up costs reported under a CDR/Welfare Reform CAN were placed under Welfare Reform only. See Table 1 for a break-out of these costs and their separation by type of review. Although the aggregate start-up costs can be traced back to supporting data, the current separation of these start-up costs between CDRs and Welfare Reform reviews is not reliable.

Table 1: Preliminary Separation of Start-up Costs (Shown in millions)

SSA Component	CDR Start-up Costs	Welfare Reform Start-up Costs
DDS	$ 27.3	$ 0
Regional/Field Offices	0	11.7
OHA	0	8.4
OQA	3.8	0
OFAM	0	0.4
Other HQ	0	0.5
TOTAL	**$ 31.1**	**$21.0**

Allocation of Ongoing Costs

As stated earlier, the Welfare Reform law requires four types of disability reviews: (1) redeterminations for children with a disability based on the comparable severity standard and/or maladaptive behavior, (2) redeterminations for all SSI recipients attaining age 18, (3) CDRs for all low birth-weight babies, and (4) CDRs at least once every 3 years for all SSI recipients under age 18 if not permanently disabled. However, both OFAM and DFDO were allocating costs to Welfare Reform work using different definitions of childhood disability redeterminations, neither of which encompasses all four Welfare Reform categories.

OFAM allocated FO costs to Welfare Reform childhood disability reviews based upon work sampling data. The work sampling guidance defines "childhood disability redeterminations" as both comparable severity standard/maladaptive reviews and age 18 reviews. DFDO, however, allocated DDS costs to Welfare Reform childhood disability reviews using a definition of "childhood disability redeterminations" that includes only comparable severity standard/maladaptive reviews. As a result, FO administrative costs related to age 18 redeterminations are being allocated to Welfare Reform reviews and DDS administrative costs related to age 18 redeterminations are being allocated to CDRs.[9]

The different Welfare Reform caseload definitions have led to inconsistent cost allocations by OFAM and DFDO. Considering that SSA claims it performed about 47,000 age 18 redeterminations in FY 1997, we estimate that DFDO would have allocated about $16.5 million in administrative costs to Welfare Reform reviews rather than CDRs had DFDO been using the same Welfare Reform definitions as OFAM.[10]

Although SSA's collection and allocation process has adequately identified aggregate CDR/Welfare Reform ongoing administrative costs, we question the ability of this same process to provide more detailed cost break-outs. In discussions with SSA officials, we were told that the Agency's funding controls have been more successful in focusing on the entire CDR/Welfare Reform funding amount rather than the individual reviews. Therefore, by providing both CDR and Welfare Reform administrative costs in a report, SSA's information would be more consistent with the existing funding controls and the Agency could avoid using less reliable numbers which occur when CDR administrative costs are presented alone.

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[9] Neither OFAM's nor DFDO's definition of Welfare Reform childhood disability redetermination captures low birth-weight reviews or under age 18 reviews. Hence, these reviews are captured in the periodic CDR costs.

[10] We assumed an average cost per CDR of $352 based upon DDS-specific cost information provided by DFDO. This average cost does not include the SSA-specific costs that are also involved in processing a CDR.

CONCLUSIONS AND RECOMMENDATIONS

SSA has taken a number of steps to properly collect and allocate the administrative funds made available for both CDR and Welfare Reform activities. New reporting requirements and workload measures have provided financial officials in the Agency with details on the use of earmarked funds. However, SSA may be underreporting FY 1997 start-up costs due to uneven compliance with reporting requirements at DDS offices. The Agency needs to ensure that officials at DDSs understand the nature of the costs to be reported and the importance of reporting this information in a timely manner.

Although SSA's process for identifying the aggregate CDR/Welfare Reform administrative costs is adequate. However, there are $40.4 million in FY 1997 start-up costs that cannot be segregated and conflicting definitions of Welfare Reform activities make it difficult to clearly separate CDR administrative costs from Welfare Reform administrative costs. The overlapping nature of the CDR and Welfare Reform activities and costs reinforces our earlier position[11] that reporting both CDR and Welfare Reform information to Congress is the best approach. By reporting CDR and Welfare Reform administrative costs together, SSA can provide information on the entire earmarked disability review workload, qualify sections where allocation has been difficult, and present more reliable costs than would be the case if CDR costs were presented apart from Welfare Reform review costs.

