



SOCIAL SECURITY

MEMORANDUM

Date: December 7, 2011

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration Cost Allocation Process (A-15-10-20151)

We contracted with Grant Thornton LLP (Grant Thornton) to perform four reviews related to the Social Security Administration's (SSA) Cost Analysis System (CAS) and Cost Allocation Methodology. The attached final report presents the results of Grant Thornton's assessment of the SSA cost allocation process.

Grant Thornton's objectives were to:

1. Determine whether the data collected and used by SSA management in the cost allocation process were valid, complete, and accurate by testing the data inputs to CAS.
2. Review and test internal controls over the cost allocation feeder systems and applications used in CAS, as well as the main processes in CAS, to determine whether they were complete and reliable.
3. Review the General Computer Control environments applicable to CAS.
4. Review and test regularly disseminated data output reports to determine whether they were accurate, complete, and reliable and whether CAS' overall purpose was met. Reports reviewed reflected data after input, allocation, and distribution.
5. Determine whether the cost allocation methodology SSA management used complied with the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

We are aware that SSA does not intend to provide comments until we issue the last of the four CAS reports. As such, please provide within 60 days of release of the final CAS report, *The Social Security Administration's Cost Assignment Methodology Review* (A-15-10-20152), a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Patrick P. O'Carroll, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE SOCIAL SECURITY ADMINISTRATION
COST ALLOCATION PROCESS**

December 2011

A-15-10-20151

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



MEMORANDUM

Date: December 2, 2011

To: SSA Office of the Inspector General

From: Grant Thornton, LLP

Subject: Audit of the Social Security Administration's Cost Allocation Process
(A-15-10-20151)

We are pleased to report the results of our audit of the Social Security Administration (SSA) Cost Analysis System (CAS) audit. The objectives were to:

1. Determine whether the data collected and used by SSA management in the cost allocation process were valid, complete and accurate by testing the data inputs to CAS;
2. Review and test internal controls over the cost allocation feeder systems and applications used in CAS as well as the main processes in the CAS, to determine if they were complete and reliable;
3. Review the General Computer Control environments applicable to CAS;
4. Review and test regularly disseminated output reports to determine whether they were accurate, complete, and reliable and whether CAS' overall purpose was met. Reports reviewed reflected data after input, allocation, and distribution.
5. Determine whether the cost allocation methodology used by SSA management complied with the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

We appreciate the support provided to us in completing this review.

A handwritten signature in black ink, appearing to read "John Short", written in a cursive style.

John Short
Partner

Executive Summary

The Social Security Administration (SSA) has responsibility for stewardship of the four Trust Funds for which it provides administrative support: the Retirement and Survivors Insurance Trust, Disability Insurance Trust, Hospital Insurance Trust, and Supplementary Medical Insurance Trust. As part of this stewardship objective, the Commissioner of Social Security established a cost allocation process in July 1973. This cost allocation process was based on the policy that administrative costs for the Trust and general fund programs, as well as reimbursable work performed by SSA for outside organizations, would be allocated based on cost-sharing principles. A central part of SSA's cost allocation process is its Cost Analysis System (CAS). This report documents our audit findings, conclusions, and recommendations. This report is the third in a series of four related to SSA's CAS, cost allocation process, and cost allocation methodology. The first report, A-15-10-20149, *Cost Analysis Background Report and Viability Assessment*, documents the historical background of CAS and a system viability assessment. The second report, A-15-10-20150, *Office of Disability Adjudication and Review (ODAR) Cost Allocation Process*, discusses ODAR's cost allocation process.

OBJECTIVES

The objectives of the SSA cost allocation process audit were to:

1. Determine whether the data collected and used by SSA management in the cost allocation process were valid, complete, and accurate by testing the data inputs to CAS.
2. Review and test internal controls over the cost allocation feeder systems and applications used in CAS, as well as the main processes in CAS, to determine whether they were complete and reliable.
3. Review the General Computer Control environments applicable to CAS.
4. Review and test regularly disseminated data output reports to determine whether they were accurate, complete, and reliable and whether CAS' overall purpose was met. Reports reviewed reflected data after input, allocation, and distribution.
5. Determine whether the cost allocation methodology SSA management used complied with the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

BACKGROUND

SSA uses a cost allocation process to allocate administrative costs to Trust and general fund programs administered by the Agency and reimbursable work performed by SSA for outside organizations. CAS is a key component of the cost allocation process. The

*Social Security Act*¹ authorizes SSA to allocate administrative costs to the four Trust Funds. The cost allocation process determines actual administrative costs chargeable to Trust Fund activities, general fund programs, and other reimbursable programs.

RESULTS OF REVIEW

The audit team tested CAS work sampling data inputs. We noted instances where data were incorrectly uploaded into CAS feeder systems. We also found that many locations did not maintain historical work sampling records. Samples were not consistently performed, and no instances of peer or management review were noted. For the other controls tested related to CAS applications, we identified no exceptions.

Our analysis of SSA's entity-level control environment disclosed three deficiencies that, when aggregated, rose to the level of a significant deficiency. The risks associated with these control deficiencies have a direct impact on the integrity of both the CAS and District Office Work Sampling (DOWS) applications and database environments since both are mainframe-based applications. For the other CAS-related controls tested, we identified no exceptions.

We analyzed CAS reports, after input, after allocation, and after distribution to help assess reliability and consistency of cost allocation. We determined that the cost and workload information remained consistent, and CAS reports provided information on all cost and workload data elements found in a well-established cost allocation system.

Finally, we assessed SSA's cost allocation methodology for compliance with SFFAS No. 4. Although SSA's cost allocation methodology adheres to many of the SFFAS No. 4 requirements, we noted issues of noncompliance on critical requirements, which caused us to assess SSA's overall compliance as 'partial.'

CONCLUSION AND RECOMMENDATIONS

We concluded the following:

- General and application controls specifically related to the CAS and DOWS applications were operating effectively.
- Data in CAS outputs reports were consistent on a year-to-year basis, and no unusual spikes or outliers were noted.

However, we identified the following findings that need to be addressed.

- The internal controls and main processes related to work sampling did not ensure the completeness and reliability of CAS data.

¹ The *Social Security Act* § 201(g)(1), 42 U.S.C. § 401(g)(1).

- We assessed the SSA's cost allocation methodology as "partially compliant" with SFFAS No. 4. Although SSA complied with many of the requirements, we noted the following.
 - SSA's cost allocation methodology did not assign certain shared workload costs through (a) direct trace; (b) cause-and-effect; or (c) reasonable and consistent allocation of costs to accurately reflect the work effort involved. That is, the use of benefit outlays as the basis of assigning shared costs does not manifest a suitable causal relationship between resources and outputs.
 - CAS work sampling input data were often inaccurate.
 - SSA's cost allocation methodology did not reconcile budgetary to proprietary methods of allocation at a detailed level.
 - SSA's cost allocation methodology did not use actual expenses in assigning costs to reporting periods and outputs.
 - There were no procedures to periodically revisit, update, and document significant changes to the cost allocation methodology.
 - SSA's cost allocation methodology and processes were not always adequately documented.

We were unable to conclude whether CAS results were correctly stated because of underlying data concerns and the noncompliance issues related to SFFAS No. 4.

We recommended that SSA:

1. Enforce and enhance policies and procedures, such as secondary reviews or reconciliations of tally sheets to CAS submissions, to ensure that workload sampling inputs are accurate.
2. Discontinue the use of benefit outlays as a means of allocating shared costs to program activities, including the Trust Funds, and identify cost assignment methods that manifest suitable causal relationships between the work SSA performs and its programs.
3. Update policies and procedures to ensure the data collection process is consistently performed and reviews are conducted timely.
4. Reconcile the budgetary accounting basis used for cost allocation with the proprietary or accrual basis of accounting at a detailed level and determine if an adjustment to the cost allocation percentages is warranted.
5. Use actual operating expenses to determine the distribution and allocation of costs to workloads and program activities.
6. Periodically revisit and update the cost allocation methodology, as necessary, to account for the implementation of new legislation or revised accounting standards and significant changes in SSA business processes or technology. Appropriate decision papers should be prepared to address each significant change.

7. Periodically review and update, as necessary, work measurement, CAS, and Inter-Trust Fund Adjustment documentation.

AGENCY COMMENTS

SSA determined that because of the interrelationship of all four CAS reviews, it was premature to comment or respond to Grant Thornton's recommendations. Once SSA receives the results of all CAS reviews, it will provide consolidated comments and responses to the recommendations.

Table of Contents

	Page
INTRODUCTION.....	1
RESULTS OF REVIEW	5
CONCLUSIONS AND RECOMMENDATIONS.....	18
APPENDICES	
APPENDIX A – Acronyms	
APPENDIX B – Scope and Methodology	
APPENDIX C – Cost Analysis System Cost Allocation Output Data Consistency Analysis	
APPENDIX D – Cost Allocation Data Completeness Analysis	
APPENDIX E – Assessment of Social Security Administration Cost Allocation Methodology Compliance with Statement of Federal Financial Accounting Standards No. 4	
APPENDIX F – Cost Analysis System Flowchart	
APPENDIX G – Agency Comments	

Introduction

The Social Security Administration (SSA) has responsibility for stewardship of the four Trust Funds for which it provides administrative support: the Retirement and Survivors Insurance (RSI) Trust, Disability Insurance (DI) Trust, Hospital Insurance (HI) Trust, and Supplementary Medical Insurance (SMI) Trust. As part of this stewardship objective, the Commissioner of Social Security established a cost allocation process in July 1973. This cost allocation process was based on the policy that administrative costs for the Trust and general fund programs, as well as for reimbursable work performed by SSA for outside organizations, would be allocated based on cost-sharing principles. A central part of SSA's cost allocation process is its Cost Analysis System (CAS).

OBJECTIVES

The objectives were to:

1. Determine whether the data collected and used by SSA management in the cost allocation process were valid, complete, and accurate by testing the data inputs to CAS.
2. Review and test internal controls over the cost allocation feeder systems and applications used in CAS, as well as the main processes in CAS, to determine whether they were complete and reliable.
3. Review the General Computer Control environments applicable to CAS.
4. Review and test regularly disseminated data output reports to determine whether they were accurate, complete, and reliable and whether CAS' overall purpose was met. Reports reviewed reflected data after input, allocation, and distribution.
5. Determine whether the cost allocation methodology SSA management used complied with the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

BACKGROUND

The SSA cost allocation process determines actual administrative costs chargeable to Trust Fund activities, general fund programs, and other reimbursable programs. A major portion of this process is performed by CAS, which integrates data from payroll, Agency work measurement systems, and SSA's core financial accounting system and assigns costs to specific program activities and workloads. CAS provides workload, workyear, and administrative cost data at the Agency and major component¹ levels.

¹ Components are closely aligned with specific SSA missions and funding allocations.

CAS uses point-in-time work sampling at the field offices (FO), disability determination services (DDS), and program service centers (PSC) to allocate the time spent on various workloads. In addition to providing the raw data that feed into CAS, SSA management uses work sampling to

- monitor workloads;
- determine workload and resource distribution;
- plan recruiting, training, and staff development; and
- support strategic planning.

SSA's policy for allocating administrative costs² was initially established by a 1973 Commissioner's Decision.³ The Decision states that costs related solely to one program will be assigned exclusively to that program. Further, it specifies that costs benefiting multiple programs will be equitably distributed among those programs, based on the proportionate value of those shared costs to each benefiting program. CAS was designed to account for administrative costs by program activity in accordance with this policy. CAS provides this cost information at the Agency level and for SSA's principal component organizations. The original CAS became operational in 1976⁴ and has been in service for about 35 years.

In 1990, the Federal Accounting Standards Advisory Board (FASAB) was created to establish consistent accounting standards and principles for Federal entities. FASAB's mission is to promulgate Federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, and executive agencies as well as the needs of other users of Federal financial information.⁵ In 1995, FASAB established SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, which provides Federal agencies guidance on reporting reliable and timely information on the full cost of programs, activities, and outputs.

Figure 1 shows SSA's cost allocation methodology. As presented, there are five major levels (steps) in the methodology. The following points describe the purpose of each level.

- Level 0: This step provides SSA with the opportunity to vet the data that will go into CAS. Analysts in the operational and staff components and the Office of Cost Analysis and Systems Support (OCASS) are able to view input data in relation to

² SSA Administrative Instructions Manual System (AIMS); Financial Management Manual, Chapter 04 *Cost Analysis*, Instruction 02, *SSA Cost Allocation Policy*.

³ SSA, *Face Sheet for Acting Commissioner's Action Meeting*.

⁴ SSA Cost Analysis Manual (CAM), Chapter 2-00, Section 2-00-10.

