



Report to the Committee on Finance,
U.S. Senate

August 2007

SOCIAL SECURITY ADMINISTRATION

Policies and
Procedures Were in
Place over MMA
Spending, but Some
Instances of
Noncompliance
Occurred



Highlights of [GAO-07-986](#), a report to the Committee on Finance, U.S. Senate

SOCIAL SECURITY ADMINISTRATION

Policies and Procedures Were in Place over MMA Spending, but Some Instances of Noncompliance Occurred

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created a voluntary outpatient prescription drug benefit as part of the Medicare program, and appropriated up to \$500 million for the Social Security Administration (SSA) to fund the start-up administrative costs in meeting its responsibilities to implement MMA. SSA was given a great deal of discretion in how to use the funds and the act provided little detail on how the funds were to be spent. You asked us to review SSA's costs for implementing MMA to determine (1) how the MMA funds were expended, (2) what procedures SSA has in place over the use of those funds, and (3) how SSA complied with those procedures related to contractor and vendor payments.

What GAO Recommends

GAO made three recommendations to help ensure SSA's (1) ability to track costs of program activities, including those paid with special appropriation funds, (2) controls over its review and approval process for purchase card payments, and (3) tracking of its accountable assets. SSA generally agreed with two of our recommendations and disagreed with the one recommendation. GAO reaffirms its position on all of its findings and recommendations.

What GAO Found

SSA spent the \$500 million in MMA funds from December 2003 through January 2006 to implement activities outlined in MMA. The majority of costs paid with MMA funds consisted of personnel-related expenses, contractors, and indirect costs. More than half of the funds were spent on payroll for staff hours used on MMA activities in SSA headquarters and field offices (see table). Once the \$500 million was spent, SSA began to use its general appropriation to fund the remaining costs of implementing MMA activities. SSA used its cost analysis system to track the total costs of its implementation of MMA activities. As of February 20, 2007, SSA had completed implementation of 16 of the 22 tasks for the six provisions under the act.

SSA had agencywide policies and procedures in place for its cost tracking and allocation, asset accountability, and invoice review processes. It also established specific guidance to assign and better allocate SSA's costs in implementing MMA. There were some instances though where SSA did not comply with these policies and procedures. SSA did not effectively communicate the specific MMA-related guidance to all affected staff. SSA subsequently identified and corrected at least \$4.6 million of costs that initially were incorrectly allocated to MMA, but had not corrected approximately \$313,000 misallocated credit card purchase transactions. In addition, GAO found instances where accountable assets purchased with MMA funds, such as electronic and computer equipment, were not being properly tracked by SSA in accordance with its policies and instances where purchase card transactions were not properly supported. Although purchase card transactions and accountable asset purchases represented a small percentage of total MMA costs, proper approval and support for these types of transactions is essential to reduce the risk of improper payments.

Breakdown of SSA's Reported Costs Paid with MMA Funds by Category

Expense category	Amount (in thousands)	Percentage
Personnel-related expenses	\$261,160	52.2
Indirect allocated costs	116,733	23.4
Contractors	91,692	18.3
Government agencies	27,898	5.6
Purchase card payments	2,517	0.5
Total	\$500,000	100%

Source: SSA, Cost Analysis System reports; Fiscal years 2004 through 2006.

www.gao.gov/cgi-bin/getrpt?GAO-07-986.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel at (202) 512-9471 or FranzelJ@gao.gov.

Contents

Letter		1
	Results in Brief	2
	Background	3
	The Majority of Reported Costs Incurred Using MMA Funds Consisted Of Personnel-Related and Contractor Expenses, and Indirect Costs	6
	SSA Had Policies and Procedures for Tracking MMA Funds but They Were Not Complied with Consistently	9
	Conclusions	13
	Recommendations for Executive Action	14
	Agency Comments and Our Evaluation	14
Appendix I	Objectives, Scope, and Methodology	17
Appendix II	Comments from the Social Security Administration	19
Appendix III	GAO Contact and Staff Acknowledgments	23
Tables		
	Table 1: SSA's Reported Cost Outlays Covered by the Medicare Trust Funds for 5 Years Ended in Fiscal Year 2006	6
	Table 2: Breakdown of SSA's Reported MMA Administrative Costs by Category	6
	Table 3: Breakdown of Completed Tasks under MMA by Major Provision, as of February 2007	8

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United States Government Accountability Office
Washington, DC 20548

August 31, 2007

The Honorable Max Baucus
Chairman
The Honorable Charles Grassley
Ranking Member
Committee on Finance
United States Senate

The Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA),¹ which represented the most significant expansion of the Medicare program since its enactment in 1965. The act was established to (1) provide for a voluntary program for prescription drug coverage under the Medicare² program (referred to as Medicare Part D), (2) modernize the Medicare program, (3) allow a deduction to individuals for amounts contributed to health savings security accounts and health savings accounts, (4) provide for the disposition of unused health benefits in cafeteria plans and flexible spending arrangements, and (5) for other purposes. The MMA included an appropriation of \$500 million for the Social Security Administration (SSA) to fund the start-up administrative costs to implement MMA. SSA was given a great deal of discretion in how to use the funds as the act provided little detail on how the funds were to be spent. You asked us to review SSA's use of MMA funds to implement MMA activities to determine (1) how those funds were expended, (2) what procedures SSA has in place over the use of those funds, and (3) how SSA complied with those procedures related to contractor and vendor payments.

