

Office of the Inspector General

June 18, 1999

John R. Dyer
Principal Deputy Commissioner

Acting Inspector General

National Office of Disability Budgeting: Excess Funding Authority and Obligations

Attached is a copy of our final report entitled, "National Office of Disability Budgeting: Excess Funding Authority and Obligations" (A-13-98-72008). The objective of this audit report is to identify excess funding authority and obligations that warrant management's attention.

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

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**NATIONAL OFFICE OF DISABILITY
BUDGETING: EXCESS FUNDING
AUTHORITY AND OBLIGATIONS**

June 1999

A-13-98-72008

AUDIT REPORT



Office of the Inspector General

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National Office of Disability Budgeting: Excess Funding Authority and Obligations

OBJECTIVE

The objective of this audit report is to identify excess funding authority and obligations that warrant management's attention.

BACKGROUND

The Disability Insurance (DI) program, established in 1954 under title II of the Social Security Act (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, the Supplemental Security Income (SSI) program (Public Law 92-603) which provides for 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 Service (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 (PMS) within the U.S. Department of Health and Human Services (HHS) for reimbursement of 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 the Office of Management and Budget's Circular A-87, "*Cost Principles for State, Local, and Indian Tribal 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.

As indicated in the management advisory report (MAR) on, "Office of Disability Budgeting Issues" dated April 29, 1998 (CIN: A-13-98-72006), we detected and reported conditions impacting internal controls over budgeting practices. This MAR, which focused on the Pennsylvania DDS, cited \$5,713,195 in excess funding authority. We recommended that SSA:

- reduce DDS total funding authorization by \$5,713,195 for unobligated funds from FYs 1994 through 1996;
- implement policy establishing time frames within which funding authority should be reduced; and
- instruct the Office of Disability (OD) personnel to adhere to POMS 39506.200 and the related policy on timeliness.

SSA agreed with our findings and planned to take immediate action to reduce the excess authority. SSA also agreed that there was no existing policy that establishes when adjustments should be reduced. SSA will address the lack of firm procedures during the next POMS rewrite.

SCOPE AND METHODOLOGY

We limited our audit to the review of the DDS documentation maintained by OD located in SSA Headquarters in Baltimore, Maryland. Our review focused on financial information appropriate to FYs 1994 through 1996 funding as of December 1997. We conducted our field work during May 1998 in accordance with generally accepted government auditing standards.

Our methodology included reviewing Federal laws, regulations, and instructions pertaining to administrative costs incurred by DDSs and to the draw down of Federal funds. We reviewed all 54 of the DDSs' reports (Forms SSA-872 and SSA-4513) and PMS Synchronization Reports to determine the existence of excess authorizations, obligations, and draw downs for the FYs ended 1994 through 1996. Our audit focused on budgetary information supplied by State DDSs and maintained by OD. This information represents the best available data concerning DDS funding.

The Form SSA-4513 expenditure reports are produced by State DDSs, Form SSA-872 budget authorization amendments are determined and produced by OD, and PMS Synchronization Reports are prepared by HHS. This audit will assist OD in identifying the existing excess authority and obligations that should be adjusted and is one in a series of the Office of the Inspector General (OIG) audit reports dealing with OD budgeting issues.

RESULTS OF REVIEW

We identified two conditions that indicate the need for improved internal controls over DDS budgeting. First, OD did not reduce approximately \$31.7 million in excess DDS funding authority for FYs 1994 through 1996 (see Appendix B). Second, DDSs reported \$870,010 in obligations that exceeded funding authority (see Appendix C). These findings suggest that some DDSs may have had excess funding authority while others may have incurred obligations that exceeded the DDSs' budget authority.

DDS Excess Funding Authority

OD did not prepare Forms SSA-872 to reduce total funding authorization (i.e., obligational authority) for the 54 DDSs reviewed for over \$31.7 million of unobligated funds for FYs 1994 through 1996. In addition, because SSA's POMS does not prescribe a time frame for reducing such authority, the \$31.7 million was still on the DDS Forms SSA-4513 we obtained from OD. SSA should begin reducing the total funding authorization on Form SSA-872 to bring the DDS obligational authority in line with actual obligations. The breakdown of excess authority by FY is as follows:

	FY 1994	FY 1995	FY 1996
Excess Authority	\$10,313,886	\$ 8,306,226	\$13,045,257

The total for the 3 FYs represents **\$31,665,369** in excess authority.

SSA policy allows for the reduction of obligational authority. Specifically SSA's POMS DI 39506.200 (C)(5) 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, OD does not conduct periodic reviews to reduce budget authorization on a regular basis.

The failure to reduce funding authorization increases the risk of excess draw downs occurring. An excess draw down occurs when a DDS draws down funds that are greater than the reported obligations reflected on the Form SSA-4513. OIG has cited DDS draw down issues in prior OIG audit reports. For example, in our audit of the Maryland DDS, we determined that \$773,003 of excess draw downs occurred.¹ This risk affirms the need for OD to conduct a periodic review of excess authority for DDSs and timely reduction of budget authority.

OD acknowledges the risk of excess draw downs. Officials from the OD agreed that at a minimum, excess obligational authority should be reduced on an annual basis. The Department of the Treasury's Automated Standard Application for Payments system, implemented in FY 1997 for DDS draw down purposes, is expected to improve oversight of DDS draw downs. Further, officials state that OD works with SSA's Office of Finance to resolve draw down issues on a case-by-case basis, and relies on audits to highlight draw down problems. OD is reviewing DDS excess obligational authority and issuing SSA-872s to reconcile DDS authority.

DDS Excess Obligations

Four DDSs obligated \$870,010 in excess of their budget authority. These DDSs reported obligations in excess of budget authority on their December 1997 Form SSA-4513 report. An excessive obligation over budget authority occurs when a DDS reports obligated funds on the Form SSA-4513 in a greater amount than the budget authority reported on the Form SSA-872.