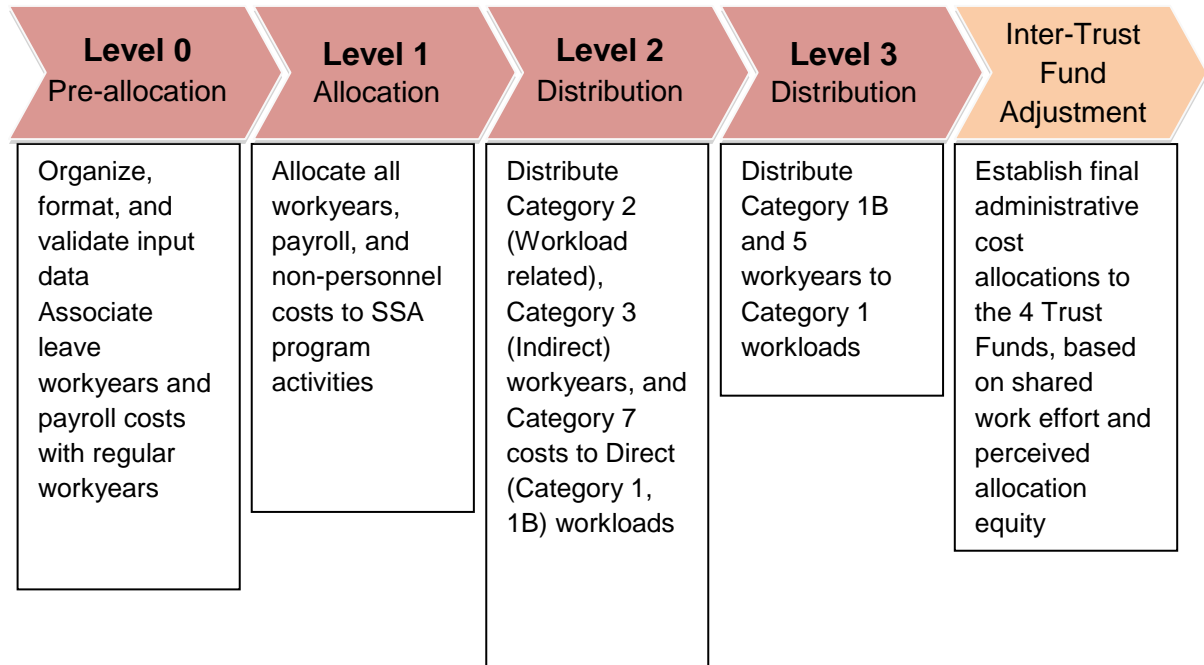
⁵ FASAB: Pronouncements as Amended, Version 8 (06/2009, Page 1).

historic norms. Outliers are investigated to determine whether they represent data anomalies or data errors.

- Level 1: This step expresses SSA administrative costs in terms of the support the various Trust and general fund accounts receive.
- Levels 2 and 3: These steps are part of the same, overall process and express SSA administrative costs in terms of direct workloads.
- Inter-Trust Fund Adjustment (ITFA): The ITFA adjusts the charges to the Trust Funds to account for the following.
 - *Sequential shared workload for RSI and DI:* This factors the lifetime RSI benefits that will be received by persons who were originally enrolled under the DI program. For many beneficiaries, RSI entitlement is established during the DI determination process, and a portion of DI benefits will later be converted to RSI benefits. The rationale for this is that entitlement for disability becomes entitlement for retirement benefits upon conversion from DI to RSI at full retirement age. Thus, the two Trust Funds should share these “sequential workload” costs. The amount of the full retirement benefit is also favorably impacted by the establishment of disability.
 - *Work not required by one or more of the programs, especially HI and SMI:* Certain work conducted in conjunction with RSI and DI claims and to establish or continue RSI and DI entitlement is not required by other programs, especially Medicare. For example, the retirement test is a factor in determining whether certain applicants are entitled to receive RSI benefits rather than have them totally or significantly offset; it has no bearing, however, on entitlement to HI and SMI.
 - *Concurrent shared workload that also benefits HI and SMI:* Costs of certain workloads incurred during the claims taking and maintenance processes assigned to the RSI Trust Fund through CAS also benefit the HI and SMI Trust Funds, and certain workloads assigned to the DI Trust Fund through CAS also benefit RSI, HI, and SMI. The HI and SMI programs benefit from work conducted on the RSI and DI programs and therefore per SSA policy should share the cost. For example, costs for the workload, *RSI Nondisabled Claims*, are initially allocated almost entirely to the RSI Trust Fund through CAS, with the remainder allocated primarily to DI and SSI. This workload captures the activity of a claimant’s initial filing for Social Security benefits. This initial filing process requires that SSA establish the person’s identity, age, insured status, and other basic information. Since this information will also be used to establish the person’s entitlement to Medicare, SSA allocates a portion of these initial costs to the HI and SMI Trust Funds. A portion of the RSI workload cost is assigned to HI and SMI, and a portion of DI workload cost is assigned to RSI, HI, and SMI because assumptions related to the HI/SMI benefit of these particular workloads are not programmed into CAS.

- *Allocation equity:* This final determinant adjustment weights the cost of shared workloads in proportion to the current value of benefit outlays. In SSA's view, this takes into account the relative value to the average enrollee of enrollment under each of the programs and funds and thus increases the equitableness of the allocations.

Figure 1: SSA Cost Allocation Methodology



This document is a summary of our work and our resulting conclusions and recommendations.

Results of Review

Audit Objective 1: Determine Whether the Data Collected and Used by SSA Management in the Cost Allocation Process Were Valid, Complete, and Accurate by Testing the Data Inputs to CAS.

SSA allocates the majority of its cost through periodic work sampling. In the FOs, DDSs and PSCs, samples are randomly performed. Each employee is sampled once during the applicable period for a specific point in time. For example, the survey would determine the activity the employee was performing at 1:30 p.m. Sampling relies on the premise that a definable number of random observations taken from a universe will provide a reasonable representation of that universe's makeup.

SSA operates several work sampling systems, each of which covers a major segment of SSA operations. The District Office Work Sampling (DOWS) covers approximately 1,300 SSA FOs nationwide. The sampling methodology under the DOWS system is designed to ensure that each employee in every FO is sampled once per workweek. The State Agency Work Sampling (SAWS) covers the DDS. Each employee in every DDS is sampled three times daily for 5 consecutive workdays during 1 workweek of each fiscal quarter. PSCs and Immediate Claims Taking Units (ICTU) in those PSCs use the Program Centers Action Control System work sampling system. Under this methodology, each employee in the PSCs is sampled once each workday. However, SSA does not require that this information be maintained. Therefore, the audit team was unable to select a statistical sample that would allow it to calculate an error rate.

The audit team tested the work sampling data inputs in CAS at 15 FOs, 3 DDSs, and 3 ITCUs in SSA's PSCs.

Of the locations visited, we compared sampling tally sheets to input reports to determine whether the sampling results were accurate, valid, and complete. The results of our input testing at the FOs and DDSs were as follows.

- Data were incorrectly input into the work sampling system at 7 of 15 FOs visited and the 3 DDSs visited.
- Two of 15 FOs did not maintain historical records, which prohibited us from retroactively testing prior sample submissions.

We noted numerous data input discrepancies regarding the sampling tallies at the FOs and DDSs. Data collected via the sampling process were not deemed valid and accurate.

In addition to the input testing performed at the FOs, DDSs, and ICTUs, we performed input testing of two Central Office components:

- Office of the Deputy Commissioner for Budget, Finance and Management (DCBFM) directs the administration of comprehensive SSA management programs including budget, acquisition and grants, facilities management, and publications and logistics. It provides an administrative role and consists of three subcomponents.
- Office of the Deputy Commissioner for Quality Performance (DCQP) renders formal advice and recommendations to SSA executives on a range of issues relating specifically to in-line and end-of-line quality performance management in each of the SSA's core business areas. It provides a more operational role and consists of five subcomponents.

Based on CAS documentation, we gained an understanding of how the above Central Office components allocated their costs. Many of the Central Office components allocated their administrative costs in the same proportions as components that used sampling results. Based on our understanding of each component's process, we recalculated the June 2010 allocation percentages for DCBFM and DCQP by applying their costs to the established allocation rates or sampling results. We then compared our recalculated results to allocated amounts in CAS. We noted no significant differences. Data collected for, and used by, Central Office components were complete, valid, and accurate.

Audit Objective 2: Review and Test Internal Controls over the Cost Allocation Feeder Systems and Applications Used in CAS as well as the Main Processes in CAS to Determine Whether They Were Complete and Reliable.

We reviewed the policies, procedures and internal controls related to the data integrity of those input processes. The results of our review and test of internal controls over CAS feeder systems are as follows.

- Samples were not consistently performed. At some locations, we noted employees conducted the sample by walking through the office, observing, and/or asking what task was being worked on by each employee. Other times, we noted that the employee conducting the sample used email or instant messaging to obtain the sample results. This is in direct contrast to internal guidance established per SSA's *Management Information Manual, Chapter 2000*, which states that the integrity of the District Office Workload Report/DOWS reporting system must be assured with the highest degree of accuracy.
- We noted no instances of peer or management review of the tally sheets or input screens before submission. Based on our examination of tally sheets and workload inputs, data were incorrectly input into the work sampling system at 7 of 15 FOs and the 3 DDSs visited.

For the Central Office components, OCASS performed a monthly balancing of various reports. This balancing report compares various CAS reports for each Central Office component monthly where results are reconciled back to inputs. We examined the June 2010 OCASS balancing report and vouched data to supporting documentation and found no exceptions.

Audit Objective 3: Review the General Computer Control Environments Applicable to CAS.

We performed a full-scope application controls review of the CAS and DOWS systems. A full-scope application controls review involves tailored application controls testing as prescribed in the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM) and focuses on the access controls, data input, processing, and interface controls. As part of the Fiscal Year (FY) 2010 *Chief Financial Officers Act* financial statement audit performed by Grant Thornton, LLP, we analyzed, through inquiry, inspection, and observation, the documentation SSA provided to assess the reliability of the data maintained in the CAS application. See Appendix F for a CAS flowchart. Our analysis of the Agency's entity-level control environment during the FY 2010 financial statement audit disclosed three deficiencies that, when aggregated, rose to the level of a significant deficiency. Those deficiencies were as follows.

1. Policies and procedures to periodically reassess the content of security access profiles had not been complied with consistently throughout the Agency.
2. Security permissions provided to some employees and contractors exceeded the access required to complete their job responsibilities.
3. Certain mainframe configurations increased the risk of unauthorized access to key financial data and programs.

The risks associated with these control deficiencies have a direct impact on the integrity of the CAS and DOWS application and database environments since both are mainframe-based applications. For the other controls tested related to CAS and DOWS applications, we identified no exceptions.

Audit Objective 4: Review and Test Regularly Disseminated Data Output Reports to Determine Whether they were Accurate, Complete, and Reliable and Whether CAS' Overall Purpose was met. Reports Reviewed Reflected Data After Input, Allocation, and Distribution.

CAS output reports help end-users ensure data are processed correctly. The six reports we reviewed for March, July, and August 2010 were as follows.

1. Pre-input Cost Analysis (PICA) – Presents a summary of raw data from several SSA systems by organization, component workload, and month to enable end-users to assess operational results.
2. Level 0 – Presents input-level workload processed counts, workyears, and average weights by workload/function and costs by CAS sub-object class.
3. C1 – 1235 - Presents category workyears, payroll obligation, and payroll costs per workyear for workload and staff functions by program activity for SSA components.

4. C2 – 15A Detail - Presents cumulative monthly processed counts, workyears, payroll obligations and other object costs, unit costs, cost per workyear, and production rates by direct workload, program activity, and SSA component. It presents separately, staff workyear, cost expenditures, and associated other object costs by staff function.
5. C1 – 67 - Presents obligations by program activity, component, and major sub-object class. This report is used to monitor adherence to appropriation and allotment limits and SSA's internal limitations and component operating or spending plans.
6. S3 – 1 – Presents total workyears and costs, including staff, by direct workload and program activity for components and SSA. This report provides a comprehensive source of total and unit cost data by direct workload.

To test for data consistency, we analyzed the information in the output reports for sudden fluctuations in data. In addition, we cross-referenced the major data elements in each of the reports and total cost information from the Social Security Online Accounting and Reporting System (SSOARS), SSA's accounting system of record, to ensure the figures agreed. For the specific data reviewed and the analysis performed relating to data consistency, refer to Appendix C.

To test for data completeness, we compared the data elements tracked by CAS to data elements typically found in a well-established and comprehensive cost assignment system. The purpose of the examination was to confirm that the output reports had captured and provided a complete picture of total workload and cost. See Appendix D for the specific data reviewed and analysis performed relating to data completeness.

We determined that the cost and workload information remained consistent over the past 9 years with no unexplainable data spikes or drops. Our comparison of data at the aggregate level showed the same values at all phases of the calculation process. See Appendix C for specific details. In addition, the CAS reports provided similar types of cost and workload data elements found in a well-established cost assignment system.

Audit Objective 5: Determine Whether the Cost Allocation Methodology SSA Management Used Complied with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

We reviewed the five underlying standards of SFFAS No. 4, identified the specific requirements for each standard, and assessed the SSA cost allocation methodology's compliance with those requirements. Per SFFAS No. 4, this assessment relates to SSA's cost accounting capabilities.

In June 1995, FASAB issued SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. SFFAS No. 4 details the framework for the managerial cost accounting processes and systems that support financial as well as performance reporting requirements and enhances the link between financial reporting

and performance measurement. The Statement became effective at the beginning of FY 1998.

SFFAS No. 4⁷ requires that Federal entities establish the capacity to generate managerial cost accounting information to provide reliable and timely information on the full cost of Federal programs. Such sound managerial cost accounting practices provide Congress and Federal managers the information needed to improve Federal financial and program management decision-making, as well as supply comparative quantitative data for measuring agency performance.

SFFAS No. 4⁸ establishes the concepts and standards for providing reliable and timely information on the full cost of Federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS No. 4 are to provide the following:

- Program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.
- Relevant and reliable cost information to assist Congress and executives in making decisions about allocating Federal resources, authorizing and modifying programs, and evaluating program performance.
- Consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among Federal organizations and users of cost information.

SFFAS No. 4 has five standards summarized as follows.⁹

- Standard 1, General Requirements for Cost Accounting prescribes guidelines on cost accumulation and reporting. Specifically, that costs should be regularly accumulated and reported for management information purposes.
- Standard 2, Responsibility Segments Definition requires that reporting entities organize themselves financially, according to sub-organization missions, funding alignment, outputs produced, etc. These responsibility segments are the organizational level at which cost and performance data are to be accumulated and reported. Managerial cost accounting should be performed to measure and report the costs of each segment's outputs.