We reviewed MMA and discussed its impact with SSA to obtain an understanding of SSA's responsibilities under the act. We also reviewed the policies and regulations SSA had to track and report the use of MMA funds implementing MMA provisions, as well as additional guidance established by SSA officials to track the spending of MMA funds for MMA implementation. We obtained cost and other information on SSA's

¹Public Law 108-173 (Dec. 8, 2003).

²Medicare is a health insurance program for people 65 years of age or older, certain people under 65 with disabilities, and people of all ages with End-Stage Renal Disease (ESRD permanent kidney failure requiring dialysis or a kidney transplant). There are currently about 43 million Medicare beneficiaries.

implementation activities from officials in the agency's headquarters in Baltimore, Maryland. In addition, we discussed specific cost information with officials and staff in headquarters and field offices that were responsible for particular transactions. To obtain specific cost and program information, as well as information related to specific financial statement issues, we reviewed our reports and reports from SSA's independent financial statement auditors. We also tested individual transactions for adequate supporting documentation, authorization, and evidence of purchase and receipt, as well as accountability of assets purchased with MMA funds. We provided SSA a draft of this report for review and comment. SSA provided written comments, which are reprinted in appendix II. SSA also provided technical comments, which we have incorporated as appropriate. We conducted our work in Washington, D.C. and Baltimore, Md., from March 2006 through June 2007 in accordance with generally accepted government auditing standards. Appendix I provides a detailed description of our scope and methodology.

Results in Brief

SSA spent \$500 million of MMA appropriated funds from December 2003 through January 2006 on MMA implementation activities. The majority of the funding was used for personnel-related expenses, contractors, and indirect costs. SSA financial reports show that more than half of the funds were spent on personnel-related costs for staff hours for MMA activities in SSA's headquarters and field offices. Once the \$500 million was spent, SSA began to use its Limitation on Administrative Expenses (LAE)³ appropriation to fund the remaining costs of implementing the MMA activities. SSA used its financial Online Accounting and Reporting System (SSOARS)⁴ and its cost analysis system (CAS) to track the overall costs of implementing the MMA provisions. As of February 20, 2007, SSA had completed work on 16 of the 22 tasks SSA developed to implement provisions affecting SSA under the act.

SSA had agencywide policies and procedures in place over its cost tracking and allocation, asset accountability, and invoice review processes. It also established specific MMA-related guidance to specifically track and account for costs of implementing MMA. There were

³SSA's LAE account in the annual Department of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, establishes administrative expense limitations for SSA that are funded from various sources.

⁴SSA's SSOARS records, classifies, and summarizes information on SSA's financial position and operation.

some instances where SSA did not comply with those procedures. SSA did not effectively communicate the specific MMA-related guidance to all affected staff. As a result, while SSA subsequently identified and corrected at least \$4.6 million of costs that initially were incorrectly allocated to MMA, it did not correct the misallocation of approximately \$313,000 of credit card purchase transactions. We also identified transactions, paid for using SSA's government purchase card, which were not properly approved or were not adequately supported as MMA-related activities. Although purchase card transactions represented a small percentage of total MMA implementation costs, proper approval and support for these transactions is essential to reduce the risk of improper purchases. In addition, we identified instances where accountable assets⁵ purchased with MMA funds, such as electronic and computer equipment, were not properly tracked by SSA in accordance with its policies, raising the risk that equipment could be lost or stolen without detection.

We are making three recommendations to address the issues identified in the report to enhance SSA's (1) ability to track costs of program activities, including those paid with special appropriation funds, (2) controls over its review and approval processes for purchase card payments, and (3) ability to track accountable assets purchased. In written comments on a draft of this report, SSA generally agreed with two of the recommendations and disagreed with one recommendation, stating that the recommendation was too broad and that SSA's current guidance was sufficient. By design this recommendation is broad to provide SSA management flexibility to determine the most appropriate actions needed to correct issues with authorization and documentation of purchase card transactions, where we found unacceptably high error rates. These comments are presented and evaluated in the Agency Comments and Our Evaluation section of this report and are reprinted in appendix II. SSA also provided technical comments that we incorporated as appropriate.

Background

MMA enacted and affected a number of activities that SSA identified as related to its responsibilities. Listed are six provisions enumerated in MMA affecting SSA, and the Medicare-related functions and activities undertaken by SSA as a result.

⁵Accountable property is equipment purchased with a value of \$1,000 to \$99,999, or deemed by SSA to be "sensitive," that is, equipment valued at less than \$1,000, but considered susceptible to loss, such as laptop computers, projectors, and copiers.

