

Office of the Inspector General

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Office of Disability Budgeting Issues

The attached final management advisory report entitled, "Office of Disability Budgeting Issues" (A-13-98-72006) presents the Office of Disability budgeting issues that were noted during our audit of the Pennsylvania Bureau of Disability Determination. In the process of performing that review, we detected certain conditions which impact internal controls over budgeting practices, and therefore, warrant management's attention.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to comment, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Donald Franklin, Director, Systems and Financial Management Audits, at (410) 965-9706.

Pamela J. Gardiner

Attachment

cc:

Reading File

Subject File

SSA/OIG/OA/JBEACH/AM/clh/4-20-98 98-72006-FNL

Report File: A-13-98-72006

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### Office of Disability Budgeting Issues

The objective of this management advisory report is to present the Office of Disability budgeting issues that were noted during our audit of the Pennsylvania Bureau of Disability Determination (PA-BDD). As indicated in our notice to the Agency on August 1, 1997, we are conducting an audit of the administrative costs claimed by PA-BDD (CIN: A-13-97-52019). In the process of performing this review, we detected certain conditions which impact internal controls over budgeting practices, and therefore, warrant management's attention. Additional findings on internal control weaknesses related to PA-BDD administrative costs will be provided in a separate report. We will also conduct additional audit work to determine the extent to which these conditions exist in other regional offices.

## BACKGROUND

The Disability Insurance (DI) program, established in 1954 under title II of the Social Security Act (*the Act*), is designed to provide benefits to disabled wage earners and their families in the event the family wage earner becomes disabled. In 1972, Congress enacted title XVI, Supplemental Security Income (SSI) program (Public Law 92-603). Title XVI of *the Act* provides a nationally uniform program of income and disability coverage to financially needy individuals who are aged, blind, or disabled.

The Social Security Administration (SSA) is primarily responsible for implementing the general policies governing the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State in accordance with Federal regulations. In carrying out its obligation, the Disability Determination Services (DDS) within each State Agency (SA) is responsible for determining the claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in

making proper disability determinations, each SA is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA pays DDSs for 100 percent of allowable expenditures. Each year, SSA determines the amount of funding authorization. Once approved, each SA is allowed to withdraw Federal funds through the Payment Management System within the U.S. Department of Health and Human Services to meet immediate program expenses. At the end of each quarter of the Federal fiscal year (FY), each SA submits to SSA a "State Agency Report of Obligations for SSA Disability Programs" (Form SSA-4513). An advance or reimbursement for costs under the program must be made according to Office of Management and Budget's Circular A-87, "Cost Principles for State and Local Governments." SSA's funding levels are reported on the "State Agency Obligational Authorization for Disability Programs" (Form SSA-872). SSA's Program Operations Manual System (POMS) DI 39506.200 (C)(5) states that: "It may occasionally be necessary to reduce the cumulative quarterly obligational authorization for certain State agencies." It further states that:

"If it becomes clear that an agency will not need, in any period, as much obligational authority as has been authorized, the authorization will be reduced. However, such reduction will be made only after advance consultation between the regional office and the State agency."

Accordingly, these reductions are reflected on the Form SSA-872.

Our methodology included reviewing Federal laws, regulations, and instructions pertaining to administrative costs incurred by PA-BDD and to the draw down of Federal funds. We held discussions with the Pennsylvania Department of Labor and Industry and its internal auditors, the State of Pennsylvania Auditor General's staff, and SSA's Philadelphia Regional Office. We also reviewed PA-BDD's general policies and procedures.

We reviewed internal controls regarding the administration of the disability determination activities and performed an examination of the administrative expenditures (personnel, medical service, indirect, and all other nonpersonnel costs) incurred and claimed by PA-BDD for the period October 1, 1993 through September 30, 1996. We reconciled Form SSA-872 reports and other official accounting records to the administrative costs reported by PA-BDD on Form SSA-4513 reports for the period October 1, 1993 through September 30, 1996. In addition, we compared the amount of Federal funds drawn for support of program operations to the allowable expenditures.



## RESULTS

SSA's Philadelphia Regional Office of Disability was not timely in preparing Form SSA-872 to reduce total funding authorization for over \$5.7 million of unobligated funds from FY's 1994 through 1996. In addition, because SSA's POMS do not prescribe a time frame for reducing such authority, the \$5.7 million was still on the Form SSA-4513 as of September 30, 1997.

SSA should begin reducing the total funding authorization on Form SSA-872 to bring PA-BDD obligational authority in line with actual obligations. The breakdown of funds follows:

	FY 1994	FY 1995	FY 1996
<b>Authorized</b>	\$46,221,594	\$52,424,231	\$52,750,667
<b>Disbursed/Obligated</b>	<u>\$44,749,797</u>	<u>\$50,182,227</u>	<u>\$50,751,273</u>
<b>Difference</b>	\$ 1,471,797	\$ 2,242,004	\$ 1,999,394

The total difference for the three FYs represents **\$5,713,195** in excess authority.

## CONCLUSIONS/RECOMMENDATIONS

In theory, the total amounts drawn down by PA-BDD for each FY should not exceed the total amount disbursed or obligated. And, while we have not identified instances where this principle has been violated, there remains the risk that the \$5.7 million may be mistakenly drawn down by PA-BDD.

On a broader perspective is the issue of sound fiscal management practices. If SSA's policies required that funding authority be reduced within a specified time frame, program managers would be able to evaluate the funding levels of all DDS operations and reallocate funds to operations that may be concerned with budgetary shortfalls. As such, we intend to pursue this issue on a nationwide basis to determine if excess authority is a systemic problem or an isolated incident. If we determine there is a pattern of excess funding authority, we will evaluate the impact on SSA's fiscal management of the DDS function.

In the interim, we recommend that SSA:

1. reduce PA-BDD total funding authorization by \$5,713,195 for unobligated funds from FYs 1994 through 1996;

2. implement policies establishing time frames within which funding authority should be reduced; and
3. instruct Office of Disability Personnel to adhere to POMS 39506.200 and the related policy on timeliness.

## **AGENCY COMMENTS**

SSA agreed with the finding that Pennsylvania funding authorization had not been adjusted and will take immediate action to reduce its funding authorization. SSA also agreed that there is no existing policy that establishes when adjustments should be reduced. SSA will address the lack of firm procedures during the next rewrite of the POMS. The full text of SSA's comments is shown in Appendix A.

## **OIG RESPONSE**

We acknowledge SSA's planned corrective action. As stated in the conclusions section, OIG intends to review this problem on a nationwide basis to inform SSA of the national impact and assist in implementing the agency's periodic DDS authorization funding review.

Pamela J. Gardiner

# **A P P E N D I C E S**

# AUDITEE COMMENTS

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## MAJOR REPORT CONTRIBUTORS

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This audit report was prepared by the Office of Audit, Financial Management Audits Team in Baltimore, under the direction of Donald Franklin, Director. Audit staff included:

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-13-98-72006.

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# SSA ORGANIZATIONAL CHART

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