⁷ FASAB, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, July 31, 1995, para 4 and 5.

⁸ Ibid, para 1.

⁹ Ibid, para 5-11.

- Standard 3, Full Cost Reporting, and Standard 4, Inclusion of Inter-Entity Costs, are closely related and establish requirements associated with the full cost of outputs. Standard 3 addresses the necessity of including each segment's direct and indirect contribution to outputs when accumulating costs. Standard 4 requires that entities recognize and include the full cost of goods and services provided to, or received from, other entities. These costs are to be included, regardless of the status of reimbursements provided or received.
- Standard 5, Use of Appropriate Costing Methodology is concerned with the costing methodology used to assign costs to outputs. The full costs of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through costing methodologies that are most appropriate and should be followed consistently.

SSA's cost allocation methodology complies with many of the requirements established by SSFAS No 4. For instance, it

- uses direct tracing to a large extent in allocating costs to program activities,
- links costs to organizational performance,
- is performed regularly and consistently,
- has defined responsibility segments,
- accumulates cost and quantitative units of resources consumed, and
- includes the cost for social insurance programs.

However, our overall assessment of SSA's cost allocation methodology's compliance with SSFAS No 4 is 'partially compliant' because it does not adhere to all of the critical requirements outlined in SSFAS No. 4. The requirements of the Standard and our assessment of SSA's compliance are described in Appendix E. The major reasons for our overall assessment of 'partially compliant' are as follows.

SSA's Cost Allocation Methodology Did Not Assign Certain Shared Workload Costs Through (a) Direct Trace, (b) Cause-and-Effect, or (c) Allocation of Costs Reasonably and Consistently to Accurately Reflect the Work Effort Involved

According to the Standard, "In principle, costs should be assigned to outputs in one of the methods listed below, in the order of preference:

- (a) Directly tracing costs wherever economically feasible;
- (b) Assigning costs on a cause-and-effect basis; and
- (c) Allocation on a reasonable and consistent basis.

These principles apply to all levels of cost assignments including:
(1) assigning inter-entity costs to segments, (2) assigning the costs of

support services and intermediate products among segments of an entity (the intra-entity cost assignments), and (3) assigning direct and indirect costs to outputs.”¹⁰

The Standard explains that, “Direct tracing applies to resources that are directly used in the production of an output. Examples of such resources include materials that are used in the production, employees who directly worked on the output, facilities and equipment used exclusively in the production of the output, and goods and services received from other entities that are directly used in the production of the output. Direct tracing also applies to specific resources that are dedicated to particular outputs.”¹¹

Costs that are not considered “direct costs” are, in effect, “shared costs” or as referred to in the Statement, “common costs.” SFFAS No. 4 defines a common cost as “The cost of resources employed jointly in the production of two or more outputs and the cost cannot be directly traced to any one of those outputs.”¹² The Standard reads, “For the costs that are not directly traced to outputs, it is preferable that they be assigned to them on a cause-and-effect basis.”¹³ The Standard also indicates that, “Common costs should be assigned to activities either on a cause-and-effect basis, if feasible, or through reasonable allocations.”¹⁴

A significant portion of SSA’s workloads is considered “shared workloads” because the associated work performed simultaneously benefits multiple programs. Examples of shared workloads are:

- RSI initial enrollment,
- RSI appeals,
- RSI maintenance of beneficiary records,
- DI initial enrollment,
- Social Security number (SSN) issuance, and
- Earnings record maintenance.

For FY 2010, shared workloads represented 56 percent of total allocated costs. The SSA cost allocation methodology, through the ITFA, allocates a portion of these shared workload costs based on the various programs’ total benefit outlays. The use of benefit outlays as the basis of assigning shared costs does not manifest a suitable causal

¹⁰ Ibid, para 130.

¹¹ Ibid, para 126-127.

¹² Ibid, Appendix B: Glossary.

¹³ Ibid, para 129-130.

¹⁴ Ibid, para 140.

relationship between resources and outputs. We do not believe benefit outlays represent an equitable cost assignment basis, as cost allocation is then driven by benefit amounts rather than the work performed. The use of benefit outlays as a basis for assigning shared costs assigns a greater portion of costs to programs with higher dollar benefit outlays, although SSA's costs may not increase as a result of higher outlays.

Based on our understanding of the claims taking process, an RSI beneficiary receiving \$1,000 a month does not consume more administrative costs than a DI beneficiary receiving \$500 a month. A DI beneficiary must undergo an extensive medical questionnaire at the FO as well as a determination of disability at the DDS. However, the use of benefit outlays as the basis would assign more of the shared costs to the RSI program.

Alternatively, if Congress changes a program's benefit entitlement amount, the cost allocation would change even though the required work would remain the same. For example, if the DI monthly benefit was raised by 10 percent, the cost allocation methodology would shift more cost to the DI Trust Fund even though the cost to administer the DI program would remain the same. SSA should discontinue using benefit outlays to allocate shared costs to program activities.

CAS Work Sampling Input Data Were Often Inaccurate

According to SFFAS No. 4, "Cost information supplied to internal and external users should be reliable and useful in making evaluations or decisions."¹⁵ As stated earlier in this report, we found the work sampling data used in CAS for cost allocation inaccurate.

Ensuring the reliability of work sampling data is a critical responsibility of SSA. To help ensure the reliability and usefulness of managerial cost accounting system results, SSA should perform an independent review of the underlying sampling methodology, establish controls around sample taking, calculate the organizations' sampling and transcription errors, and determine acceptable error rates. In addition, SSA should develop policies and procedures, such as secondary reviews or reconciliations of tally sheets to CAS submissions to ensure that workload sampling inputs are accurate.

The SSA Cost Allocation Methodology Did Not Reconcile Budgetary to Proprietary Methods of Allocation

CAS did not use the same basis of accounting to produce SSA's administrative cost results as the Office of Finance used to report standard financial statements, draw down the Trust and general funds, or report the costs of current period operations. SSA did not perform a reconciliation of budgetary-to-proprietary methods of allocation at the workload or program activity levels.

¹⁵ Ibid, para 71.

SSA's financial statements, specifically the Statement of Net Cost, use the accrual method of accounting, based on the Income Statement accounts (proprietary) from the Standard General Ledger (SGL). The Statement of Net Cost shows the net cost of operations for SSA as a whole by major program. CAS results, given as percentages, are provided to the Office of Finance, which applies those percentages to operating expenses from the SGL, to calculate drawdowns to SSA's programs (that is, Trust and general funds). CAS uses accrued expenditures and obligations (for example, budgetary accounting) in determining the allocation rates and omits actual operating expenses from the cost calculations performed.

These varying bases of accounting should be reconciled at the detail level, and the differences explained. Per SFFAS No. 4, "Different bases of accounting will produce different costs for the same item, activity, or entity. This may confuse users of cost information. Therefore, reports that use different accounting bases or different recognition and measurement methods should be reconcilable, and should fully explain those bases and methods."¹⁶

The inclusion of unliquidated obligations in cost allocation system results has the effect of allowing non-period transactions to impact period results. There is a need for SSA to routinely perform a reconciliation and document the variations inherent in the differing bases of accounting. SSA performs a high-level check, at the end of the year, to confirm that annual operating expenses and the budgetary accounts are within 1 to 3 percent. The Office of Finance stated that no attempt is made to reconcile the CAS information to operating expenses.

SSA's Cost Allocation Methodology Did Not Use Actual Expenses in Assigning Costs to Reporting Periods and Outputs

As previously cited, CAS relied on budgetary accounts, rather than operating expenses, in the cost allocation methodology. The inclusion of unliquidated obligations in the costing methodology is appropriate for determining cash drawdowns from the Trust Funds to meet program funding requirements. However, actual expenses should be used for managerial cost accounting purposes to calculate the true cost of work performed on SSA programs. For instance, to calculate the true cost per claim, the use of obligations would not be accurate due to cost recognition timing differences between accrual and budgetary accounting.

Per SSFAS No. 4, "The assignment of costs to time periods is to recognize costs whether as expenses or assets for each reporting period. It is governed by accounting standards on recognition of assets and expenses"¹⁷ Within the section on *Managerial Cost Accounting Concepts*, the Statement explains that, "Fundamentally, managerial cost accounting should assist financial accounting in determining the results of operations, during a fiscal period, by providing relevant data that are accumulated to

¹⁶ Ibid, para 64.

¹⁷ Ibid, para 120.

produce operating expenses.”¹⁸ GAO concurs. In a December 2005 report, *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*, GAO expressed concern that Federal Student Aid cost accounting models were using “. . . obligations in lieu of actual costs.”¹⁹

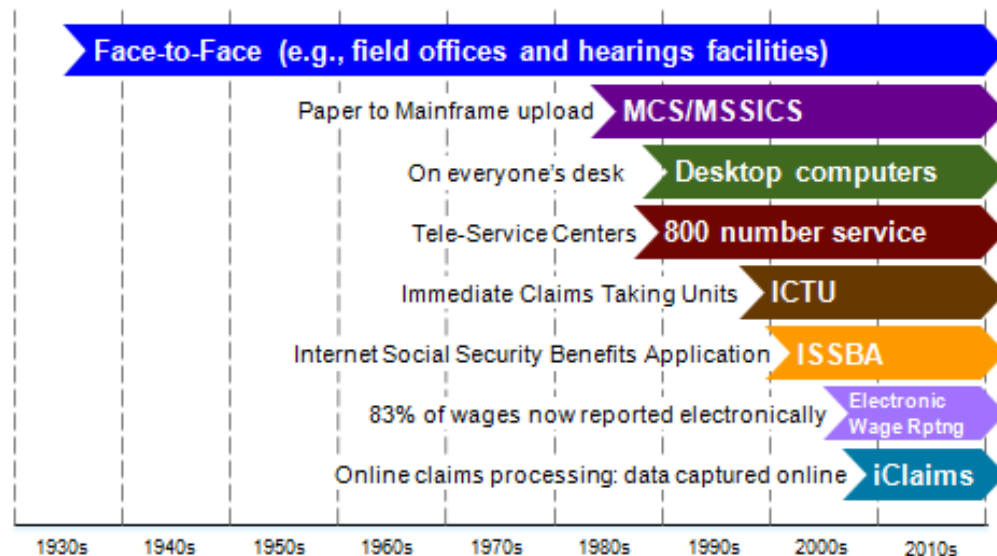
No Procedures to Periodically Revisit, Update, and Document Significant Changes to the Cost Allocation Methodology

The SSA cost allocation methodology had not been consistently improved. SSA management could not provide documentation that it had revised or updated the cost allocation methodology to account for changes in SSA business processes, system technology, or accessibility of better cost assignment data, since its inception in 1976. There was insufficient documented evidence that it had been revisited and updated in over 30 years. Significant automation of SSA’s business processes has occurred since CAS was implemented. Examples of this automation include the implementation of the Modernized Claims System (MCS), the Modernized Supplemental Security Income Claims System (MSSICS), the On-Line Retirement Application (iClaim), roll-out of ICTUs, and the introduction of desktop computers and 800-number service. According to Office of Public Service Operations Support representatives, these improvements have had a significant impact on the manner in which SSA interfaces with claimants and on employee productivity. A timeline of changes to SSA’s business processes is provided in Figure 2.

¹⁸ Ibid, para 47.

¹⁹ GAO letter to The Honorable Todd R. Platts, Chairman, House of Representatives Subcommittee on Government Management, Finance, and Accountability Committee on Government Reform, *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*. Enclosure 1. December 19, 2005.

Figure 2: Major Changes to SSA's Business Processes



CAS became operational in 1976 and has been continuously modified to enhance functionality and automate data feeds and processing; however, the cost allocation methodology has not changed significantly. This failure to periodically revisit and update the cost allocation methodology could result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of administrative costs to the Trust Funds may be at risk. It is critical that the CAS cost allocation methodology be revisited or updated to reflect changes in SSA's business processes and Federal accounting standards.

The *Social Security Act* specifies that administrative cost allocations to the Trust Funds, "... shall be made in accordance with the cost allocation methodology in existence on the date of the enactment of the Social Security Independence and Program Improvements Act of 1994 until such time as the methodology . . . is revised by agreement of the Commissioner and the Secretary" ²⁰ This clause implies that the cost allocation methodology is not permanently "etched in stone," but rather can be revised as needed to ensure a continued equitable cost allocation. As the administrator of SSA's CAS and policy, it is incumbent upon OCASS to periodically review the cost allocation methodology and recommend to the Commissioner any feasible enhancements to improve the equity of the Trust Fund administrative cost allocation.

²⁰ The *Social Security Act* § 201(g)(1)(D), 42 U.S.C. § 401(g)(1)(D).

Some SSA Cost Allocation Methodology and Processes Were Not Always Adequately Documented

As stated in a separate report,²¹ we found some CAS documentation to be inadequate, outdated, and unclear.

CAS is a complex system that requires a high degree of institutional knowledge and manual effort to maintain. Substantial user documentation exists including a CAS manual, CAS handbook, and the AIMS manuals on cost analysis program overview, cost allocation policy, and SSA workload structure. These documents and additional documentation reside on a dedicated CAS Intranet site. However, some of these documents are outdated, insufficient, or unclear. Some examples of inadequate documentation include the following.

- SSA documentation does not provide adequate explanation for using accrued expenditures, obligations, and commitments for the current fiscal year rather than actual expenses for cost allocations.
- SSA documentation does not explain the approach for applying allocation percentages derived from CAS to actual expenses to obtain final determination of the charges to the Trust Funds.
- The description of the ITFA does not provide adequate detail on how the adjustment is actually calculated, which makes the methodology difficult to comprehend.
- SSA CAS technical architecture diagrams did not accurately reflect current systems and technologies based on our discussions with OCASS personnel.
- A copy of the Commissioner's Decision of 1973 upon which the cost allocation policy and methodology is based could not be located.
- The Cost Analysis System Replacement Operations Concept has not been updated since March 2005.