In collecting, allocating, and reporting CDR administrative costs, we recommend that SSA:

1. provide additional instructions to DDS offices explaining the types of costs that should be reported in the CDR/Welfare Reform special accounts and the timetable for providing these costs to SSA;

2. clarify the definition of a periodic CDR versus a Welfare Reform review and provide the new definitions to the SSA components reporting information related to these costs; and

3. provide both periodic CDR and Welfare Reform administrative costs in future Annual Reports on CDRs.

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[11] Review of Social Security Administration's Fiscal Year 1996 Annual Report on Continuing Disability Reviews, (A-01-97-91007), March 18, 1998.

AGENCY COMMENTS

In response to our draft report, SSA agreed with our recommendations. Specifically, SSA agreed to: (1) prepare additional instructions that will provide an explanation of the types of costs that should be reported concerning CDR/Welfare Reform cases and the timetable for making such reports; (2) differentiate periodic CDRs from Welfare Reform reviews to the most specific degree that is reasonably possible, and (3) provide information on administrative spending against total earmarked funds covering both periodic CDRs and Welfare Reform work in the Annual Report on CDRs. (See Appendix E for a copy of SSA's full comments to our report.)

APPENDICES

SUMMARY OF RELEVANT LEGISLATION

LEGISLATION	DATE ENACTED	PROVISIONS	PROGRAM INVOLVED
Section 221(i) of the Social Security Act	Act amended on June 9, 1980 by Public Law (P.L.) 96-265; on January 12, 1983 by P.L. 97-455, and on November 10, 1988 by P.L. 100-647	1) Report to Congress annually on the results of periodic continuing disability reviews (CDR) required to be performed on a beneficiary at least once every 3 years, applicable only to the extent that sufficient personnel and processing time are available. 2) Report to Congress annually with respect to determinations that the Commissioner has made, on a State-by-State basis, to waive the requirement that the continuing eligibility of disability beneficiaries with nonpermanent disabilities be reviewed at least once every 3 years.	Disability Insurance (DI) DI
Social Security Independence and Program Improvements Act of 1994 (P.L. 103-296)	August 1994	1) Conduct medical reviews on at least one-third of individuals attaining age 18 each year during Fiscal Years (FY) 1996 through 1998. Report to Congress by October 1, 1998. (Note A) 2) Conduct at least 100,000 CDRs annually on SSI recipients for the period October 1995 through September 998. Report to Congress by October 1, 1998.	Supplemental Security Income (SSI) SSI
Contract with America Advancement Act of 1996 (P.L. 104-121) (Note B)	March 1996	1) Conduct redeterminations by January 1, 1997 for beneficiaries for whom drug addiction and/or alcoholism (DAA) is a contributing factor material to the finding of disability and who timely appealed their termination based on DAA. 2) Report to Congress annually for FYs 1996 through 2002 on the amount of money spent on CDRs, the number of reviews conducted by category, the results of such reviews by program and the estimated savings by program over the short-, medium- and long-term.	DI/SSI DI/SSI

LEGISLATION	DATE ENACTED	PROVISIONS	PROGRAM INVOLVED
Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) (Note C)	August 1996	1) Redetermine eligibility for children considered disabled based on the comparable severity standard and/or maladaptive behavior. (Note D) 2) Conduct CDRs once every 3 years for recipients under age 18 with nonpermanent disabilities. 3) Conduct CDRs not later than 12 months after birth for low birth-weight babies. (Note D) 4) Redetermine eligibility during the individuals 18th year using the adult initial eligibility criteria. (Note D)	SSI SSI SSI SSI
Balanced Budget Act of 1997 (P.L. 105-33)	August 1997	1) Extends current 12-month period to 18 months for redetermining the disability of children under age 18 under the new comparable severity standard and/or maladaptive behavior standards. 2) Permits the Social Security Administration (SSA) to schedule a CDR for low birth-weight babies at a date after the first birthday if the Commissioner determines the impairment is not expected to improve within 12 months of the child's birth. 3) Provides SSA with the authority to make redeterminations of disabled childhood recipients who attain age 18, using the adult eligibility criteria, more than 1 year after the date such recipient attains age 18.	SSI SSI SSI

Notes:

(A) Repealed by P.L. 104-193.