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- Prescription Drug Program (Part D) and Low Income Subsidy (LIS)—In addition to establishing a beneficiary outreach demonstration project for this provision, SSA is responsible for developing forms and procedures for LIS including a simplified application, conducting education and outreach activities, and processing LIS appeals. In addition, SSA will use computer matching data for verification of attestations, process subsidy-changing events, periodically redetermine LIS eligibility, and deduct Part D premiums when the beneficiary chooses to have their premium withheld from their Title II benefit payment and the Centers for Medicare and Medicaid Services (CMS) notifies SSA of this. SSA was also responsible for transferring premiums withheld from Title II benefit payments to CMS.
 - Medicare Prescription Drug Discount Card Program—SSA will support CMS administration of this program by providing data from SSA's records and data obtained from other federal agencies on potentially eligible Medicare beneficiaries for transitional assistance.
 - TRICARE—SSA will be responsible for enrolling TRICARE⁶ beneficiaries into Medicare Part B, calculating their premiums, and refunding excess premiums paid.
 - Medicare Part B Premium—SSA is tasked with implementing Medicare Part B income-based premium subsidy reductions for beneficiaries with income above a stipulated level. SSA will also collect the income-related monthly amount from the Title II benefit payment and transfer the premiums withheld from Title II benefit payments to CMS, and process appeals of the initial determination.
 - Medicare Advantage (MA) Part C—SSA will compute and collect Part C premiums when the beneficiary chooses to have premiums deducted from his or her Title II benefit payment and transfer premiums withheld from Title II benefit payments to CMS.
 - Health Savings Accounts—SSA will obtain information from employer reports, record the information on SSA's records, and pass the information to the Internal Revenue Service.

As a result of the enactment of MMA, SSA conducts outreach efforts to identify individuals entitled to benefits or enrolled under the Medicare

⁶TRICARE is the health care plan for the Uniformed Services, retirees, and their families, and serves a beneficiary population of more than 9.2 million worldwide.

program under Title 18 of the Social Security Act, who may be eligible for transitional assistance under the Medicare Prescription Drug Discount Card Program and premium and cost-sharing subsidies under the Prescription Drug Card Part D Program. SSA continues to have a role in the outreach to low-income Medicare beneficiaries for payment of Medicare cost-sharing under the Medicaid program. SSA is also required to verify the eligibility of applicants for the subsidy under MMA who self-certify their income, resources, and family size. To determine whether a Medicare beneficiary is eligible for a subsidy, SSA collects information on whether the individual has income up to 150 percent of the federal poverty guidelines. SSA has established a database to maintain the information it collects and shares information on those eligible and ineligible for subsidies with CMS.

To implement the new responsibilities under MMA, SSA established a Medicare Prescription Drug Planning and Implementation Task Force in December 2003. The objectives of the task force included identifying the potentially eligible population, the number and locations of potential workloads and staff and material resource needs, and agreeing on specific responsibilities with other federal government agencies. SSA also identified the specific tasks to carry out the implementation of the activities for each of the provisions under MMA, including designing and managing the planning and implementation processes; issuing regulations; and developing and implementing communication strategies, budget, appeals process, subsidy-changing event process, redetermination process, and strategies for service delivery.

Under MMA, the Congress provided SSA with a \$500 million appropriation to fund SSA's start-up administrative costs to implement MMA, during fiscal years 2004 and 2005, but later extended this budget authority to fiscal year 2006. SSA reported that the \$500 million for these administrative costs was exhausted in January 2006, and MMA costs are now funded using the LAE. LAE is SSA's basic administrative account and is an annual appropriation financed from the Social Security and Medicare trust funds.

The total amount of SSA administrative costs covered by the Medicare Trust Funds to fund SSA's Medicare responsibilities has increased with the enactment of MMA. Prior to the establishment of Part D under MMA, Medicare did not generally pay for outpatient prescription drugs, but it did provide health insurance to individuals who are either 65 or older or disabled. Table 1 reflects SSA's reported administrative cost outlays covered by the Medicare Trust Funds for implementing MMA activities and other Medicare activities.

The Majority of Reported Costs Incurred Using MMA Funds Consisted Of Personnel-Related and Contractor Expenses, and Indirect Costs

Table 1: SSA’s Reported Cost Outlays Covered by the Medicare Trust Funds for 5 Years Ended in Fiscal Year 2006

Dollars in millions

Fiscal year	MMA	Non-MMA	Total SSA outlays applicable to Medicare
2002	\$0.0	\$1,180.9	\$1,180.9
2003	0.0	1,214.6	1,214.6
2004	52.4	1,185.5	1,237.9
2005	338.6	1,372.3	1,710.9
2006	109.0	1,571.2	1,680.2
Total	\$500.0	\$6,524.5	\$7,024.5

Source: SSA, Budget Justification for Appropriations Committees, Fiscal Years 2004 through 2008, and additional documentation provided by SSA Office of Budget, Finance and Management.

SSA reported spending the \$500 million MMA funds from December 2003 through January 2006 on activities to implement the provisions specified in MMA. SSA’s financial reports showed that almost all of the funding reported was used for personnel-related expenses, contractors, and indirect costs (see table 2). More than half of the funds were spent on personnel-related expenses for staff hours used on MMA activities at SSA’s headquarters and field offices. Once the \$500 million was spent, MMA costs were funded by SSA’s LAE appropriation. SSA used its financial accounting and reporting system, SSOARS, and its cost analysis system (CAS) to track overall costs related to the implementation of MMA legislation. SSA did not separately track the administrative costs incurred to implement the individual provisions under MMA legislation because the act did not specifically require SSA to do so and it was not cost effective to do so.

Table 2: Breakdown of SSA’s Reported MMA Administrative Costs by Category

Dollars in thousands

Expense category	Amount	Percentage
Personnel-related expenses	\$261,160	52.2
Indirect allocated costs	116,733	23.4
Contractors	91,692	18.3
Government agencies	27,898	5.6
Purchase card payments	2,517	0.5
Total	\$500,000	100%

Source: SSA, CAS reports, fiscal years 2004 through 2006.