After discussions with OCASS, this documentation has been, or is being, updated.

The SSA Cost Allocation Methodology Did Not Incorporate the Full Cost of Material Goods or Services Received from Other Entities

SSA cannot verify that charges from other entities comprise the full cost of goods or services received. SFFAS No. 4 states, "Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with

²¹ SSA, OIG, *Cost Analysis System Background Report and Viability Assessment*, (A-15-10-20149), April 2011.

information on the full cost of such goods or services whether through billing or advice.”²²

SSA has entered into numerous²³ inter-agency agreements, which are on a reimbursable, or fee-for-service, basis. Our review of a random selection of these agreements found that half did not require a reconciliation to determine the full cost of the goods or services being provided to SSA.²⁴ In accordance with SFFAS No. 4, the final responsibility for collecting full cost information for goods and services received from other reporting entities is on the organization receiving those goods or services. There is no documentation that SSA attempted to determine the full cost of goods or services provided under these agreements. In cases where the entity that provided goods and services does not or cannot provide full cost information, the responsibility rests with the receiving entity to estimate these costs and include them in cost calculations.

All costs, whether recoverable from the Trust and general fund accounts or not, should be included in CAS and its calculations. This will provide SSA with a better understanding of its true cost of doing business. CAS should then be able to identify and segregate those costs applicable to the Limitation on Administrative Expenses appropriation and therefore are recoverable from the Trust and general fund accounts.

SSA could not determine the magnitude of the full cost of goods or services provided under these agreements. SSFAS No. 4 requires the inclusion of the full cost of these goods or services, in determining the cost of operations. SSA should establish and document a procedure for obtaining the full cost of goods and services received from other entities, or estimate the cost per the Standard, regardless of the basis on which they are exchanged.

²² FASAB, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, July 31, 1995, page 40.

²³ In 2010, 183 agreements.

²⁴ From the population of Inter-Agency Agreements, totaling approximately \$157 million, we randomly selected eight to review. Of those, we found four that did not require a reconciliation of funds provided by SSA to those expended by the recipient.

Conclusions and Recommendations

Conclusions

Audit Objective 1: Determine Whether the Data Collected and Used by SSA Management in the Cost Allocation Process Were Valid, Complete, and Accurate by Testing the Data Inputs to CAS.

We noted that sampling data were incorrectly uploaded into the work sampling system at 7 of 15 FOs visited and the 3 DDSs visited. In addition, two FOs did not maintain historical records of their work sampling submissions and tally sheets, which prohibited us from retroactively testing prior sample submissions.

Inaccurate data submissions into CAS may cause SSA to allocate administrative costs incorrectly.

Audit Objective 2: Review and Test Internal Controls over the Cost Allocation Feeder Systems and Applications Used in CAS as well as the Main Processes in CAS to Determine Whether They Were Complete and Reliable.

We noted numerous instances where the work sampling internal controls and main processes did not ensure the completeness and reliability of CAS data. At the locations where SSA management conducted work sampling, we noted the samples were not consistently performed. We also noted no instances of peer or management review of the tally sheets or input screens before submission.

SSA's lack of internal controls regarding its work sampling processes allows erroneous inputs into the various feeder systems and may cause the allocation of administrative costs to be incorrect.

Audit Objective 3: Review the General Computer Control Environments Applicable to CAS.

We performed a full-scope application control review on both CAS and DOWS applications. This review focused on the access controls, data input, processing, and interface controls. The FY 2010 financial statement audit disclosed three deficiencies that, when aggregated, rose to the level of a significant deficiency. The risks associated with these control deficiencies have a direct impact on the integrity of the CAS and DOWS applications and database environments since both systems reside on the mainframe. For the other controls tested related to the CAS and DOWS applications, we identified no exceptions.

Audit Objective 4: Review and Test Regularly Disseminated Data Output Reports to Determine Whether They Were Accurate, Complete, and Reliable and Whether CAS' Overall Purpose Was Met. Reports Reviewed Reflected Data After Input, Allocation, and Distribution.

Our trend data analysis revealed that cost and workload information remained consistent over the past 9 years, with no unexplainable data spikes or drops over that period. The CAS reports analyses determined that cost and workload information during the sampled timeframe (1st and 3rd Quarters of FY 2010) consistently flowed through CAS and its output reports. Though some of the reports provide varying levels of detail as they represent different phases of the cost allocation process, the aggregate cost and workload figures could be tracked through each report.

CAS output reports were deemed complete because they provided similar types of cost and workload data elements found in a well-established cost allocation system.

Audit Objective 5: Determine Whether the Cost Allocation Methodology Used by SSA Management Complied with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

Concerning SFFAS No. 4, our overall assessment was 'partially compliant.' Although SSA complies with many of the Standards' requirements, we noted the following.

- SSA's cost allocation methodology did not assign certain shared workload costs through (a) direct trace, (b) cause-and-effect, or (c) reasonable and consistent allocation of costs to accurately reflect the work effort involved. That is, the use of benefit outlays as the basis of assigning shared costs does not manifest a suitable causal relationship between resources and outputs.
- CAS work sampling input data were often inaccurate.
- SSA's cost allocation methodology did not reconcile budgetary to proprietary methods of allocation at a detailed level.
- SSA's cost allocation methodology did not use actual expenses in assigning costs to reporting periods and outputs.
- There were no procedures to periodically revisit, update, and document significant changes to the cost allocation methodology.
- SSA's cost allocation methodology and processes were not always adequately documented.

SSA's use of benefit outlays to allocate shared administrative costs and budgetary data to determine allocation rates as well as inaccurate underlying data, may cause inappropriate allocation of SSA's administrative costs among the various Trust Funds and programs.

Although SSA's administrative costs are relatively small compared to SSA's total outlays, SSA's noncompliance with SFFAS No. 4 could potentially jeopardize SSA's

compliance with Generally Accepted Accounting Principles and the *Federal Financial Managers Integrity Act*.²⁵ In addition, the use of benefit outlays as the basis for assigning shared costs as well as the use of commitments and obligations to determine the allocation rates may cause the incorrect allocation of administrative costs. However, because of underlying data concerns and the noncompliance issues related to SFFAS No. 4, we were unable to conclude whether CAS results were correctly stated.

RECOMMENDATIONS

To address the risks cited in this report, we recommend SSA:

1. Enforce and enhance policies and procedures, such as secondary reviews or reconciliations of tally sheets to work sampling submissions, to ensure that workload sampling inputs are accurate.
2. Discontinue the use of benefit outlays as the means of allocating shared costs among program activities, including the Trust Funds, and identify cost assignment methods that manifest suitable causal relationships between the work SSA performs and its programs.
3. Update policies and procedures to ensure the data collection process is consistently performed and reviews are conducted timely.
4. Reconcile the budgetary accounting basis used for cost allocation with the proprietary or accrual basis of accounting at a detailed level and determine if an adjustment to the cost allocation percentages is warranted.
5. Use actual operating expenses to determine the distribution and allocation of costs to workloads and program activities.
6. Periodically revisit and update the cost allocation methodology, as necessary, to account for the implementation of new legislation or revised accounting standards and significant changes in SSA business processes or technology. Appropriate decision papers should be prepared to address each significant change.
7. Periodically review and update, as necessary, work measurement, CAS, and ITFA documentation.

AGENCY COMMENTS

SSA determined that because of the interrelationship of all four CAS reviews that it was premature to comment or respond to Grant Thornton's recommendations. Once SSA receives the results of all CAS reviews, they will provide consolidated comments and responses to the recommendations.

The full text of SSA's response can be found in Appendix G.

²⁵ The *Federal Financial Managers Integrity Act*, 31 U.S.C. §3512.

Appendices

Acronyms

CAM	Cost Analysis Manual
CAS	Cost Analysis System
CPWY	Cost Per Work-Year
DDS	Disability Determination Services
DI	Disability Insurance
DOWS	District Office Work Sampling
FASAB	Federal Accounting Standards Advisory Board
FISCAM	Federal Information System Controls Audit Manual
FO	Field Office
FY	Fiscal Year
GAO	Government Accountability Office
iClaim	On-Line Retirement Application
ICTU	Immediate Claims Taking Unit
ITFA	Inter-Trust Fund Adjustment
LAE	Limitation on Administrative Expenses
MCS	Modernized Claims System
MSSICS	Modernized Supplemental Security Income Claims System
OCASS	Office of Cost Analysis and Systems Support
ODAR	Office of Disability Adjudication and Review
OIG	Office of the Inspector General
PICA	Pre-Input Cost Analysis
PSC	Program Service Center
RSI	Retirement & Survivors Insurance
SAWS	State Agency Work Sampling
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SMI	Supplementary Medical Insurance
SSA	Social Security Administration
SSI	Supplemental Security Income
SSOARS	Social Security Online Accounting and Reporting System
U.S.C.	United States Code
WY	Workyears

Scope and Methodology

The Cost Analysis System (CAS) audit objectives were to validate the accuracy of the data used by the Social Security Administration's (SSA) management, test the internal controls over the systems and applications used in the CAS, review CAS' general computer controls environment, and test the accuracy/completeness/reliability of CAS' main processes, data inputs, and output reports.

To accomplish our objectives, we:

- Visited 15 field offices (FO), 3 disability determination services, and 3 Immediate Claims Taking Units (ICTU) in program service centers (PSC) and tested the CAS data inputs as well as assessed the internal controls related to the completeness, accuracy, and validity of the data inputs.
- Reviewed applicable Federal laws and regulations and sections of the *Social Security Act* related to cost allocation.
- Obtained and analyzed output reports from CAS from Fiscal Years (FY) 2001 through 2009 and the 1st and 3rd quarters of 2010, which included the (1) Pre-Input Cost Analysis (PICA), (2) Level 0, (3) C1 – 1235, (4) C2 – 15A Detail, (5) C1 – 67, and (6) S3 – 1.
- Performed input testing and recalculated the input calculations for two Central Office components: the Offices of the Deputy Commissioner for Budget, Finance and Management and Quality Performance, for June 2010. As part of the FY 2010 financial statement audit, we performed a full-scope application control review of CAS and the District Office Work Sampling system. A full-scope application controls review involves modifying application controls testing as prescribed in the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM). A full-scope application controls review focuses on the access controls, data input, processing, and interface controls. FISCAM defines the following types of system-related controls.
 1. **Application Level General Controls** consist of general controls operating at the business process application level, including those related to security management, access controls, configuration management, segregation of duties, and contingency planning.
 2. **Business Process Controls** are directly related to individual computerized applications. They help ensure transactions are complete, accurate, valid, confidential, and available. Business process application controls include (1) programmed control techniques, such as automated edits, and (2) manual follow-up of computer-generated reports, such as reviews of reports identifying rejected or unusual items.

3. **Interface Controls** are over the timely, accurate, and complete processing of information between applications and other feeder and receiving systems and complete and accurate migration of clean data during conversion.
4. **Data Management System Controls** are relevant to most business process applications because applications frequently use the features of a data management system to enter, store, retrieve, or process information, including such detailed, sensitive information as financial transactions, customer names, and Social Security numbers. Data management systems include database management systems, specialized data transport/communications software (often called middleware), data warehouse software, and data extraction/reporting software. Data management system controls enforce user authentication and authorization, availability of system privileges, data access privileges, application processing hosted within the data management systems, and segregation of duties.

Through inquiry, inspection, and observation testing, including testing of source documentation, we:

- Reviewed reports and system documentation related to the CAS application.
- Met with the appropriate SSA personnel to confirm our understanding of the CAS application.
- Assessed technical user access to the CAS application Customer Information Control System front-end screens, user access to the production environment and the CAS Monthly Run to determine whether workload productivity information was processed completely.
- Observed the input procedures implemented for several significant workload processes: Monthly CAS initialization, CAS/Social Security Online Accounting and Reporting System (SSOARS) interface, field office input, PSC input, and Office of Disability and International Operations Component input.
- Observed key front-end screen fields to determine whether the Agency had adequate edit validation controls over manual data input.
- Compared data elements from well-established and comprehensive cost allocation systems to data elements tracked by CAS such as output cost (by total and unit), and volume, as well as resource cost, volume, contribution and cost by workload category.

To assess SSA's compliance with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, we conducted an in-depth review of the Statement together with the following, related Federal accounting standards:

- SFFAS No. 9 *Deferral of the Effective Date of Managerial Cost Accounting Standards for the Federal Government in SFFAS No. 4* and
- SFFAS No. 30 *Inter-Entity Cost Implementation: Amending SFFAS No. 4*, which supersedes Interpretation #6: *Accounting for Imputed Intra-Departmental Costs*

We interviewed Agency subject matter experts from the Offices of Cost Analysis and Systems Support and Finance on CAS methodology, process, and workload and feeder systems. We requested data extracts from SSOARS and CAS. The interviews addressed questions from document review, and provided increased understanding of CAS, as a system, its origins, processes, and technological evolution. We used the data to verify the points made in the interviews.

Our audit and assessment of compliance with SFFAS No. 4 included SSA's managerial cost accounting capacity, as an organization, and not only CAS.

As a validation of our evaluation, we held discussions with two Grant Thornton partners, who had been part of the FASAB team that developed and issued SFFAS No. 4. Through these discussions, we confirmed that our interpretation of SFFAS No. 4 was in keeping with the Board's intent. The final compliance assessment was judged to be reasonable and complete.

We determined that the computerized data used during our audit were sufficiently reliable given our objectives, and the intended use of the data should not lead to incorrect or unintentional conclusions.