(B) The legislation also authorized funds to be spent on performing the required periodic CDRs in addition to the normal workload: for FY 1996, $260 million; for FY 1997, $360 million; for FY 1998, $570 million; and for FY 1999 though FY 2002, $720 million annually.

(C) The legislation authorized $150 million in FY 1997 and $100 million in FY 1998 in additional funds to assist with these additional mandates. The legislation also requires eligibility redeterminations for noncitizens.

(D) Provisions modified by the Balanced Budget Act of 1997.

SSA REPORTING COMPONENTS

The following SSA components are required to provide CDR and Welfare Reform-related cost and workload data to OFAM:

- Disability Determination Services (DDS)
- Federal Disability Determination Services (FDDS)
- Regional Commissioner/Field Offices
- Office of Hearings and Appeals (OHA)
- Program Service Centers (PSC)
- Office of Disability and International Operations (ODIO)
- Office of Central Records Operations (OCRO)
- Office of Quality Assurance and Performance Assessment (OQA)
- Office of Disability (OD)

COST COLLECTION PROCEDURES

SOCIAL SECURITY ADMINISTRATION (SSA) COST ACCOUNTING SYSTEMS

Prior to the establishment of the continuing disability review (CDR) reporting requirements, SSA maintained extensive cost and workload management systems to match administrative costs with the work being performed by the Agency. These systems feed into the Agency's Cost Analysis System (CAS), which ultimately assigns costs to SSA's work areas. One example of a method used to collect performance data is work sampling. Work sampling is performed weekly in SSA's offices by an assigned individual who determines what each employee in the office is working on at a particular point in time. For example, field office activities captured during work sampling include efforts related to:

- retirement and disability claims;
- CDRs and redeterminations;
- reconsiderations, hearings, and appeals;
- Social Security number issuance;
- administration and management; and
- new staff training.

This sampling information is collected nationwide, combined with other sources of data, and utilized by CAS in allocating administrative costs to various activities. Other sources of CAS information include costs from the Agency's financial accounting system, full-time equivalent counts from personnel systems, and workload counts from various Agency systems.

Additional Reporting Requirements in Fiscal Year (FY) 1996

SSA's first new reporting mandate related to CDRs came under the Contract with America Advancement Act of 1996 which authorized approximately $4 billion in CDR funding over 7 years. The legislation "earmarked" these administrative funds for periodic CDRs. As a result, SSA had to monitor these CDR funds to ensure their appropriate use. In June 1996, the Office of Finance, Assessment and Management (OFAM) sent guidance to SSA components involved in CDR work (see Appendix B) in order to comply with this mandate. This guidance: (1) described the CDR-related content of the relevant legislation, (2) defined the characteristics of the periodic CDRs and redeterminations to be reported, (3) set up new Common Accounting Numbers

(CANs) to capture CDR start-up costs at the various SSA components, and (4) required additional detailed information from each component related to its CDR workload, such as the number of periodic and nonperiodic CDRs performed.

Specific CANs were set up in the financial accounting system for each SSA component involved in CDR work. These CANs were designed to capture expenditures which can be "discretely identified as [CDR] start-up costs and can be supported by suitable documentation." Examples of CDR start-up costs include: (1) expenditures related to training to perform CDR work, (2) travel related solely to training new staff or retraining existing staff for CDR work, (3) alterations to buildings and facilities necessitated by CDR work, or (4) equipment acquisitions related to CDR work.