SSA reported that it spent approximately \$261 million on personnel-related expenses, which consisted of salaries and related benefits for both newly hired and existing SSA employees. As a result of MMA, SSA hired and trained more than 2,200 new employees at its field offices and 500 at headquarters to handle the additional workload created by SSA's new responsibilities under MMA. Personnel-related expenses included salaries for current SSA employees who were also involved in activities related to implementing MMA, including the new Medicare Part D responsibilities. Many of these employees may have been engaged in work on other SSA programs during the same time. SSA used CAS to prorate these employees' salaries and related expenses based on the amount of time employees charged to MMA and various other SSA responsibilities.

SSA reported indirect costs of approximately \$117 million for MMA implementation. During each year, SSA incurred administrative costs in support of the various programs. For example, SSA makes rental payments for most of the approximately 1,300 regional field offices it has located around the country and staff in these offices perform duties related to all of the programs administered by SSA, including MMA. In order to allocate these administrative costs to each of its programs, SSA used its cost analysis system, CAS, to charge certain types of costs either proportionally or in full against the MMA appropriation. SSA charges both direct and indirect costs to its programs⁷ either by directly charging specific program-related amounts to the affected program in SSOARS or using CAS to allocate personnel-related and general administrative costs that apply to more than one SSA program. CAS accounts for work-years and costs for each program administered by SSA by specific subfunctions within the SSA programs. It is a centralized, computer-based system that uses data from the financial reporting system to break out costs at SSA by program and major functions. The main objective of CAS is to distribute costs equitably across programs and among the various trust funds and general funds. However, SSA stated that systems modifications to enable tracking MMA administrative costs by each of the MMA provisions were not required by the legislation and that it would not have been cost effective to modify the system.

⁷Direct costs are those that can be specifically identified with a program, such as salaries and benefits, materials, and supplies to carry out the program. Indirect costs cannot be specifically identified with a program because they are agencywide expenses, including things such as general administrative expenses, technical support, and operations and maintenance.

SSA reported that \$119.6 million in MMA funds went to contractors, vendors, and other government agencies that provided various goods and services necessary for SSA to meet its responsibilities under MMA. Some of the largest reported expenditures included

- \$34.2 million paid to one contractor for software systems development and support;
- \$23 million paid to one contractor for telephone-based beneficiary outreach and information distribution;
- \$18.6 million to the United States Postal Service for mass mailings and other paper-based information distribution;
- \$11.4 million to one contractor for computer hardware and software upgrades; and
- \$6.5 million to the Government Printing Office for the design and production of informational mailings, posters, and other printed materials.

The remaining expenditures to other contractors, vendors, and government agencies for goods and services charged to the MMA implementation appropriation included additional computer hardware, software development, and information systems support, as well as installation and reconfiguration of MMA service centers workstations.

As of February 2007, SSA reported it had completed 16 of the 22 tasks for implementing six provisions of MMA. SSA is continuing its implementation of the remaining six tasks using LAE funding. Table 3 provides a breakdown of the 22 tasks by major MMA provision.

Table 3: Breakdown of Completed Tasks under MMA by Major Provision, as of February 2007

MMA provision	Number of tasks	Number completed
Part D – Prescription Drug Program	8	7
Part B – Income-Related Premiums	6	3
TRICARE	3	3
Health Savings Account	2	2
Drug Discount Card	1	1
Beneficiary Outreach Demonstration Project	2	0
Total tasks	22	16

Source: SSA.

SSA Had Policies and Procedures for Tracking MMA Funds but They Were Not Complied with Consistently

SSA had agencywide policies and procedures in place over its cost tracking and allocation, asset accountability, and invoice review and approval processes. SSA also established specific guidance to charge and allocate its costs to implement MMA. However, those policies and procedures were not always complied with consistently. We found that SSA did not effectively communicate the specific MMA-related guidance to all relevant staff. This ineffective communication resulted in millions of dollars of costs being misallocated to MMA. Some of these misallocations were subsequently detected by SSA and corrected during SSA's review process. In the area of purchase card transactions, which represented 0.5 percent of the \$500 million, we found some instances where credit card purchases had not yet been correctly allocated to MMA. In addition, we found that some purchases made with credit cards were not properly supported or reviewed and may not have been a proper use of MMA funds. Finally, noncompliance with SSA policies and procedures over asset accountability resulted in inadequately tracked accountable assets that were purchased with MMA funds.

SSA Did Not Effectively Communicate MMA-Related Guidance Resulting in Misallocation of Costs to MMA

In order to track costs associated with the development and implementation of SSA's MMA-related activities, SSA used existing processes and applications, such as CAS, expanded existing processes, such as establishing unique common accounting numbers (CAN) for MMA-related costs, and implemented new processes, such as the online time recording system for MMA-related time spent by administrative staff. In addition, SSA developed specific cost accounting principles for each of its major offices which, when appropriately applied, would enable the offices to allocate nonpersonnel costs among MMA-related activities and across other SSA operating activities. However, the lack of a formal process to ensure that this critical information was communicated to the appropriate level within the SSA offices resulted in misallocation of costs to MMA.

In January 2004, SSA initiated a process to expand on its cost accounting process to track and report the cost of implementing the MMA-related activities. The Deputy Commissioner for Finance, Assessment, and Management issued a series of three memoranda to senior officials containing policies and procedures for reporting time spent and updating cost accounting principles associated with MMA planning and implementation efforts. These memoranda included accounting codes and procedures for tracking costs specific to implementing MMA activities, reporting formats for MMA-related costs, and updated cost accounting principles for LAE and MMA allocations.