The entities reviewed were the Offices of the Deputy Commissioner of Budget, Finance and Management; Public Service and Operations Support; and Quality Performance. Our work was conducted at SSA Headquarters in Baltimore, Maryland, from May through October 2010. We determined that the data used in this report were sufficiently reliable given the review objectives and their intended use. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Cost Analysis System Cost Allocation Output Data Consistency Analysis

We analyzed the information in the Cost Analysis System output reports for irregularities (for example, unexplained fluctuations in data) over the last 9 years. In addition, we compared the data elements (for example, volumes, workyears, production rates, costs, and unit costs) in each report with one another and Social Security Online Accounting and Reporting System reports to ensure consistency throughout the CAS reporting process. The information analyzed is shown in Tables C-1 through C-12. Percentages and other metrics in these tables come from the end-of-year CAS S3-1 report for the years indicated and include all SSA component costs.

Program Activity Cost Trend Data

Table C-1 displays the field offices' (FO) total costs, in terms of percentages, from Fiscal Years (FY) 2001 through 2009 by the program activities that they support.

Table C-1: FO Program Activity Cost (Percent of Total Cost)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Supplemental Security Income (SSI)	41%	41%	40%	38%	36%	35%	34%	35%	35%
Retirement and Survivors Insurance (RSI)	30%	29%	29%	28%	27%	27%	28%	29%	28%
Disability Insurance (DI)	23%	24%	25%	28%	27%	27%	29%	28%	28%
Supplementary Medical Insurance (SMI)	3%	3%	3%	3%	4%	4%	4%	4%	4%
Hospital Insurance (HI)	2%	2%	2%	2%	3%	3%	3%	3%	3%
Medicare Modernization Act (Part D)				0%	3%	4%	2%	1%	2%
Other*	1%	1%	1%	1%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total program activity cost percentages for FOs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-1 “Other” comprises several workloads that comprise too small a proportion of the whole to be displayed individually.

Table C-2 displays the disability determination services’ (DDS) total costs, in terms of percentages, from FYs 2001 through 2009 by the program activities they support.

Table C-2: DDS Center Program Activity Cost (Percent of Total Cost)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
DI	57%	57%	57%	58%	58%	58%	59%	59%	59%
SSI	43%	43%	43%	42%	42%	42%	41%	41%	41%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total program activity cost percentages for DDSs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

Table C-3 displays the FO’s total workyears, in terms of percentages from FYs 2001 through 2009 by the program activities they support.

Table C-3: FO Program Activity (Percent of Total Workyears)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SSI	40%	41%	40%	38%	36%	35%	34%	35%	35%
RSI	31%	30%	29%	28%	28%	28%	29%	29%	28%
DI	22%	23%	25%	27%	27%	27%	28%	27%	28%
SMI	3%	4%	3%	3%	3%	4%	4%	4%	4%
HI	2%	2%	2%	3%	3%	3%	3%	3%	3%
Medicare Modernization Act (Part D)				0%	3%	3%	2%	1%	2%
Other*	2%	0%	1%	1%	0%	0%	0%	1%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total program activity workyear percentages for FOs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-3 “Other” comprises several workloads that comprise too small a proportion of the whole to be displayed individually.

Table C-4 displays the DDS' total workyears, in terms of percentages, from FYs 2001 through 2009 by the program activities they support.

Table C-4: DDS Program Activity (Percent of Total Workyears)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
DI	59%	58%	59%	60%	61%	61%	61%	62%	62%
SSI	41%	42%	41%	40%	39%	39%	39%	38%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total program activity workyear percentages for DDSs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

Table C-5 displays the FO's total costs (in millions) by workload category for the 1st and 3rd quarters of FY 2010.

Table C-5: FO Workload Category Costs and Percentages (1st and 3rd Quarters FY 2010)				
Workload Category	1st QTR Total Cost (Millions)	Percent of Total Cost	3rd QTR Total Cost (Millions)	Percent of Total Cost
Category 1 (Direct Workload)	\$381	36.7%	\$409	41.0%
Category 2 (Workload Related)	\$83	8.0%	\$97	9.7%
Category 3 (Indirect Workload)	\$150	14.5%	\$177	17.8%
Category 4 (Leave)	\$136	13.1%	\$102	10.2%
Category 5 (Staff and Measureable Support)	\$42	4.1%	\$48	4.8%
Category 6 (Personnel)	\$793	76.4%	\$833	83.5%
Category 7 (Other Objects)*	\$245	23.6%	\$165	16.5%
Total	\$1,038	100.0%	\$998	100.0%

After reviewing the total costs by workload category, for FOs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Other Objects comprise all of the non-personnel costs of SSA.

Table C-6 displays the DDS' total costs (in millions) by workload category for the 1st and 3rd quarters of FY 2010.

Table C-6: DDS Workload Category Costs and Percentages (1st and 3rd Quarters FY 2010)				
Workload Category	1st QTR Total Cost (\$M)	% of Total Cost	3rd QTR Total Cost (\$M)	% of Total Cost
Category 1 (Direct Workload)	\$292	56.4%	\$303	55.4%
Category 2 (Workload Related)	\$0	0.1%	\$0	0.1%
Category 3 (Indirect Workload)	NA	NA	NA	NA
Category 4 (Leave)	NA	NA	NA	NA
Category 5 (Staff and Measureable Support)	NA	NA	NA	NA
Category 6 (Personnel)	\$293	56.5%	\$303	55.5%
Category 7 (Other Objects)*	\$225	43.5%	\$243	44.5%
Total	\$518	100.0%	\$546	100.0%

After reviewing the total costs by workload category for DDSs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Other Objects comprise all of the non-personnel costs of SSA.

Table C-7 displays the FO's total costs in terms of percentages, by individual workload from FYs 2001 through 2009.

Table C-7: FO Total Cost Per Workload Activity (Percent)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
DISABILITY CLAIMS	13%	14%	17%	19%	18%	18%	19%	19%	19%
RSHI CLAIMS	10%	10%	10%	10%	11%	11%	12%	11%	11%
SSI BLIND & DISABLED CLM	12%	12%	12%	13%	13%	13%	13%	12%	11%
SSN MAINTENANCE	8%	8%	8%	8%	8%	9%	9%	9%	9%
SSI REDETERMINATION ELIGIBILITY	9%	10%	10%	9%	6%	4%	3%	4%	5%
RSI NONDISABLED DEPENDENT	4%	4%	4%	4%	4%	3%	4%	4%	3%
SSI HEARINGS & APPEALS	2%	2%	2%	2%	2%	3%	3%	3%	3%
SSI CHANGES OF ADDRESS	3%	3%	2%	2%	3%	3%	3%	3%	3%
SSI STATUS CHANGES	3%	3%	3%	3%	3%	3%	3%	3%	3%
RSDI PAYMENTS AND CHECKS	4%	4%	4%	3%	3%	4%	3%	3%	3%
SSI PAYMENTS AND CHECKS	3%	3%	3%	2%	2%	3%	3%	3%	3%
RSDHI CHANGES OF ADDRESS	2%	2%	2%	2%	2%	2%	2%	2%	2%
RSDI STATUS CHANGES	2%	2%	2%	2%	2%	2%	2%	2%	2%
RSDI OVERPAYMENTS	2%	2%	2%	2%	2%	2%	2%	2%	2%
SSI OVERPAYMENTS	4%	3%	3%	2%	2%	2%	2%	2%	2%
RSDI REPRESENTATIVE PAYEE REPORTS	2%	2%	2%	2%	2%	2%	2%	2%	2%
SSI REPRESENTATIVE PAYEE REPORTS	1%	1%	1%	1%	1%	1%	1%	1%	2%
RSDI WORK-RELATED CDR	2%	2%	2%	2%	2%	2%	2%	2%	2%
MEDICARE PART B	1%	1%	1%	1%	2%	2%	2%	2%	2%
SSI AGED CLAIMS	1%	1%	1%	1%	1%	1%	1%	1%	1%
DI NONDISABLED DEPENDENTS	1%	1%	1%	1%	1%	1%	1%	1%	1%

Table C-7: FO Total Cost Per Workload Activity (Percent)

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
RSDI RECONSIDERATIONS	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI RECONSIDERATIONS	1%	1%	1%	1%	1%	1%	1%	1%	1%
RSDI HEARINGS & APPEALS	1%	1%	1%	1%	1%	1%	1%	1%	1%
RSDI MEDICAL CDR	2%	2%	1%	1%	1%	1%	1%	1%	1%
SSI CDR	2%	2%	2%	1%	1%	1%	1%	1%	1%
SSI LIMITED ISSUES								1%	1%
MEDICARE PART A	1%	1%	1%	1%	1%	1%	1%	1%	1%
EARNINGS MAINTENANCE	1%	1%	1%	1%	1%	1%	1%	1%	1%
PART D SUBSIDY APPS					1%	2%	1%	1%	0%
OTHER*	2%	1%	0%	2%	2%	0%	0%	0%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total costs per workload activity for FOs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-7 "Other" is comprised of several workloads that comprise too small a proportion of the whole to be displayed individually.

Table C-8 Displays the DDS' total costs in terms of percentages, by individual workload from FYs 2001 through 2009.

Table C-8: DDS Total Cost Per Workload Activity (Percent)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
DI INITIAL DETERMINATION	24%	25%	28%	26%	27%	28%	29%	29%	28%
SSI BLIND & DISABILITY DETERM	25%	26%	28%	25%	25%	27%	27%	26%	26%
DI-SSI INITIAL DETERMINATION	15%	17%	18%	19%	19%	19%	19%	19%	20%
DI RECONSIDERATIONS	6%	5%	5%	5%	5%	5%	6%	6%	5%
SSI CDR - MEDICAL			3%	6%	5%	4%	4%	4%	5%
SSI RECONSIDERATIONS	5%	4%	4%	4%	4%	4%	4%	4%	4%
DI-SSI RECONSIDERATIONS	3%	3%	4%	4%	4%	4%	4%	4%	4%
DI CDR - MEDICAL			3%	4%	3%	3%	2%	2%	3%
DI/SSI EVIDENTIARY RECONSIDERATION	1%	1%	1%	1%	1%	1%	1%	1%	1%
DI/SSI FACE TO FACE RECONSIDERATION	2%	2%	2%	1%	1%	1%	1%	1%	1%
DI CDR WORK ISSUE	0%	0%	1%	1%	1%	1%	1%	1%	1%
DI/SSI CDR - MEDICAL			1%	1%	1%	1%	1%	1%	1%
OTHER*	19%*	17%*	2%	3%	4%	2%	1%	2%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total cost per workload activity, for DDSs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-8 "Other" is comprised of several workloads, many of which were discontinued following FY 2002.

Table C-9 displays the FO's total number of cases processed, in terms of percentages, individual workload from FYs 2001 through 2009.

Table C-9: FO Number of Cases (Processed Percent)									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
RSDI STATUS CHANGES	17%	18%	18%	19%	19%	18%	18%	18%	18%
SSN MAINTENANCE	23%	22%	22%	22%	20%	20%	20%	20%	18%
SSI STATUS CHANGES	13%	14%	13%	13%	15%	15%	15%	15%	14%
RSDHI CHANGES OF ADDRESS	7%	7%	7%	8%	8%	7%	7%	7%	7%
SSI CHANGES OF ADDRESS	4%	4%	4%	5%	5%	5%	5%	5%	5%
RSHI CLAIMS	3%	3%	3%	3%	3%	3%	3%	4%	4%
DISABILITY CLAIMS	2%	3%	3%	3%	4%	4%	4%	4%	4%
SSI BLIND & DISABLED CLAIM	3%	3%	3%	3%	4%	4%	4%	4%	4%
SSI OVERPAYMENTS	6%	4%	3%	3%	3%	3%	3%	3%	3%
RSDI REPRESENTATIVE PAYEE REPORTS	1%	1%	1%	1%	2%	2%	2%	2%	3%
RSI NONDISABLED DEPENDNT	2%	2%	2%	2%	2%	2%	2%	2%	2%
RSDI PAYMENTS AND CHECKS	2%	2%	2%	2%	2%	2%	2%	2%	2%
SSI REPRESENTATIVE PAYEE REPORTS	1%	1%	1%	1%	1%	1%	1%	1%	2%
SSI REDETERMINATN ELIGIBILITY	3%	3%	3%	3%	2%	1%	1%	1%	2%
MEDICARE PART A	3%	3%	3%	3%	2%	2%	2%	2%	2%
RSDI RECONSIDERATIONS	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI RECONSIDERATIONS	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI HEARINGS & APPEALS	1%	1%	1%	1%	1%	1%	1%	1%	1%
RSDI HEARINGS & APPEALS	1%	1%	1%	1%	1%	1%	1%	1%	1%
RSDI OVERPAYMENTS	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI PAYMENTS AND CHECKS	2%	2%	2%	2%	2%	2%	1%	1%	1%

Table C-9: FO Number of Cases (Processed Percent)

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
MEDICARE PART B	0%	0%	0%	0%	1%	1%	1%	1%	1%
OTHER	3%	3%	5%	2%	0%	3%	4%	3%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total number of cases processed for FOs, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

Table C-10 displays the DDS' total number of cases processed, in terms of percentages, by individual workload from FYs 2001 through 2009.