Many of the periodic CDR costs for FY 1996, including the start-up costs, had to be reconstructed by SSA components and OFAM officials. This reconstruction was necessary due to the fact that the Contract with America Advancement Act, which mandated this CDR cost reporting, was not passed until March 1996 (6 months into FY 1996). In addition, as already mentioned, OFAM guidance did not go out to SSA components until June 1996 (9 months into FY 1996). As a result, by the end of the FY, SSA components were being asked to provide their best estimate of start-up costs while OFAM officials were attempting to measure the ongoing CDR administrative costs for FY 1996 using CDR workload information from the components and other information already available in CAS. SSA officials said the resulting $207 million in CDR costs reported for FY 1996 was a conservative estimate of the CDR costs incurred during the FY.[1]

CDR and Welfare Reform Cost Reporting in FY 1997

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, also called the Welfare Reform Act, mandated that SSA conduct additional CDRs and redeterminations on new groups of individuals, including children and noncitizens receiving SSI. Congress also authorized $150 million in FY 1997 and $100 million in FY 1998 to conduct these reviews. However, this new funding could be spent on either periodic CDRs or the new reviews required under Welfare Reform.

As a result of the Welfare Reform provisions, OFAM modified its cost reporting system to capture both periodic CDR and Welfare Reform workloads and administrative costs. In December 1996, new reporting guidance went to SSA components already reporting periodic CDR costs under the June 1996 OFAM guidance. In this guidance, OFAM notes that the earmarked funding " . . . not only continues but expands the funds control pattern which Congress established in FY 1996 appropriations." SSA components were now required to include any Welfare Reform start-up costs in the CANs established to capture CDR start-up costs. In addition, the components were asked to

[1] Our review of SSA's internal controls over cost reporting focused on the FY 1997 reporting process and not the FY 1996 process since, due to the timing of the legislation during the year, most of the new controls were not as relevant to the FY 1996 reported costs.

provide additional detail in their workload break outs, including the number of periodic CDRs, childhood redeterminations, and age 18 redeterminations performed.

Although the existing management systems were providing workload break outs showing the CDR-related numbers, additional information was needed to determine which of these workload numbers related to periodic CDRs and which related to Welfare Reform reviews. To obtain this additional detail, OFAM provided additional work sampling categories to the components so that the time dedicated to these new activities could be measured. These additional work sampling categories helped OFAM to better allocate the number of workyears and administrative costs dedicated to Welfare Reform. For instance, three new work sampling categories were created to capture Welfare Reform work related to childhood disabilities at the field offices:

- Childhood Disability Redeterminations;
- Childhood Disability Redeterminations/Reconsiderations; and
- Childhood Disability Redeterminations/Hearing and Appeals.

Disability Determination Services (DDS) administrative costs are handled somewhat differently since DDS offices do not report directly to SSA's financial management system. Instead, DDS offices are reimbursed by SSA for services provided.[2] As a result, both CDR and Welfare Reform costs, as well as workload data generated by DDS offices, are collected and analyzed by the Division of Field Disability Operations (DFDO). DFDO determines the allocation of administrative costs at the DDS-level and then reports this information to OFAM. Unlike OFAM, DFDO did not utilize work sampling data in its FY 1997 cost allocation. Instead, DFDO allocated administrative costs on a State-by-State basis using reported costs and workloads. This method generates an average cost per case for each State. The combined costs represent the national costs for performing CDRs and redeterminations. In order to break out CDRs from Welfare Reform reviews, DFDO managers obtained the number of Welfare Reform childhood disability reviews from the Office of Disability, backed these reviews out of its CDR numbers, and then multiplied each type of review by the average cost per case.