In May 2005 the Deputy Commissioner for Finance, Assessment, and Management issued a memorandum to the deputy commissioners and

other key officers for all SSA offices, which reemphasized the need to properly account for MMA-related costs, provided updated cost accounting principles for costs associated with the planning and implementation of MMA, and requested SSA-wide assistance in accurately applying these principles. The updated cost accounting principles were included in a table that was attached to the memorandum. The table provided specific guidance for each office on the cost principle methodology to apply for specific types of costs in order to allocate the costs between the component's regular resource allocations and the MMA funding. In addition, the memorandum requested that each component identify an individual who would aid in ensuring these principles were appropriately applied.

We met with SSA staff to discuss the policies and procedures in place to disseminate these critical memoranda within SSA. We found that not all staff responsible for MMA activities were aware of the guidance. We were told that there was no specific guidance related to the dissemination of key management memoranda. The May 2005 memorandum was addressed to the deputy commissioners of each of SSA's major offices, and it clearly stated the importance of applying the principles described. We obtained information and documentation from the individuals identified as the contact employee for each component to aid in the effort. We found that there was no mechanism in place to help ensure that all memoranda were disseminated to all relevant staff at SSA's headquarters and field offices.

Timely and thorough communication of operational procedures is critical in ensuring that an agency is able to perform its responsibilities effectively. Our *Standards for Internal Control in the Federal Government* state that for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve its internal control objectives. Operating information is also needed to determine whether the agency is achieving its compliance requirements under various laws and regulations. Pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently. Effective communications should occur in a broad sense with information flowing down, across, and up through the organization.

As a result of the ineffective communication of MMA-related guidance, at least \$4.6 million of costs were initially incorrectly allocated to MMA. SSA's offices went through a process to review the allocation of the charges between MMA and LAE appropriation activities, and make appropriate adjustments. The offices identified numerous transactions and

adjusted the transaction amounts to reflect the appropriate allocation of costs between MMA and the LAE appropriation. In total they identified transactions totaling more than \$4.6 million that had not initially been properly allocated to LAE. However, SSA officials agreed that they had probably not identified all of the transactions that had not been properly allocated and should have been adjusted, such as purchase card purchases.

In addition, during our review of the supporting documentation of MMA purchase card transactions, we found 48 purchases totaling \$375,313 that had been charged entirely to MMA when a portion of those costs should have been allocated to other SSA programs. The purchases included more than 160 digital projectors, furniture, and other IT equipment such as routers, servers, and tape libraries. While some of these items were initially purchased to carry out MMA-related activities, such as beneficiary outreach, SSA realized that they would also be used for SSA programs other than MMA in the future. Therefore, according to the guidance on accounting for MMA-related expenses, the offices should have charged only one-sixth of the costs for equipment to MMA, with the remainder of the cost charged to the LAE appropriation account to be further allocated across other SSA programs. However, these costs were not allocated as described above and as a result; SSA over-allocated these costs against the MMA appropriation by approximately \$313,000.

SSA Asset Accountability Policies and Procedures Were Not Consistently Followed for Assets Purchased for MMA Activities

SSA had policies and procedures for purchasing assets and for maintaining accountability for those assets. Included were definitions of the types of assets for which SSA required the requestor to affix bar codes for identification and record in SSA's asset inventory system. In addition, SSA issued an acquisition alert on the purchase of accountable sensitive and personal government property, which reminded purchase card holders that they were required to provide information to the requestor to ensure that the purchases were reported to their property management or custodial officers so that the property was properly bar-coded and entered into SSA's property system. However, we found in our review of accountable property purchases that for 21 of 36 transactions that we tested, the purchasers were not aware of their responsibility to provide the requestor of the property with information on the property purchased.

The 36 transactions we reviewed included a total of 3,254 accountable property items with a total cost of approximately \$4.2 million. As of May 25, 2007, SSA had not properly identified 317 of these items with bar codes or included these assets in the asset inventory system. These items included assets such as information technology network servers and

switches, digital projectors, and other electronic equipment. These items had a total cost of approximately \$1.3 million. As a result, hundreds of assets purchased with MMA funds were not properly accounted for and SSA was unable to provide us with bar codes or evidence of inclusion of those assets in SSA's asset inventory system.

Some Credit Card Purchases Were Not Properly Approved or Supported

SSA also has guidance for credit card purchases applicable to micropurchases and purchases made by contracting officers. According to SSA policy on micro-purchasing, credit card purchases are limited to \$2,500, must have funds pre-approved, and may not be used to split purchases into more than one transaction to avoid purchase limits. In addition, all credit card purchases must be documented, including written requests, approvals, and proof of purchase and delivery, and maintained by the cardholders for 3 years.

Over the last several years, inspectors general and we have reported that some federal agencies do not have adequate internal control over their purchase card programs. Without effective internal control, management does not have adequate assurance that fraudulent, improper, and abusive purchases are being prevented or, if occurring, are being promptly detected with appropriate corrective actions taken. Supervisory approval of purchase requests is a principal means of ensuring that only valid transactions are initiated or entered into by persons acting within the scope of their authority, and the proper amounts are paid to contractors and appropriately charged. A supervisory review of purchase requests is also critical because a supervisor or approving official may be the only person other than the purchaser who would be in a position to identify an inappropriate purchase. Therefore, the supervisor's or approving official's review is a critical internal control for ensuring that purchases are appropriate and comply with agency regulations. However, we identified invoices that were paid for questionable amounts without the appropriate supervisory review and approval. Of the 147 purchase card transactions we reviewed, we found 45 transactions totaling \$63,828 that did not have proper approval or did not have adequate support for the propriety of the purchase.