Table C-10: DDS Number of Cases (Processed Percent)

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SSI BLIND & DISABILITY DETERMINATION	24%	25%	25%	25%	26%	28%	28%	28%	28%
DI INITIAL DETERMINATION	19%	20%	21%	20%	21%	22%	23%	22%	22%
DI-SSI INITIAL DETERMINATION	14%	16%	17%	18%	20%	22%	22%	22%	21%
DI-SSI RECONSIDERATION	4%	4%	5%	5%	6%	5%	6%	6%	6%
DI RECONSIDERATION	5%	5%	5%	5%	5%	5%	6%	5%	5%
SSI RECONSIDERATION	5%	4%	4%	4%	4%	4%	5%	4%	5%
DI CDR - MEDICAL			11%	11%	7%	4%	3%	3%	5%
HI/SMI FED/MED INITIAL	0%	0%	5%	5%	5%	4%	2%	3%	3%
DI HEARINGS	1%	1%	1%	1%	1%	1%	1%	1%	2%
DI/SSI EVIDENTIARY RECONSIDERATION	2%	2%	2%	2%	1%	1%	1%	1%	1%
DI/SSI FACE TO FACE RECONSIDERATION	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI HEARINGS	1%	1%	1%	1%	1%	1%	1%	1%	1%
SSI CDR - MEDICAL			1%	2%	2%	2%	1%	1%	0%
OTHER*	24%*	20%*	1%	0%	0%	0%	0%	2%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

After reviewing the total number of cases processed, for DDS, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-10 “Other” is comprised of several workloads, many of which were discontinued following FY 2002.

Table C-11 displays the FO’s unit costs by individual workload from FYs 2001 through 2009.

Table C-11: FO Unit Cost Per Workload Activity

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
PART D SCE APPS*						\$4,403	\$290	\$186	\$533
DI FEDRO APPEALS							\$148	\$133	\$531
PART B IRMAA APPEALS							\$818	\$1,457	\$391
RSDI WORK-RELATED CDR	\$442	\$450	\$518	\$519	\$512	\$461	\$449	\$397	\$354
SSI FEDRO APPEALS							\$94	\$104	\$312
DISABILITY CLAIMS	\$226	\$223	\$248	\$270	\$250	\$263	\$266	\$263	\$257
RSDI MEDICAL CDR	\$108	\$131	\$162	\$143	\$135	\$141	\$208	\$216	\$217
SSI BLIND & DISABLED CLAIMS	\$198	\$182	\$185	\$193	\$182	\$191	\$178	\$174	\$164
SSI HEARINGS & APPEALS	\$164	\$155	\$164	\$172	\$182	\$220	\$204	\$188	\$160
RSHI CLAIMS	\$172	\$165	\$179	\$182	\$169	\$175	\$183	\$168	\$158
PART D SUBSIDY APPEALS					\$54,857*	\$69	\$161	\$110	\$153
SSI CDR	\$113	\$83	\$109	\$100	\$114	\$122	\$154	\$178	\$152
BLACK LUNG CLAIMS DOL	\$67	\$69	\$93	\$125	\$110	\$92	\$76	\$94	\$149
SSI REDETERMINATION ELIGIBILITY	\$129	\$150	\$146	\$145	\$151	\$142	\$149	\$168	\$146
SSI LIMITED ISSUES								\$119	\$134
FOOD STAMP APPS/RECERTS	\$274	\$140	\$133	\$167	\$147	\$118	\$101	\$136	\$118
SSI PAYMENTS AND CHECKS	\$51	\$50	\$55	\$62	\$78	\$94	\$102	\$108	\$108
RSDI HEARINGS & APPEALS	\$75	\$63	\$58	\$67	\$65	\$82	\$102	\$104	\$102
MEDICARE PART B*	\$1,068	\$986	\$1,068	\$1,275	\$114	\$130	\$130	\$99	\$100
EARNINGS MAINTENANCE	\$61	\$59	\$67	\$74	\$66	\$54	\$80	\$91	\$100

Table C-11: FO Unit Cost Per Workload Activity

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
DI NONDISABLED DEPENDENTS	\$97	\$92	\$94	\$90	\$92	\$93	\$93	\$90	\$92
RSDI OVERPAYMENTS	\$87	\$86	\$91	\$88	\$84	\$86	\$87	\$90	\$88
RSI NONDISABLED DEPENDENT	\$84	\$83	\$85	\$86	\$82	\$82	\$90	\$92	\$85
SSI AGED CLAIMS	\$160	\$141	\$140	\$144	\$128	\$126	\$96	\$89	\$84
RSDI EARNINGS ENFORCEMENT	\$69	\$74	\$79	\$73	\$70	\$67	\$71	\$63	\$82
PART D SUBSIDY APPS					\$388	\$43	\$72	\$89	\$78
PART B IRMAA EVENTS							\$117	\$89	\$76
RSDI PAYMENTS AND CHECKS	\$83	\$84	\$85	\$87	\$81	\$79	\$73	\$78	\$75
RSDI RECONSIDERATIONS	\$66	\$59	\$54	\$61	\$66	\$72	\$75	\$77	\$72
PART D SUBSIDY REDETS**						\$4,269	\$114	\$81	\$72
SSI RECONSIDERATIONS	\$80	\$67	\$55	\$56	\$55	\$68	\$64	\$67	\$64
RSDI REP PAYEE REPORTS	\$66	\$62	\$66	\$67	\$62	\$63	\$58	\$51	\$49
MEDICARE PART A	\$17	\$17	\$18	\$19	\$33	\$26	\$30	\$37	\$40
SSI REPSNT PAYEE REPORTS	\$45	\$38	\$40	\$51	\$57	\$62	\$61	\$58	\$36
SSI OVERPAYMENTS	\$30	\$34	\$35	\$35	\$36	\$38	\$36	\$35	\$34
SCHOOL ATTENDANCE REPRTS	\$49	\$49	\$44	\$39	\$32	\$32	\$30	\$31	\$33
SSI CHANGES OF ADDRESS	\$26	\$26	\$25	\$25	\$29	\$30	\$32	\$27	\$26
SSN MAINTENANCE	\$14	\$15	\$18	\$18	\$21	\$22	\$23	\$25	\$25
RSDHI CHANGES OF ADDRESS	\$10	\$10	\$11	\$11	\$11	\$11	\$13	\$13	\$14

Table C-11: FO Unit Cost Per Workload Activity

Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SSI STATUS CHANGES	\$9	\$10	\$11	\$10	\$11	\$12	\$12	\$11	\$11
RSDI STATUS CHANGES	\$5	\$5	\$5	\$6	\$5	\$5	\$6	\$6	\$6

After reviewing the FO unit cost per workload activity, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-11 – The relatively high unit costs for FYs 2001 through 2004 were a result of a combination of a low number of units processed relative to a fixed total cost.

**Table C-11 – Only 17 Part D Subsidy appeals were processed in the first year against significant initial cost. The other two marked unit costs (PART D SCE APPS and PART D SUBSIDY REDETS) evidence the same behavior, in their first and subsequent years.

Table C-12 displays the DDS unit costs by individual workload from FYs 2001 through 2009.

Table C-12: DDS Unit Cost Per Workload Activity									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SSI CDR WORK ISSUE*	\$3,340	\$3,997	\$31,336	\$32,994	\$56,453	\$79,601	\$136,330	\$94,514	\$144,589
DI/SSI CDR WORK ISSUE*	\$827	\$833	\$3,167	\$4,444	\$5,571	\$5,381	\$15,026	\$11,113	\$13,242
DI CDR WORK ISSUE*	\$514	\$541	\$3,163	\$3,548	\$3,932	\$5,115	\$10,033	\$8,246	\$12,886
DI/SSI FACE TO FACE RECON	\$605	\$570	\$616	\$571	\$648	\$730	\$915	\$759	\$758
DI INITIAL DETERM	\$500	\$516	\$549	\$537	\$583	\$624	\$636	\$648	\$645
DI RECONS	\$445	\$425	\$377	\$412	\$445	\$519	\$489	\$564	\$558
HI/SMI FED/MED INITIAL	\$491	\$497	\$483	\$480	\$527	\$539	\$522	\$543	\$540
SSI CDR - MEDICAL			\$111	\$223	\$317	\$547	\$624	\$629	\$518
DI/SSI EVIDENTIA RY RECON	\$218	\$238	\$260	\$294	\$334	\$438	\$572	\$527	\$481
SSI BLIND & DISAB DETERM	\$406	\$418	\$458	\$414	\$440	\$478	\$473	\$471	\$472
DI-SSI INITIAL DETERM	\$422	\$428	\$435	\$421	\$430	\$442	\$436	\$445	\$466
DI/SSI CDR - MEDICAL			\$243	\$328	\$334	\$325	\$594	\$415	\$466
DI CDR - MEDICAL			\$228	\$341	\$319	\$310	\$573	\$415	\$429
SSI RECONSIDERATIONS	\$368	\$407	\$394	\$441	\$430	\$497	\$446	\$433	\$416
DI-SSI HEARINGS	\$243	\$230	\$231	\$209	\$286	\$244	\$190	\$227	\$415
DI-SSI RECONSIDERATIONS	\$332	\$312	\$320	\$325	\$313	\$323	\$312	\$312	\$313

Table C-12: DDS Unit Cost Per Workload Activity									
Program Activities	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SSI HEARINGS	\$249	\$285	\$323	\$362	\$395	\$411	\$356	\$283	\$267
DI HEARINGS	\$249	\$247	\$300	\$271	\$314	\$345	\$229	\$134	\$113
DI CDR MAILER	\$262	\$578							
SSI-CDR MAILER	\$1,025	\$692							
DI/SSI CDR MAILER	\$392	\$800							
DI CDR OTHER SGA	\$1,870	\$2,173							
SSI CDR OTHER SGA	\$1,953	\$2,559							
DI/SSI CDR OTHER SGA	\$4,215	\$4,947							
DI CDR DIRECT RELEASE	\$119	\$118							
SSI CDR DIRECT RELEASE	\$140	\$110							
DI/SSI CDR DIRECT RELEASE	\$150	\$138							

After reviewing the DDS unit cost per workload activity, we found no unexplainable spikes or drops in data from FYs 2001 through 2009.

*Table C-12 – The high unit costs of the three marked workloads, for the period displayed, were a result of a combination of a significant reduction in the number of items processed with a relatively fixed total cost.

Cost Allocation Data Completeness Analysis

Generally Accepted Cost and Workload Data Elements Comparison

We compared the information provided in the Cost Analysis System (CAS) to generally accepted cost and workload data elements to determine whether sufficient and appropriate cost allocation output information was being captured and displayed. The specific reports reviewed are listed and defined below.

- Electronic Cost Report – Provides input level workload (open pending, receipts, processed, and close pending counts), workyears, and average salaries by workload/function.
- Pre-Input Cost Analysis (PICA) - Presents a summary of raw data from several Social Security Administration (SSA) systems by organization, component workload, and month to enable end-users to assess operational results.
- Level 0 - Presents input level workload processed counts, workyears, and average weights by workload/function and costs by CAS sub-object class.
- C1 – 1235 - Presents category workyears, payroll obligation, and payroll costs per workyear for workload and staff functions by program activity for SSA components.
- C2 – 15A Detail - Presents cumulative monthly processed counts, workyears, payroll obligations and other object costs, unit costs, cost per workyear, and production rates by direct workload, program activity, and SSA component. It presents separately, staff workyear, cost expenditures, and associated other object costs by staff function.
- C1 – 67 - Presents obligations by program activity, component, and major sub-object class. This report is used to monitor adherence to appropriation and allotment limits and SSA's internal limitations and component operating or spending plans.
- S3 – 1 - Presents total workyears and costs, including staff, by direct workload and program activity for components and SSA. This report provides a comprehensive source of total and unit cost data by direct workload.

Table D-1 displays the seven generally accepted data elements, a description of each element, and the corresponding CAS element or term. Table D-2 displays the results of the comparison.

Table D-1: Generally Accepted Data Elements v. CAS Terminology Crosswalk

Generally Accepted Data Element	Description	CAS Terminology
1. Output Cost (Total)	The total cost of individual outputs.	Total cost
2. Output Cost (Unit)	The cost of producing one output.	Unit cost
3. Output Volume	The number of outputs produced.	Processed/Count
4. Resource Cost	The cost of the resource(s) involved with producing an output.	Cost Per Workyear (CPWY)
5. Resource Volume	The number of resources it takes to produce an output.	Workyear (WY)
6. Resource Contribution	The total resource contribution by workload category (for example, direct workload, indirect workload).	Workload category (CAT) by program activity
7. Resource Cost by Workload Category	The cost of resources per workload category.	CPWY by workload CAT

Table D-2: Generally Accepted Data Elements v. CAS Comparison

Expected Data Element	CAS Term	CAS Reports					
		PICA	Level 0	C1-1235	C2-15A	C1-67	S3-1
Output Cost (Total)	Total cost	NA	X	X	X	X	X
Output Cost (Unit)	Unit cost	NA	NA	X	X	NA	X
Output Volume	Count	X	X	X	X	NA	X
Resource Cost	CPWY	NA	NA	X	X	NA	X
Resource Volume	WY	X	X	X	X	X	X
Resource Contribution	Workload CAT by program activity	X	NA	X	X	X	X
Resource Cost by Workload Category	CPWY by workload CAT	NA	NA	X	X	NA	X

Assessment of Social Security Administration Cost Allocation Methodology Compliance with Statement of Federal Financial Accounting Standards No. 4

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 4 establishes the concepts and standards for providing reliable and timely information on the full cost of Federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS No. 4 are to provide:

- Program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.
- Relevant and reliable cost information to assist Congress and executives in making decisions about allocating Federal resources, authorizing and modifying programs, and evaluating program performance.
- Consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among Federal organizations and users of cost information.