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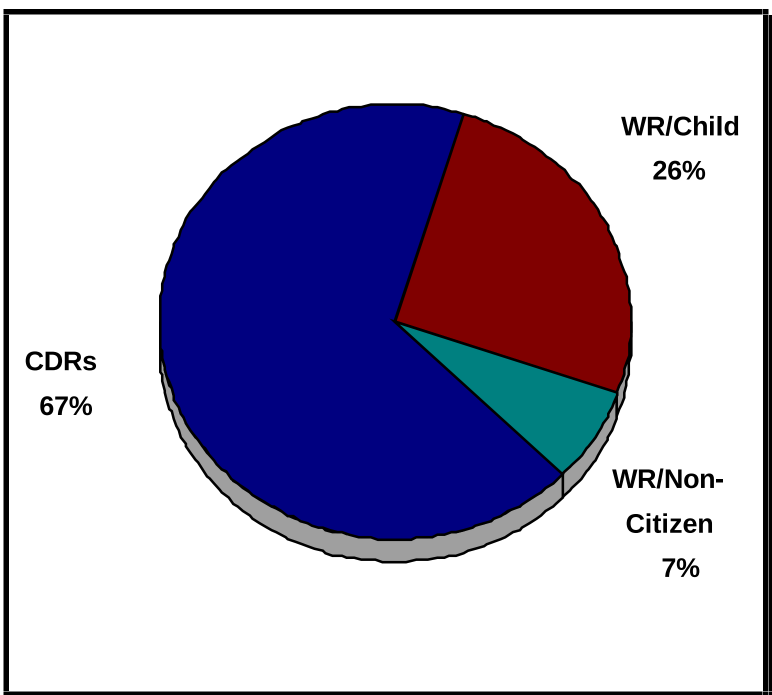
[2] DDS Offices report their quarterly obligations on an SSA-4513, State Agency Report of Obligations for SSA Disability Programs.

FISCAL YEAR 1997 CDR AND WELFARE REFORM COST INFORMATION

Overall Costs

Documents provided by the Office of Finance, Assessment and Management (OFAM) show that the Social Security Administration (SSA) spent approximately $501 million[1] during Fiscal Year (FY) 1997 on continuing disability review (CDR) and Welfare Reform activities. About $310 million (67 percent) of the ongoing administrative costs relate to periodic CDRs, while about $147 million (33 percent) of the ongoing administrative costs relate to work defined by SSA as reviews required by Welfare Reform (see Figure D1).[2]

Figure D1: Expenditures for CDRs and Welfare Reform Reviews



[1] These numbers were provided by OFAM officials in January 1998. The actual costs reported by SSA could change because delays in obtaining Disability Determination Services start-up costs or other reasons. However, updated numbers are not expected to have much impact on the work breakouts shown in this Appendix.

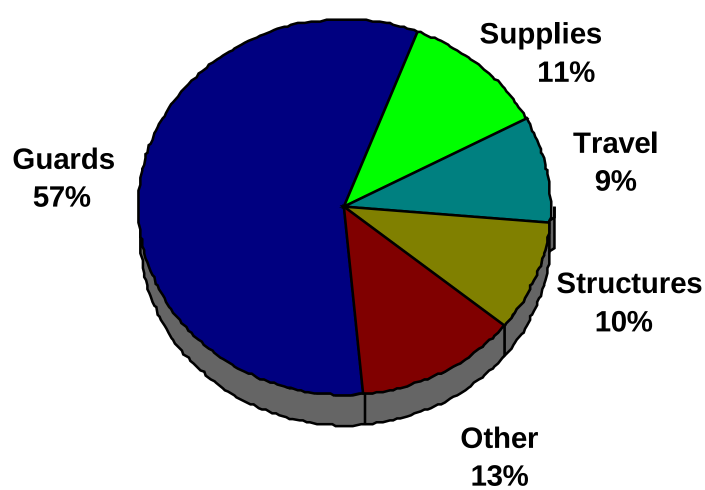
[2] As noted earlier in this report, varying definitions were used by SSA components in defining Welfare Reform reviews.

Welfare Reform

Although SSA had originally estimated that approximately 45 percent of its FY 1997 administrative costs would come under Welfare Reform, fewer childhood redeterminations were processed than originally planned. In addition, legislative changes in FY 1997 reduced the number of required noncitizen redeterminations, thereby reducing these Welfare Reform costs.[3]

Only the regional/field office component segregated Welfare Reform and CDR start-up costs in separate CANs. In terms of Welfare Reform start-up costs, we found that the majority of the $11.5 million[4] in start-up costs related to new guards hired and placed in the field offices (see Figure D2). We were told that this was not the first time new legislation has required increased security at field offices. A similar need for guards occurred when SSA was conducting medical redeterminations on individuals with disabilities related to drug addiction and/or alcoholism.