While SSA's micro-purchase card policy requires the purchaser to receive an approved purchase request before acquiring goods or services, we noted instances in which the supervisory review or approval was inadequate. We identified the following 18 transactions totaling \$31,914 that were initiated and completed by cardholders without proper prior approval.

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- For 8 transactions totaling \$17,454, the approvals on the request authorization form occurred after the items had already been purchased by the cardholders.
 - For 2 transactions totaling \$2,163, the authorizing signatures were provided on the request authorization form before the request was signed by the requestor.
 - For 2 transactions totaling \$3,984, SSA could not provide evidence that the electronic signatures on the purchase requests represented valid authorizations.
 - For 6 transactions totaling \$8,313, SSA did not provide evidence that the purchase requests, which authorize the purchase of goods to be made, were approved.

We also found instances where the supporting documentation did not provide evidence to support that the costs were related to SSA's implementation of MMA. We found the following 27 transactions totaling \$31,914 for which sufficient supporting evidence was not provided.

- For 6 transactions totaling \$7,077, SSA did not provide any documentation to support the purchases.
- For 21 transactions totaling \$24,837, SSA could not provide sufficient evidence of any relationship between the goods and services purchased and implementation of MMA. The items purchased included five wireless headsets, one big-screen television, remote control devices for PowerPoint presentations, and engraved items. In addition to being unable to relate these purchases to the implementation of MMA, we found no evidence these items were necessary purchases for SSA.

In addition, we found evidence that one cardholder circumvented the \$2,500 per transaction purchase authority by submitting four purchase requests for the purchase of audio and video media (CDs, DVDs, and VHS tapes) from a single vendor on the same day. As a result, the cardholder ultimately paid a total of \$4,365 for four invoices, which was \$1,865 above the \$2,500 purchase authority limit.

Conclusions

SSA had existing policies and procedures in place to track and report the total costs it incurred to implement MMA provisions and to maintain accountability and control over its MMA-related activities. However, procedures and controls over purchase card transactions and asset accountability could be improved. Although purchase card transactions and accountable asset purchases represented a small percentage of the total MMA administrative costs that were paid with MMA funds, having effective controls in place to ensure the proper approval, support, and

accountability for these transactions is essential to reduce the risk of improper purchases and improperly accounted for assets.

Recommendations for Executive Action

To enhance SSA's (1) ability to track the costs of program activities including MMA administrative costs, (2) controls over its review and approval processes for purchase card payments, and (3) tracking of its accountable assets, we recommend that the Commissioner of Social Security

- establish procedures to ensure better dissemination of policies and procedures to all relevant offices and staff;
- establish additional detailed procedures for a purchase card supporting documentation review and approval process to help ensure that purchase card payments are properly supported, allowable, and allocated; and
- reinforce existing policies and procedures for the purchase of accountable assets to ensure that accountable assets are bar coded, recorded in SSA's asset inventory system, and inventoried periodically.

Agency Comments and Our Evaluation

In written comments reprinted in appendix II, SSA generally agreed with two of our recommendations, but disagreed with one recommendation. SSA also stated its belief that our report title, *SSA Policies and Procedures Were in Place over MMA Spending, but Some Instances of Noncompliance Occurred*, did not accurately reflect the findings in the report since it believed there was compliance with its policies and procedures. SSA also believes our characterization of the cause of SSA's misallocation of costs to MMA as ineffective communication needs to be modified, and pointed out that there was no mention of the remaining misallocated credit card transactions representing only 0.06 percent of the total amount appropriated. SSA suggested the change in the report title because SSA had identified and corrected the \$4.6 million initially incorrectly allocated to MMA and the remaining uncorrected instances were insignificant to the total amount appropriated. However, the areas where policies and procedures were not complied with also included misallocated credit card purchases not corrected (which represented more than 10 percent of the dollar value of the credit card purchases charged to MMA), and maintaining accountability over assets purchased with MMA funds. Therefore, we continue to believe that the title of our report accurately characterizes our findings.

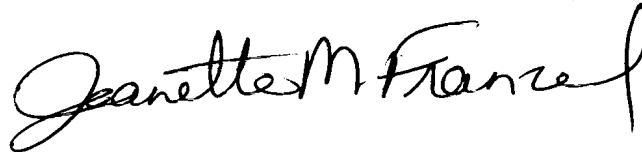
SSA agreed in theory with our recommendation to establish procedures to better disseminate policies and procedures, but stated its belief that the

recommendation was too broad and did not accurately reflect what needed to be done. SSA stated that it will provide more specific instructions for distribution of costs in future guidance. SSA also believed that it had sufficient dissemination methods for acquisition related issues. Our recommendation was intentionally broad to provide SSA management flexibility to determine the most appropriate steps it should take to ensure the complete dissemination of future guidance. To that end, SSA including more specific instructions in future memoranda guidance would provide a corrective action that would be sufficient to address our recommendation.