The first two objectives primarily address the managerial use of cost information in improving operating efficiency and cost effectiveness, making planning and budgeting decisions, and measuring performance. The third objective primarily addresses external financial reporting, which can be achieved by reporting cost information in financial statements that is consistent with costs generated by the cost accounting process. Because of the differences in the three objectives, some requirements in SFFAS No. 4 are relevant to managerial decision making and operations improvement, while some requirements are relevant to external financial reporting.¹

We deemed certain requirements of SFFAS No. 4 as critical. We define criticality as having a direct impact on the accuracy and equitableness of the allocation of administrative costs to the Trust Funds and on continuity of operations.

Standard 1, *General Requirements for Cost Accounting* prescribes guidelines on cost accumulation and reporting, specifically, that costs should be accumulated and reported on a regular basis for management information purposes.

¹ Government Accountability Office, *Financial Audit Manual*, Section 903.02-903.04, July 2008.

Requirement	Assessment
1.1 Managerial cost accounting should be performed on a regular and consistent basis	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>The Office of Cost Analysis and Systems Support (OCASS) accumulates data and reports cost, and other information, for the current period the year-to-date (cumulative). Reports also provide a period-adjusted annual projection.</p> <p>OCASS runs its cost allocation cycle on a regularly scheduled, monthly basis.</p> <p>OCASS is consistent, in that the same process is used from cycle to cycle.</p>
1.2 Managerial cost accounting should determine the cost of programs and the composition of, and changes in, those costs	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>While the Cost Analysis System (CAS) does not provide the capability to display the composition (that is, break out of personnel, supplies, contracts, equipment, etc.) of the individual output level costs it reports, with some effort these can be derived externally, and the information provided to managers or analysts who desire it.</p> <p>CAS maintains the current year's data in the system. Historical data are available on the Social Security Administration's (SSA) Intranet site, and end-of-year reports can be viewed, downloaded, or printed for use in analysis. In some instances, there are also volumes of printed reports that date back as far as 1976.</p>
1.3 Cost should be linked to organizational performance	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>While CAS does not link the costs produced by its calculations to the performance goals and outcomes of SSA, the system does produce unit cost and employee productivity data for various uses</p>

<p>1.4 Procedures and practices should be established to collect, measure, accumulate, analyze, interpret, and communicate cost information</p>	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>OCASS and other responsible SSA components (for example, Offices of Public Service and Operations Support and Earnings, Enumeration and Administrative Systems) have established procedures for collecting and processing financial and non-financial data, for use with CAS. CAS results are used in various analyses in the Agency.</p>
<p>1.5 Reporting of cost information should be timely and consistent</p>	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>The primary user of CAS cost information, the Office of Finance, indicated that monthly CAS information was reported in sufficient time to meet its needs.</p>
<p>1.6 Managerial cost accounting information should reconcile with the financial accounting system of record</p>	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>CAS does reconcile back to the Standard General Ledger (SGL). CAS uses current year accrued expenditures, obligations and commitments, which are extracted from and reconcilable to the Social Security Online Accounting and Reporting System (SSOARS), SSA's core financial accounting system.</p>
<p>1.7 If using an accounting basis for managerial cost accounting that differs from the accounting basis for financial statement reporting (that is, proprietary or accrual accounting), the bases of accounting must reconcile</p>	<p>Significance: Critical</p> <p>Rating: Noncompliant</p> <p>CAS does not use the same basis of accounting to produce SSA administrative cost results as the Office of Finance uses to report them in standard financial statements, draw down the Trust and general funds, or report the costs of current period operations. Managerial cost information from CAS does not reconcile budgetary to proprietary methods of allocation. There is no reconciliation of budgetary-to-proprietary methods of allocation at the workload or program activity level.</p> <p>SSA's financial statements, specifically the Statement of Net Cost, use the accrual method of accounting. This statement shows the net cost of operations for SSA as a whole, by major program. CAS results, given as percentages, are provided to the Office of Finance, which applies those percentages to operating expenses from the SGL, to calculate drawdowns to SSA's programs (that is, Trust and general funds). CAS uses</p>

	<p>commitments and obligations (budgetary accounting; 4000 series SGL accounts) in determining the allocation rates and omits operating expenses from the cost calculations performed.</p> <p>Per the standard, these varying bases of accounting need to be reconciled at the detail level, and the differences explained. This requirement is considered “critical” because the inclusion of commitments and unliquidated obligations in cost allocation results has the effect of allowing non-period transactions to impact period results.</p> <p>There is a high level check, at the end of the year, to confirm that annual operating expenses and the budgetary accounts are close to equal. However, this is performed only at the end of the fiscal year and only in the aggregate. The Office of Finance has stated that no attempt is made to reconcile the CAS information to operating expenses.</p>
1.8 Cost information should be precise enough to be useful and reliable	<p>Significance: Critical</p> <p>Rating: Noncompliant</p> <p>Work sampling data used in CAS for cost allocation has been found to be inaccurate. During visits, by the audit team, to 15 field offices, and 3 disability determination services (DDS), the team tested the accuracy of transcribing tally sheet data into a system that ultimate feeds CAS. In the seven instances where tally sheets were available for review, the sampled sheets reflected what was actually transcribed into the automated system.</p>
1.9 Managerial cost accounting systems and processes should be adequately documented	<p>Significance: Critical</p> <p>Rating: Noncompliant</p> <p>Some elements of CAS documentation have been inadequate, outdated, and unclear. Although substantial documentation exists, some of these documents are outdated, insufficient, or unclear. Some examples of inadequate documentation include the following.</p> <ul style="list-style-type: none"> • SSA documentation does not provide adequate explanation for the use of accrued expenditures, commitments and obligations rather than actual expenses for cost allocations. • SSA documentation does not fully explain the approach for applying allocation percentages derived from CAS to actual expenses to obtain final

	<p>determination of the charges to the Trust Funds</p> <ul style="list-style-type: none"> • The description of the Inter-Trust Fund Adjustment does not provide adequate detail on how the adjustment is actually calculated, making the methodology difficult to comprehend. • A copy of the Commissioner's Decision of 1973 upon which the cost allocation policy and methodology is based could not be located.
--	--

Standard 2, Responsibility Segments Definition requires that reporting entities organize themselves, financially, according to sub-organization missions, funding alignment, outputs produced, etc. These responsibility segments are the organizational level at which cost and performance data are to be accumulated and reported. Managerial cost accounting should be performed to measure and report the costs of each segment's outputs.

Requirement	Assessment
2.1 Responsibility segments should be defined and established, report costs at that level, and be based on organization structure, mission, outputs, budget accounts, and funding authority	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>SSA's responsibility segment structure conforms to the requirement.</p> <p>CAS' calculated results are reported for each output (workload or program activity) at the responsibility segment level of detail.</p> <p>SSA's responsibility segments are aligned closely with the Agency's budgetary structure.</p>
2.2 Segments should accumulate costs and quantitative units of resources consumed	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>SSA's managerial cost accounting process does accumulate units of resource by segment and output, in particular personnel workyears. Since payroll is the largest single cost of operations, considerable focus is placed on this resource.</p> <p>SSA quantifies all of its responsibility segments' production outputs (workloads), at the segment level of detail, and aggregates these at the SSA level of detail.</p>

2.3 Segments should calculate the cost per unit of each type of output	<p>Significance: Non-Critical</p> <p>Rating: Compliant</p> <p>SSA's managerial cost accounting system and process do calculate the unit cost of all component and SSA level outputs.</p>
2.4 Segments should use managerial cost accounting to facilitate cost control and management	<p>Significance: Non-Critical</p> <p>Rating: Noncompliant</p> <p>CAS is not a mechanism designed or used for cost control. OCASS considers CAS to be a cost allocation system, not a managerial cost accounting system. CAS was originally designed to fulfill the need for an automated system to assign administrative costs to the Trust Funds per <i>Social Security Act</i> requirements. Therefore, this requirement is considered "non-critical." CAS was not originally intended to be a managerial cost accounting system, preceded the promulgation of Federal managerial cost accounting standards and applicable legislation, and has not over time evolved to meet the standards or associated legislation.</p>
2.5 Segments should accumulate costs for outputs produced by the segment	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>CAS' calculated results show output costs (workload or program activity) at the Responsibility Segment level of detail.</p>

Standard 3, *Full Cost Reporting* addresses the necessity of including each segment's direct and indirect contribution to outputs when accumulating costs.

Requirement	Assessment
3.1 All direct costs to produce outputs should be included in full cost	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>Direct costs, associated with SSA outputs and program activities, are included in full costs.</p>
3.2 All indirect costs should be included in full costs	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>The SSA workload structure includes specific items to collect the effort, and therefore cost, of common work (that is, training, management oversight, program management, and the like).</p>
3.3 Health and life insurance	Significance: Critical

Requirement	Assessment
benefits of current employees are included in full costs	<p>Rating: Compliant</p> <p>The cost of these and other benefits for current employees are included in SSA's managerial cost accounting system calculations.</p>
3.4 Pension benefits of current employees, covered by defined pension plans, are included in full costs	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>These retirement benefit costs are included in SSA's managerial cost accounting system calculations.</p>
3.5 Health and life insurance benefits of retired employees, their survivors and dependents, are included in full costs	<p>Significance: Non-Critical</p> <p>Rating: Non-compliant</p> <p>SSA's focus for CAS is on recovering operating costs. CAS, although encompassing the entire Agency, only focuses on costs related to the Limitation on Administrative Expenses (LAE) appropriation.² The funds (revenues) that cover SSA's administrative expenses come from the charges SSA levies against the Social Security and Medicare trust funds, and various general fund accounts. Although these Other Retirement Benefits costs accrue to SSA, they are not recoverable as part of the LAE appropriation.</p> <p>The Statement requires that these costs be accounted for in an agency's full costs, since they are, in fact, a cost of the organization. At present, CAS cannot make a distinction between full cost and what is recoverable as part of LAE. Therefore, only LAE recoverable costs are included in the system.</p>
3.6 Costs of Other Postemployment Benefits for retired, terminated, and inactive employees should be included in full cost	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>The costs of former employees are included in SSA's managerial cost accounting system calculations.</p>

² SSA receives an annual appropriation to fund the program and administrative activities of the Agency. Each year, the SSA appropriation language stipulates the maximum amount of administrative expenses, which may be incurred. This ceiling is termed the "Limitation on Administrative Expenses." The LAE prevents SSA from having an unlimited administrative budget from the Social Security Old-Age, Survivors and Disability Insurance (OASDI) and Medicare trust funds, which finance administrative costs for OASDI and administrative support for Medicare, respectively.

3.7 For social insurance programs such as the OASDI program, program operating costs should be included in full cost	Significance: Critical Rating: Compliant The purpose for which CAS and the overall OCASS costing methodology exists is to define these costs of operations.
3.8 Costs related to property, plant, and equipment should be included in full cost	Significance: Critical Rating: Compliant The imputed cost of capitalized property, plant, and equipment are included in SSA's managerial cost accounting system calculations.

Standard 4, *Inclusion of Inter-Entity Costs* requires entities to recognize, and include, the full cost of goods and services provided to, or received from other entities. These costs are to be included, regardless of the status of reimbursements provided, or received.

Requirement	Assessment
4.1 Full cost of material goods, or services, provided by SSA to other entities should be included in full cost	Significance: Critical Rating: Compliant SSA recognizes the full cost of goods and services provided to other entities, whether or not, or to what degree, reimbursement is received.
4.2 SSA's full cost should incorporate the full cost of material goods, or services, received from other entities	Significance: Non-Critical Rating: Noncompliant SSA cannot verify that charges from other entities comprise the full cost of goods or services received. SSA enters into a small number of quid pro quo agreements with other external entities. There is no documented attempt, on the part of SSA, to determine the full cost of goods or services provided under these agreements.

Standard 5, *Use of Appropriate Costing Methodology* is concerned with the costing methodology used to assign costs to outputs. The full costs of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through costing methodologies that are most appropriate and should be followed consistently.