Figure D2: <u>FY 1997 Region/Field Office Welfare Reform Start-Up Costs</u>



Note: Other consists of change of station costs, transportation, rent and utilities, printing, and equipment.

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[3] The Balanced Budget Act of 1997 amended the Welfare Reform law so that it does not apply to noncitizens who were lawfully residing in the United States and receiving such benefits on August 22, 1996. We believe the noncitizen ongoing costs can be adequately separated from the childhood redeterminations. Segregating noncitizen redetermination start-up costs will be more difficult.

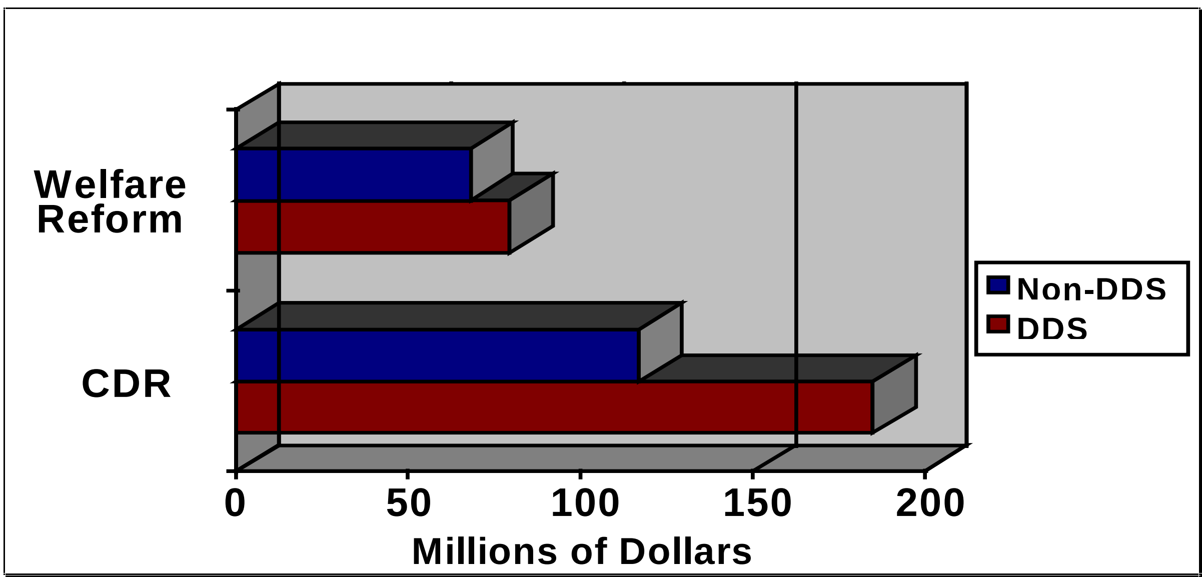
[4] This number does not include $138,000 in CDR start-up costs.

Medical Reviews

The cost data also showed that approximately 59 percent of the FY 1997 CDR/Welfare Reform ongoing administrative costs related to full medical reviews performed by Disability Determination Services (DDS) offices. The remainder of the costs related to areas such as case processing, CDR mailers,[5] hearings and appeals, and overhead.

In terms of specific workloads, about 61 percent of the CDR work related to DDS administrative costs, while DDS work represented about 54 percent of the Welfare Reform administrative costs (see Figure D3). DDS' share of ongoing administrative costs was even greater (about 69 percent) if the Welfare Reform childhood disability redeterminations are considered separately from the noncitizen costs. This is because the noncitizen work did not require the involvement of DDSs.

Figure D3: <u>CDR Welfare Reform Ongoing Medical Costs</u>



[5] SSA conducted almost 270,000 CDRs through questionnaires, called CDR mailers.

SSA's COMMENTS

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