SOCIAL SECURITY
Office of the Inspector General

November 14, 2001

The Honorable E. Clay Shaw, Jr.
Chairman, Subcommittee
on Social Security
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Shaw:

In response to your July 10, 2001 letter, I am pleased to provide you the requested information on the Social Security Administration's (SSA) stewardship efforts and program savings generated by those efforts.

As a steward of taxpayer dollars, SSA is accountable to both the American public and the Congress for how it spends and safeguards public monies and has the further responsibility to ensure each eligible beneficiary receives the proper benefit payments. As SSA's workloads increase and the Social Security trust funds are further stressed, it will become more imperative that SSA effectively balance its desire to serve the public with its responsibility of ensuring program integrity.

In responding to your request, we relied on information developed in past audits, analyzed SSA's administrative expenditures and methodology for distributing program cost to individual strategic goals, and reviewed methods for calculating the cost and benefits derived from the following Agency activities:

- Office of Child Support Enforcement match,
- Supplemental Security Income redeterminations,
- disability preeffectuation reviews,
- windfall elimination/Government pension offset matches with the Office of Personnel Management,
- tax refund offset, and
- continuing disability reviews.

The work we performed does not constitute an audit, but rather a limited review of the reasonableness of program savings reported by SSA. The enclosed report contains our insights and conclusions regarding the extent of SSA's stewardship efforts and the reported benefits resulting from the aforementioned activities.

If you have any questions or would like to be briefed on this issue, please call me or have your staff contact Richard A. Rohde, Special Agent-in-Charge for External Affairs, at (410) 966-1722.

Sincerely,

James G. Huse, Jr.
Inspector General of Social Security

Enclosure

***CONGRESSIONAL RESPONSE REPORT***

# Select Social Security Administration Stewardship Efforts and Reported Savings

**A-08-02-22028**

**NOVEMBER 2001**

# Background

As a steward of taxpayer dollars, the Social Security Administration (SSA) is accountable to the American public and the Congress for how it spends and safeguards funds against improper payments. In *Mastering the Challenge,* SSA's Strategic Plan for 2000-2005, SSA set forth program integrity as one of its strategic goals. The Plan specifically states the strategic goal as "To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse."

In May 2001, at Congress' request, SSA provided information related to its efforts to minimize improper payments. SSA stated that $1 of every $4 in its administrative budget was dedicated to program stewardship. SSA also provided cost-benefit ratios for six specific program activities intended to enhance program integrity.

A cost-benefit analysis[1] is one way SSA gauges its effectiveness in identifying improper payments and meeting established program goals. Done properly, a cost-benefit analysis provides valuable insight for management when making resource use decisions. If not done properly, a flawed cost-benefit analysis could result in ineffective management decisions.

Appendix A provides a brief description of SSA's organization, programs, and stewardship activities included in our review.

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[1] We use the term cost-benefit analysis throughout this report to refer to the technique for assessing the costs and benefits of an activity, as expressed in dollars, over a period of time.

# Results of Review

On July 10, 2001, Congressman E. Clay Shaw, Jr., Chairman of the Subcommittee on Social Security, issued a letter to the Inspector General (IG) of SSA. In that letter, Congressman Shaw requested that the Office of the Inspector General (OIG) assess SSA stewardship efforts and the program savings those efforts generated. Congressman Shaw specifically requested the OIG review the six cost-benefit ratios SSA had reported for stewardship activities.

## SSA Administrative Costs Devoted to Stewardship

SSA began reporting administrative costs by strategic goal in its FY 2000 Performance and Accountability Report. In May 2001, SSA reported to Congress that $1 of every $4 in its administrative budget was dedicated to program stewardship. In arriving at this figure, SSA accumulated the cost of selected activities it believed related to stewardship. For example, SSA identified such categories as continuing disability reviews, identification and recovery of overpayments, redeterminations, earnings maintenance, representative payee activities, and OIG operations. SSA used a judgmental approach because accounting and cost analysis systems did not capture costs for strategic goals relating to stewardship. Absent a system that properly allocates costs according to goals, we were unable to quantify the actual amount of administrative costs SSA devoted to program stewardship. We did however, review SSA's methodology, and for the most part, it appeared reasonable although, as discussed further in this report, we did note opportunities for SSA to improve on the reliability of its analyses.