Requirement	Assessment
5.1 Costs should be accumulated by responsibility segment	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>CAS data is gathered, calculated, and reported at the Responsibility Segment level of detail. In many instances, breakouts of cost below the Responsibility Segment level are available as well.</p>
5.2 Costs should be accumulated by type of resource such as costs of employees, materials, capital, utilities, rent, etc.	<p>Significance: Critical</p> <p>Rating: Compliant</p> <p>CAS accumulates costs by type. Salary, benefits, and other resources such as travel, rents, and supplies are included in CAS' calculations.</p>
5.3 Costs should be assigned to reporting periods and outputs as expenses	<p>Significance: Critical</p> <p>Rating: Noncompliant</p> <p>As previously cited, CAS relies on budgetary accounts, rather than operating expenses, to allocate costs.</p>
5.4 Costs of supporting services should be assigned to segments that receive the services.	<p>Significance: Non-Critical</p> <p>Rating: Noncompliant</p> <p>Although not in compliance with this particular requirement of the Standard, we find this a minor issue, and thus, "non-critical." Each responsibility segment's costs are assigned to SSA workloads. These costs are then assigned to program activities. Thus, all costs in CAS are ultimately assigned to program activities. CAS does not assign the costs of supporting responsibility segments (for example, the Offices of Human Resources, Finance, Systems) to operational responsibility segments (for example, the Offices of Public Service and Operations Support and Disability Adjudication and Review, DDS), which is the subject of this requirement.</p>

<p>5.5 Costs should be assigned through:</p> <ul style="list-style-type: none"> a) direct trace, b) cause-and-effect, or c) allocating costs on a reasonable and consistent basis, and on the basis of activity (effort) 	<p>Assessment: Critical</p> <p>Rating: Noncompliant</p> <p>SSA does use direct tracing to a large extent in allocating cost to program activities. However, to make the final allocation to the Trust Funds, the cost allocation methodology uses benefit outlays as an allocation basis. SSA management could not provide an analysis that demonstrated that the use of benefit outlays, as the basis of assigning shared costs, manifests a suitable causal relationship between resources and outputs. We do not believe that benefit outlays represents an equitable cost assignment basis, as cost allocation is then driven by benefit amounts rather than the work performed. The use of benefit outlays as a basis for assigning shared costs unfairly assigns a greater portion of costs to programs with higher dollar benefit outlays, although SSA's costs may not increase as a result of higher outlays. For example, a Retirement and Survivors Insurance (RSI) beneficiary receiving \$1,000 a month does not consume more administrative costs than a Disability Insurance (DI) beneficiary receiving \$500 a month.</p> <p>Alternatively, if Congress changes benefit entitlement amounts of a given program, the cost allocation would change even though the required work would remain the same. For example, if the DI monthly benefit was raised by 10 percent, the cost allocation methodology would shift more cost to the DI Trust Fund even though the administration of DI would remain the same.</p>
<p>5.6 Cost methodology should be applied and improved consistently</p>	<p>Significance: Critical</p> <p>Rating: Noncompliant</p> <p>Although the CAS methodology has remained consistent and stable since inception in 1976, there is insufficient documented evidence that it has been revisited and updated in over 30 years. Since its inception, there have been significant changes in technology and SSA's business processes as well as the implementation of Generally Accepted Accounting Standards for federal entities.</p> <p>It is critical that the CAS cost allocation methodology be revisited or updated to reflect changes in SSA business processes and Federal accounting standards. CAS became operational in 1976 and has continuously been modified to enhance functionality and automate data</p>

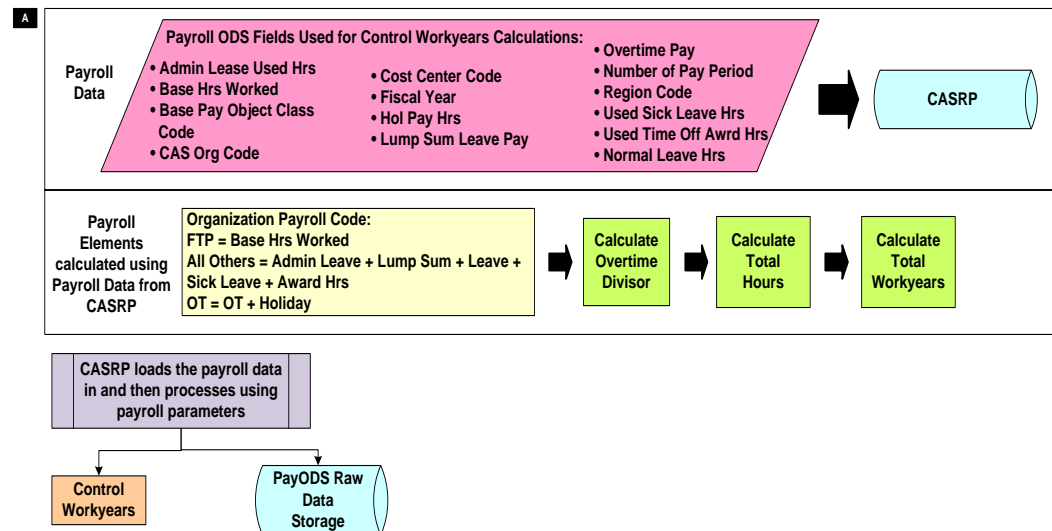
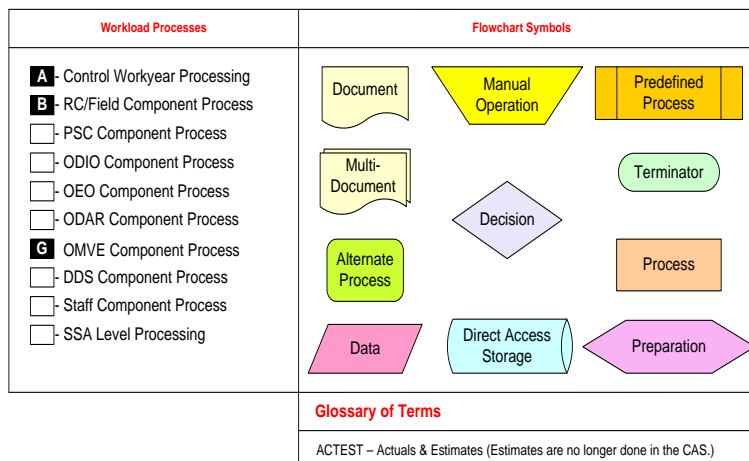
	<p>feeds and processing; however, the cost allocation methodology has not been significantly changed. This failure to periodically revisit and update the cost allocation methodology may result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of administrative costs to the Trust Funds may be at risk.</p> <p>We fully appreciate that the <i>Social Security Act</i>, specifies that administrative cost allocations to the Trust Funds “. . . shall be made in accordance with the cost allocation methodology in existence on the date of the enactment of the <i>Social Security Independence and Program Improvements Act of 1994</i> until such time as the methodology . . . is revised by agreement of the Commissioner and the Secretary....”³ This clause implies that the cost allocation methodology is not permanently “etched in stone,” but rather can and should be revised as needed to ensure a continued equitable cost allocation. As the administrator of the SSA CAS and policy, it is incumbent upon OCASS to periodically review the cost allocation methodology and recommend to the Commissioner any feasible enhancements that should be made to improve the equity of the Trust Fund administrative cost allocation.</p>
--	---

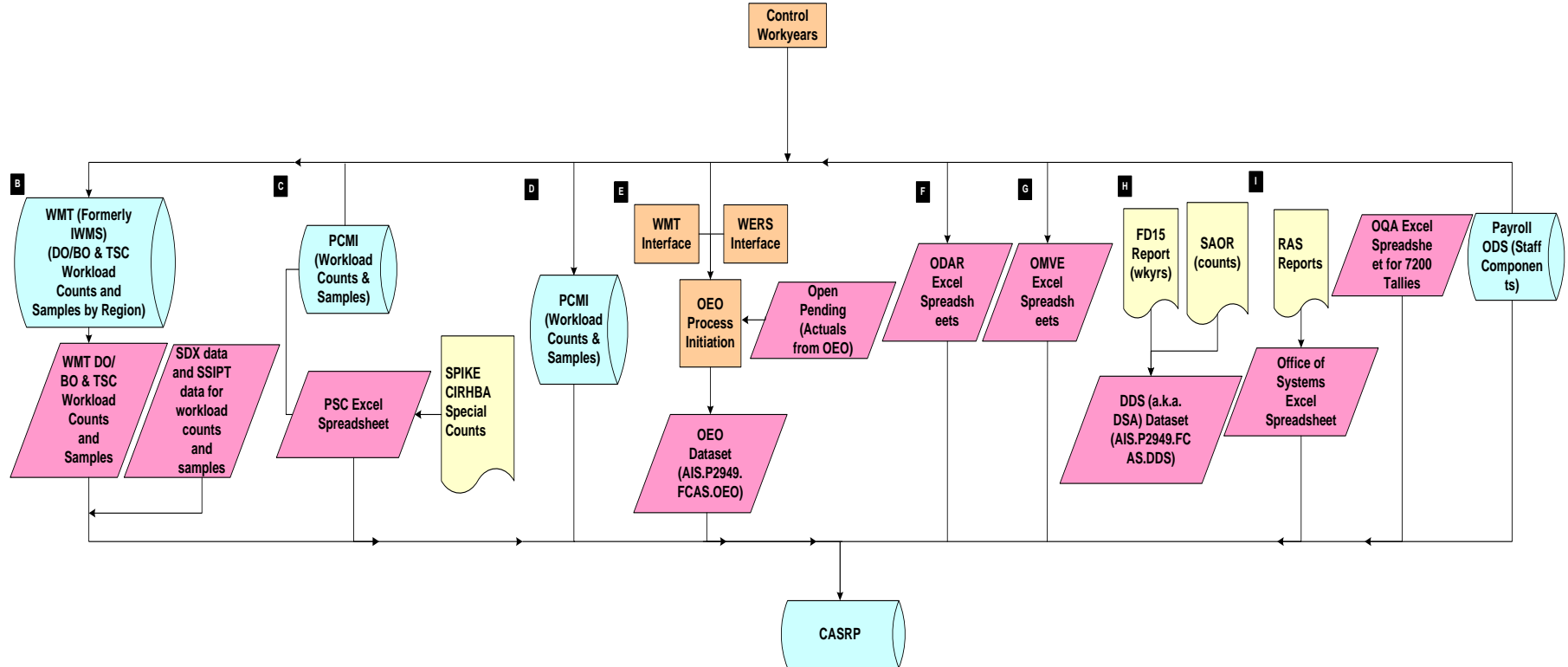
³ *Social Security Act*, §201(g)(1)(D),), 42 U.S.C. § 401(g)(1)(D).

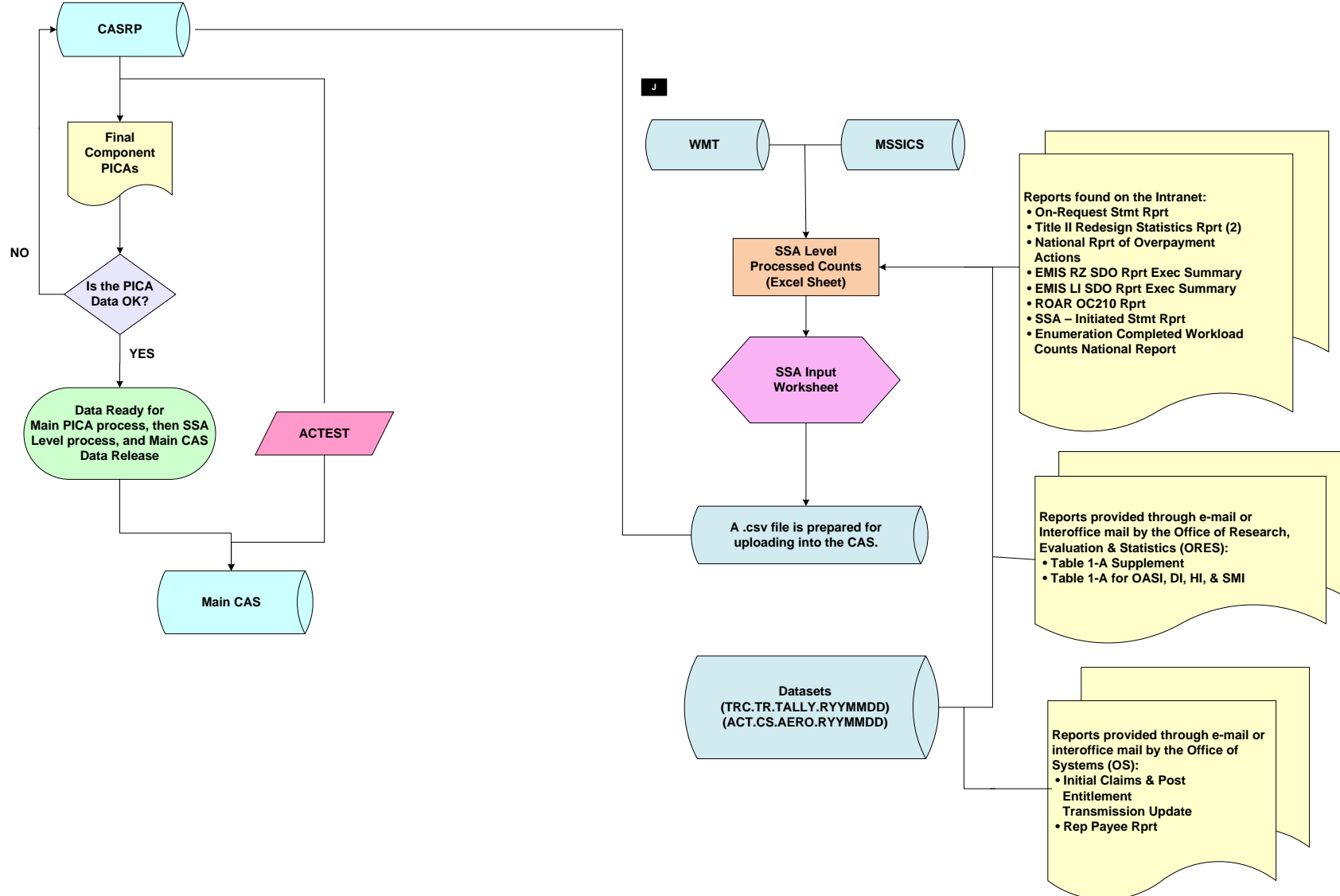
Cost Analysis System Flowchart



SSA's Cost Analysis System







Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: October 14, 2011
To: Patrick P. O'Carroll, Jr.
Inspector General

Refer To: S1J-3

From: Dean S. Landis
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, "The Social Security Administration Cost Allocation Process" (A-15-10-20151)--INFORMATION

Thank you for the opportunity to review the subject draft report. In your May 4, 2010 start notice, you indicated you would be conducting four separate reviews of our Cost Analysis System (CAS). This is the third in your series of four reports.

Because of the interrelationship of all four reviews, we determined at this time it is premature to comment or respond to your recommendations. Once we receive the results of all your CAS reviews, we will provide consolidated comments and responses to your recommendations.

Thank you for the opportunity to review the draft report. Please let me know if we can be of further assistance. You may direct staff inquiries to Frances Cord at (410) 966-5787.

DISTRIBUTION SCHEDULE

Commissioner of Social Security

Chairman and Ranking Member, Committee on Ways and Means

Chief of Staff, Committee on Ways and Means

Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Committee on the Budget, House of Representatives

Chairman and Ranking Minority Member, Committee on Oversight and Government Ref

Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations,
House of Representatives

Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Committee on Finance

Chairman and Ranking Minority Member, Subcommittee on Social Security Pensions and Family Policy

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.