SSA disagreed with our recommendation to establish additional detailed procedures for reviewing and approving supporting documentation for credit card purchases to help ensure that purchase card payments are properly supported, allowable, and allocated. SSA stated its belief that our recommendation was too broad and its guidance for contracting officers and micro-purchasers is sufficient. While SSA stated its belief that its guidance is sufficient and that its contracting officers are already aware of the file documentation required for purchases, we found that 45 of 147 (30 percent) credit card purchases we reviewed did not have proper authorization or complete documentation. This is an unacceptable error rate. We agree that our recommendation is broad, but it is intended to allow SSA the flexibility to determine the most appropriate actions needed to help ensure that there is sufficient evidence available to determine that all credit card purchases are properly approved, supported, allowable, and allocable. SSA pointed out that its current "remote" reviews of micropurchases made in the regions do not include a full file review, and that SSA is considering changing this process to include such reviews. SSA agreed with our recommendation to reinforce existing policies and procedures for accountable asset purchases to help ensure that those assets are bar coded, recorded in SSA's asset inventory system, and inventoried periodically. SSA also identified its plan to include an acquisition topics website on one of its intranet pages by September 2007 and listed several actions undertaken since December 2006 to reinforce existing policies and procedures and to implement an improvement work plan. SSA also provided additional technical comments, which have been included in the report as appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies of this report to the Commissioner of SSA, and other interested parties. Copies will also be made available at no charge on GAO's Web site at <http://www.gao.gov>. If you have questions concerning this report, please call me on (202) 512-9471. Contact points

for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive, flowing style.

Jeanette Franzel
Director, Financial Management
and Assurance

Appendix I: Objectives, Scope, and Methodology

To review the costs of the Social Security Administration's (SSA) implementation of MMA activities, we reviewed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and discussed its impact with SSA to obtain an understanding of SSA's responsibilities under the act. We also reviewed the policies and regulations SSA established to track and report MMA-related costs and other information pertaining to its program activities, as well as additional guidance provided to SSA officials so that they could track the costs of new MMA-related activities. We obtained cost and other information on SSA's implementation activities from SSA officials in the agency's headquarters in Baltimore, Maryland. In addition, we discussed specific cost information with various officials and staff in headquarters and field offices who were responsible for specific transactions. To obtain specific cost and program information, as well as information related to specific financial statement issues, we reviewed our reports and reports from SSA's independent financial statement auditors.

To determine how SSA expended the MMA funds to implement MMA activities, we obtained annual schedules of amounts charged to MMA for fiscal years 2004 (starting in December 2003), 2005, and 2006. We analyzed the expenditure data, sorted it by object class, and segregated the amounts charged to the Limitation on Administrative Expenses appropriation after the \$500 million of MMA funding had been used by SSA. We discussed our sorted detailed analysis with SSA budget and finance officials. We also compared expenditure data to audited Social Security Online Accounting and Reporting System (SSOARS) data and determined that the data were sufficiently reliable for the purposes of this report.

To determine what procedures SSA had in place over the MMA funds, we reviewed MMA and SSA policies, procedures, and other guidance and interviewed key SSA officials for information on the contract procurement, payroll, cost accounting, budget, and payment processes to obtain a thorough understanding of each process. We also conducted follow-up discussions to verify our understanding of all key processes related to spending MMA funds. We reviewed SSA's independent financial statement auditors' reports and audit documentation to determine the level of audit coverage provided in the payroll; property, plant, and equipment; and cost accounting areas, plus any internal control weaknesses identified. On the basis of the clean audit opinion on SSA's financial statements and no related findings, we did not perform testing on the payroll and cost accounting areas. As a result, we focused our testing of transactions on contractor and vendor payments.

To determine whether SSA's contractor expenditures were properly supported as valid uses of MMA funds, we selected and tested a monetary unit sample of 59 transactions totaling \$82.6 million from a population of 20,736 transactions totaling \$123.5 million paid from January 2004 through February 2006.¹ We found no exceptions during testing.² We also used various nonstatistical sampling methods (data mining, document analysis, and other forensic techniques) to nonstatistically select 208 transactions to test adequate supporting documentation of requests, authorization, evidence of purchase and receipt, and applicability to MMA. We discussed all testing exceptions with the appropriate SSA officials and staff involved with the specific transaction.

We conducted our work in Washington, D.C., and Baltimore, Md., from March 2006 through April 2007 in accordance with generally accepted government auditing standards.

¹The sample population consisted of accrued expenditures greater than \$0 and excluded 284 Herman Miller expenditures totaling \$1.1 million and 3,903 Citibank expenditures totaling \$2.5 million. These transactions were tested separately.

²We did not find any exceptions during testing, and we are 95 percent confident that the actual total amount in error associated with the sampling error inherent in statistical sampling is less than or equal to 5 percent.

Appendix II: Comments from the Social Security Administration



SOCIAL SECURITY

The Commissioner

August 16, 2007

Ms. Jeanette Franzel, Director
Financial Management and Assurance
United States Government Accountability Office
441 G St., NW
Washington, D.C. 20548

Dear Ms. Franzel:

Thank you for the opportunity to review and comment on the draft report, "Social Security Administration: Policies and Procedures Were in Place Over MMA Spending, But Instances of Noncompliance Occurred" (GAO-07-986).

Enclosed are our detailed comments on the draft report recommendations, along with suggested technical revisions.

If you have any questions, please contact Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Astrue".