## Reliability of Cost-Benefit Ratios

Below are the results of our review of the six cost-benefit ratios SSA reported. We believe SSA should clarify and/or refine its methodology in several areas.

### 1. Office Of Child Support Enforcement Match

SSA did not conduct a cost-benefit analysis to support the 1 to 3 ratio claimed for the Office of Child Support Enforcement (OCSE) match. In March 2001, SSA renewed its matching agreement to use OCSE data relying on the original cost-benefit analysis conducted before September 1998 when the match began. The original 1 to 3 ratio reflected cost-benefit projections based on State matches before the original agreement. SSA management did not update the cost-benefit analysis of the OCSE match because, based on available resources, it was not considered a priority.

The costs and benefits of the current OCSE match may differ from those of the previous program for a number of reasons. The initial analysis was based on information from about 44 states, whereas the current OCSE match would cover all 50 states plus Federal agencies. In addition, during the first quarter of Calendar Year (CY) 2001, SSA provided its employees on-line access to OCSE's data base. This on-line access should improve payment accuracy on the front end thereby eliminating many of the payment errors caused by inaccurate and unreported income. The improvements in payment accuracy as a result of on-line OCSE access and the comprehensive scope of the OCSE match could impact the reported OCSE cost-benefit ratio. SSA has plans to update the cost-benefit analysis for the OCSE match in Fiscal Year (FY) 2002.

### 2. Supplemental Security Income Redeterminations

The cost-benefit ratio for Supplemental Security Income (SSI) redeterminations was overstated because all associated costs were not included when the 1 to 7 ratio was estimated. For its detailed cost-benefit analysis, SSA computed the 1 to 7 ratio by using only the direct costs of field office employees performing the reviews. However, SSA also computed a second ratio using the field office direct cost and an allocation of applicable central office indirect costs.[2] The resulting ratio was significantly lower at 1 to 4.

The full cost of any program activity rightfully includes those costs directly attributable to that activity as well as that activity's share in the Agency's overall costs. Therefore, we believe the 1 to 4 ratio would more accurately reflect the true efficiency of this activity.

### 3. Disability Preeffectuation Reviews

The cost-benefit ratio for disability preeffectuation reviews may be overstated because SSA did not include all costs when calculating the 1 to 13 cost-benefit ratio. When calculating this ratio, SSA only used the cost of regional office staff performing the reviews. However, SSA did not include the direct cost of central office components involved, such as the Offices of the Chief Actuary, Quality Assurance and Performance Assessment, and Disability. In addition, SSA did not include those central office activities that indirectly supported the preeffectuation review process. Because SSA did not include the relevant direct and indirect costs, we believe the actual cost-benefit ratio is lower than the 1 to 13 ratio the Agency reported.

### 4. Windfall Elimination/Government Pension Offset Matches with the Office of Personnel Management

While SSA reported a single cost-benefit ratio of 1 to 6, the Agency actually conducted separate cost-benefit analyses for windfall elimination and Government pension offsets. SSA computed the 1 to 6 ratio for windfall elimination offset in FY 2000 and the 1 to

[2] Indirect costs are those costs that are not easily identifiable with a specific activity or function, but that are, nonetheless, an associated cost of the activity or function.

9 ratio for Government pension offset in FY 1999. We believe both ratios are reasonable, and if the Agency had developed a combined ratio, it would have been at least 1 to 6. However, because the ratios vary and were developed in different fiscal years, the Agency should report the individual ratios for windfall elimination and Government pension offset.

### 5. Tax Refund Offset

SSA could not provide support for the 1 to 34 cost-benefit ratio reported for its tax refund offset with the Department of the Treasury. However, for CYs 1998 through 2000, SSA provided us the overpayment recovery data (savings) and fees paid to the Department of the Treasury (costs). In CY 2000, SSA realized about $81 million in overpayment recoveries while incurring about $1 million in fees paid to the Department of the Treasury. Based on prior years' data and assuming relevant variables have remained constant, we conclude that the 1 to 34 ratio is conservative.

### 6. Continuing Disability Reviews

Based on our analysis of the estimated costs and benefits, we believe the 1 to 11 ratio SSA reported for continuing disability reviews in FY 1999 is reasonable. Under a congressional mandate, SSA is working under a multi-year plan for performing periodic continuing disability reviews. For FYs 1996 through 1998, the continuing disability review cost-benefit ratio averaged 1 to 12. SSA's methodology appeared consistent with the one it followed in FY 1999.

Over time, SSA has reported different estimates of long-term continuing disability review cost-benefit ratios. Since these are long-term estimates, it is reasonable to expect such estimates to change as SSA gains experience and historical data from which to project.

# Conclusion

Our insights and comments regarding the extent of SSA's stewardship efforts and the reported cost-benefit ratios are not meant to imply these stewardship activities are not currently adding value to SSA's efforts to minimize improper payments. Rather, we offer these comments for the Agency to improve the management information used to make key resource decisions and to improve information provided to external stakeholders, such as the American public and Congress.

In that vein, we believe SSA should clarify and/or refine its methodology in several areas. First, SSA should update the analysis supporting the cost-benefit ratio reported for its OCSE match by using current data. Second, SSA should include all associated costs, both direct and indirect, when calculating cost-benefit ratios for SSI redeterminations and disability preeffectuation reviews. Finally, because the ratios for windfall elimination and Government pension offsets differ and were developed in separate fiscal years, SSA may wish to reconsider reporting a single cost-benefit ratio and instead report separate ratios.

# Appendices

# Description of Social Security Administration Organization, Programs and Stewardship Activities

SSA's organization consists of a centralized management in Baltimore, Maryland, and a nationwide network of 10 regional offices overseeing about 1,300 field offices as well as other service and processing facilities.

SSA commits virtually all of its administrative resources to the management of three programs authorized under titles II and XVI of the Social Security Act. Under title II, the Old-Age and Survivors Insurance program provides for the protection of loss of income for aged Americans as well as survivors of deceased workers. The Disability Insurance (DI) program protects disabled workers and their dependents from loss of income. These programs are collectively referred to as the Old-Age, Survivors and Disability Insurance (OASDI) program. Under title XVI, the Supplemental Security Income (SSI) program assures a minimum level of income by providing monthly cash benefits for people who are age 65 or over, or who are blind or disabled.

Below are brief descriptions of six stewardship program activities SSA uses to enhance program integrity.

**Office of Child Support Enforcement Match**

Under a computer matching agreement with the Department of Health and Human Services, Administration for Children and Families, SSA obtains earnings information on SSI beneficiaries from the Office of Child Support Enforcement's National Directory of New Hires.[1] SSA uses the earnings information to detect previously unreported or misreported income by SSI beneficiaries, thereby improving payment accuracy.

**Supplemental Security Income Redeterminations**

Individuals who are found eligible to receive SSI payments are subject to periodic reevaluations of their financial status, known as redeterminations.[2] During a redetermination, the financial factors related to the recipient's eligibility—earnings, assets, and current living arrangements—are reviewed. SSA performs scheduled reviews at periodic intervals depending on the likelihood of payment error and

[1] Section 453(j)(4) of the Social Security Act, 42 U.S.C. § 653(j)(4).

[2] Section 1611(c)(1) of the Social Security Act, 42 U.S.C. § 1382(c)(1).

unscheduled reviews based on reports of changes in a recipient's circumstances. Redeterminations are performed in SSA's field offices.

**Disability Preeffectuation Reviews**

The Social Security Act requires SSA to review at least 50 percent of all Social Security Disability Insurance initial and reconsideration allowances made by State Disability Determination Service agencies as well as a sufficient number of continuing disability review continuances to ensure a high level of accuracy.[3] These reviews enable SSA to correct erroneous allowances before benefits are paid out.

**Windfall Elimination/Government Pension Offsets Match with the Office of Personnel Management**

SSA obtains pension information on retired Federal employees under a computer matching agreement with the Office of Personnel Management. SSA beneficiaries who earn pensions through employer-sponsored retirement plans may be subject to reduced Social Security benefits if they were not required to pay Social Security taxes. Under the windfall elimination offset provisions of the Social Security Act, the individual's own benefits are subject to reduction, while under the Government pension offset provisions, the spouse's benefits are subject to reduction.[4] This match enables SSA to improve payment accuracy in the title II program by preventing overpayments due to unapplied pension offsets.