Michael J. Astrue

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

COMMENTS ON THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) DRAFT REPORT, "SOCIAL SECURITY ADMINISTRATION: POLICIES AND PROCEDURES WERE IN PLACE OVER MMA SPENDING, BUT INSTANCES OF NONCOMPLIANCE OCCURRED" (GAO-07-986)

Thank you for the opportunity to review and comment on the draft report. We feel that the title "Policies and Procedures Were in Place Over MMA Spending, but Instances of Noncompliance Occurred," does not accurately reflect the findings in the report and would recommend that it be changed to "Policies and Procedures Were In Place Over MMA Spending And There Was Compliance".

Also, the summary page and pages 3, 12 and 13 of the report state that "SSA subsequently identified and corrected at least \$4.6 million of amounts [were] misallocated between MMA and other SSA program activities, but had not corrected approximately \$313,000 misallocated credit card purchase transactions." The fact is that \$4.6 million was initially not correctly allocated to MMA. However, the original plan on allocation was to review the ongoing transactions to assure policy consistency. That being said, the \$4.6 million was correctly allocated as planned. As a result, the statement on page 10 that the "ineffective communications resulted in millions of dollars of costs being misallocated to MMA" needs to be appropriately modified. Also, no mention is made that the \$313,000 in misallocated credit card purchase transactions represents only 0.06 percent of the total amount appropriated.

Our comments on the draft report recommendations, along with technical revisions to assist in the clarity of the report, are as follows:

Recommendation 1

Establish procedures to ensure better dissemination of policies and procedures to all relevant offices and staff.

Comment

We agree in theory. As the recommendation exists, we do not feel it accurately reflects what needs to be done and find it too broad. In reference to memoranda regarding accounting for costs, rather than establishing specific procedures, which would require interpretation by staff, future memorandum providing guidance similar to that issued for MMA implementation will contain specific instructions for distribution.

With respect to acquisition policy, we believe that we have already established sufficient dissemination methods for acquisition related issues. Our Office of Acquisition and Grants (OAG) uses Acquisition Alerts to disseminate policy related to micro-purchasers (and, when noted, to all persons with delegated acquisition authority). Additionally, we have established an email distribution list consisting of project officers, who are requestors for purchases at various dollar levels, in order to better disseminate policies and procedures applicable to them.

Recommendation 2

Establish additional detailed procedures for purchase card supporting documentation review and approval process to help ensure that purchase card payments are properly supported, allowable, and allocated.

Comment

We disagree. With respect to the policies and procedures directed to micro-purchasers and contracting officers (not requestors), we do not concur with this recommendation and find it too broad. Contracting officers (COs) are already aware of the file documentation required for their purchases, whether paid with the purchase card or otherwise. We believe that our current guidance, "Micro-purchasing in SSA," contains sufficient information for micro-purchasers and their approving officials regarding file documentation and retention. Micro-purchasers and approving officials must take this course prior to being appointed and, beginning in fiscal year 2008, they will be required to take refresher training every three years.

Additionally, OAG and regional COs conduct acquisition management reviews (AMRs) of micro-purchase activity. When OAG conducts reviews of purchases made by micro-purchasers in Headquarters, and when regional COs conduct on-site AMRs within their regions, we review the purchase log and the file documentation associated with the purchases. OAG also conducts "remote" AMRs of purchases made in the regions. These remote reviews currently do not entail a review of an entire contract file. We are currently considering altering this process to request, for select cases, that the cardholder under review send us a copy of all the file documentation related to the purchase being reviewed.

Regarding the issue of proper allocation of purchase card transactions, we will review this area with the appropriate component officials.

Recommendation 3

Reinforce existing policies and procedures for accountable assets purchased to help ensure that accountable assets are bar coded, recorded in SSA's asset inventory system, and inventoried periodically.

Comment

We agree. As previously stated, we will add this policy to the "Acquisition Special Topics" webpage on the OAG intranet page. A notice and other cross-references to this permanent location of the policy will be disseminated via Acquisition Alerts and Acquisition Updates. We anticipate completing this by the end of September 2007.

With regard to accountable assets and related policies, since December 2006, our Office of Publications and Logistics Management have undertaken actions to reinforce existing policies and procedures and to implement an improvement work plan. These include:

- Entering into collaborative agreements with our Operations and Systems components to establish mechanisms for correcting Property Management issues and policies;
- Developing a new User's Guide for the Sunflower Asset System (SFA), our Property Management System. The new guide contains not only the "how" but also the "why" to give users a better understanding of Property Management;
- Reviewing and revising internal policy guides, Administrative Instructions Manual Systems (AIMS Guides);
- Developing stronger lines of communication with employees responsible for property management (e.g., established a Quarterly Property Management Teleconference, updated and distributed news letters on Property Management, offered Sunflower training sessions, website updates, etc.);
- Updating and clarifying the listing of "Items to be Bar-coded"; and
- Continuing to reinforce the importance of asset accountability and management.

Finally, for the 317 assets noted on page 13 of the report, we have requested GAO provide us specific asset details to assure our inventory system includes the required information.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Jeanette Franzel, (202) 512-9471 or franzelj@gao.gov

Acknowledgments

The following team members made key contributions to this report: Steven R. Haughton, Assistant Director; William (Ed) Brown; Sharon Byrd; Rich Cambosos; Marcia Carlsen; Lisa Crye; Leslie C. Jones; Brent J. LaPointe; Margaret Mills; and Robert Martin.

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