**Tax Refund Offset**

The Debt Collection Improvement Act of 1996[5] gave Federal agencies additional tools for collecting debt and designated the Department of the Treasury as the primary collector of delinquent debt for the Government. SSA's debt management program includes coordinating with the Department of the Treasury to collect delinquent OASDI and SSI debts from available Federal income tax refunds.

[3] Section 221(c)(3) of the Social Security Act, 42 U.S.C. § 421(c)(3).

[4] *The Windfall Elimination Provision,* SSA Publication No. 05-10045, July 2001; *Government Pension Offset*, SSA Publication No. 05-10007, August 2000.

[5] Public Law No. 104-134.

## Continuing Disability Reviews

The Social Security Act authorizes and/or requires SSA to perform periodic continuing disability reviews to ensure that only those individuals who are truly disabled continue to receive benefits.[6] SSA classifies medical impairments into one of three periodic continuing disability review categories: medical improvement expected (which generally necessitates a review every 6 to 18 months); medical improvement possible (which generally necessitates a review every 3 years); and medical improvement not expected (which generally necessitates a review every 5 to 7 years). SSA conducts periodic continuing disability reviews using State Disability Determination Service agencies for a full medical review in cases where improvement is expected and a direct mailing in cases where improvement will most likely not occur.

[6] Title II general provisions are in Section 221of the Social Security Act, 42 U.S.C. § 421, and Title XVI general provisions are in Section 1614, 42 U.S.C. § 1382c.

# Scope and Methodology

The objectives of our review were to: (1) assess the Social Security Administration's (SSA) methodologies for estimating administrative costs it dedicated to program stewardship, and (2) determine the reliability of the cost-benefit ratios SSA reported for the following activities:

- Office of Child Support Enforcement match,
- Supplemental Security Income redeterminations,
- disability preeffectuation reviews,
- windfall elimination/Government pension offset matches with the Office of Personnel Management,
- tax refund offset, and
- continuing disability reviews.

To meet our objectives, we:

- analyzed SSA's administrative expenditures and related budget justifications;
- assessed SSA's methodology for distributing administrative costs to its strategic goals;
- reviewed past audit reports by SSA's Office of the Inspector General, the General Accounting Office, and PricewaterhouseCoopers LLP relating to SSA's accounting and cost systems and the activities under review (see Appendix C for a listing of audit reports);
- met with SSA Headquarters staff in components responsible for budget, accounting, and special studies; and
- reviewed SSA's methodology for calculating cost and benefits for the most current period. However, we did not perform detail testing of the underlying data, nor did we review SSA's forecasts of future long-term ratios.

We performed our work at SSA Headquarters in Baltimore, Maryland, and the southeastern program service center in Birmingham, Alabama. At Headquarters, we visited the Offices of Legislation and Congressional Affairs; the Chief Actuary; Budget; Financial Policy and Operations; Quality Assurance and Performance Assessment under the Deputy Commissioner for Finance, Assessment and Management; and Disclosure Policy under the Office of the Deputy Commissioner for Disability and Income Security Programs. We completed our fieldwork between August and October 2001. The work performed does not constitute an audit of these activities. Our work was limited to those procedures described above to establish the reasonableness of the information presented.

# Prior Audit Reports

***SSA Office of the Inspector General***

*Review of the Social Security Administration's Office of Child Support Enforcement Pilot Evaluation,* (A-01-00-20006, May 2001)

*The Social Security Administration's Process To Segregate Continuing Disability Review Costs,* (A-01-98-51001, August 1998)

*Review of the Social Security Administration's Fiscal Year 1996 Annual Report on Continuing Disability Reviews,* (A-01-97-91007, March 1998)

***Other***

*Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions,* (GAO/HEHS-98-76, April 1998)

*Supplemental Security Income: Opportunities Exist for Improving Payment Accuracy,* (GAO/HEHS-98-75, March 1998)

*Social Security Administration Cost Assignment Methodology Review*, (PricewaterhouseCoopers LLP, September 1997)

*Supplemental Security Income: SSA Is Taking Steps to Review Recipients' Disability Status,* (GAO/HEHS-97-17, October 1996)

# OIG Contacts and Staff Acknowledgments

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