Our analysis shows excess obligation reporting occurring from March 1995 through December 1997. For example:

- The Colorado DDS' SSA-4513 reported excess obligations from September 1996 to December 1997. SSA reduced Colorado's obligational authority in September 1997, but the Colorado DDS continued to report excess obligations.
- The Michigan DDS' SSA-4513 reported excess obligations from March 1996 to December 1997.
- The New York DDS' SSA-4513 reported excess obligations from June 1995 to December 1997.
- The Washington DDS' SSA-4513 reported excess obligations from March 1995 to December 1997.

POMS DI 39506.803 A2 defines obligational authority as the monetary limit approved for SA obligations to be incurred for disability program operations. As a result, DDSs

¹ Audit of Administrative Costs Claimed by the Maryland State Department of Education for its Disability Determination Services, June 1997, CIN: A-13-96-25000.

are reporting obligations for which there is no funding authority. Additional funding authority may be needed for the excess obligations.

OD personnel stated that a DDS might obligate funds in excess of authority based on specific workloads. Generally, when apprised of increases in workloads, OD increases the DDS budget authority. Because our review was limited to information maintained by OD, we did not determine the cause for the excess obligations. However, OD acknowledges excess obligation as an issue it is attempting to resolve.

CONCLUSIONS AND RECOMMENDATIONS

Based on our analysis of DDS fiscal documents, we believe OD should improve its fiscal oversight of DDS reporting so that the conditions discussed in this report can be identified and/or prevented.

We believe this report will assist OD in implementing its planned changes in the budget oversight area, as well as, improve the Agency's fiscal accountability. To assist OD in taking corrective action, we have provided listings (see Appendices B & C) of DDSs and the related amounts of excess funding authority and excess obligations.

We recommend that OD:

1. reduce total DDS funding authorization by \$31,665,369 for unobligated funds from FYs 1994 through 1996;
2. ensure that periodic reviews of funding authority are conducted and establish time frames within which funding authority should be reduced; and
3. determine the reasons for excess obligations and implement appropriate procedures to resolve excess obligations.

AGENCY COMMENTS

SSA agreed with our recommendations and has taken action to implement them. Appendix A includes a copy of the complete text of SSA's comments.

OIG RESPONSE

We obtained documentation to review SSA action on these recommendations. SSA has substantially implemented these recommendations. For example, SSA has reduced total FYs 1994 through 1996 DDS funding authorization by \$33,966,800. This exceeds the amount we recommended by more than \$2.3 million.

James G. Huse, Jr.

APPENDICES

SSA COMMENTS

CHARTS OF EXCESS FUNDING AUTHORITY

CHART 1: Fiscal Year 1994

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
ME	\$ 4,629,281	\$ 4,629,281	\$ -
CT	11,495,786	11,495,786	-
MA	30,045,568	30,045,568	-
NH	2,776,949	2,776,949	-
RI	4,364,300	4,364,300	-
VT	1,689,601	1,689,601	-
NJ	33,704,541	34,477,680	773,139
NY	107,840,643	107,819,093	-
PR	9,628,827	9,698,095	69,268
DE	2,500,653	2,500,653	-
DC	4,297,382	4,303,416	6,034
MD	14,653,049	14,844,712	191,663
PA*	44,749,797	46,221,594	1,471,797
VA	18,805,502	19,290,080	484,578
VW	13,138,555	13,138,555	-
AL	23,407,287	23,542,524	135,237
FL	46,403,050	46,494,624	91,574
GA	30,637,721	30,840,457	202,736
KY	21,692,322	21,734,762	42,440
MS	20,560,521	20,737,776	177,255
NC	23,434,029	23,519,720	85,691
SCVR	15,887,749	15,988,511	100,762
SCBL	58,051	59,943	1,892
TN	26,949,589	28,319,198	1,369,609
IL	56,803,606	57,067,200	263,594
IN	19,637,007	20,124,185	487,178
MI	53,148,832	54,063,610	914,778
MN	13,142,107	13,171,055	28,948
OH	53,283,310	54,280,722	997,412

CHART 1: Fiscal Year 1994

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
WI	15,951,416	16,154,353	202,937
AR	13,331,252	13,516,574	185,322
LA	30,835,798	30,993,241	157,443
NM	7,254,711	7,277,054	22,343
OK	10,220,137	10,286,194	66,057
TX	74,559,535	75,259,919	700,384
IA	8,183,511	8,187,225	3,714
KS	8,640,995	8,848,667	207,672
MO	22,676,010	22,693,260	17,250
NE	4,284,497	4,325,212	40,715
CO	12,079,591	12,191,736	112,145
MT	3,047,896	3,061,850	13,954
ND	1,281,459	1,285,840	4,381
SD	1,671,069	1,683,108	12,039
UT	3,632,974	3,669,621	36,647
WY	1,184,623	1,219,687	35,064
AZ	12,699,494	12,811,657	112,163
CA	141,961,447	143,618,301	1,656,854
GUAM	80,749	80,749	-
HI	3,214,347	3,364,955	150,608
NV	4,710,340	4,710,341	1
AK	2,808,003	2,960,408	152,405
ID	3,027,911	3,027,911	-
OR	9,635,319	9,635,319	-
WA	18,336,014	18,302,596	-
Total			\$ 10,313,886

*PA not included in National Total

CHART 2 : Fiscal Year 1995

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
ME	\$ 4,900,340	\$ 5,066,998	\$ 166,658
CT	12,342,476	12,342,476	-
MA	29,404,236	29,404,236	-
NH	3,011,404	3,011,404	-
RI	4,158,665	4,158,665	-
VT	1,848,804	1,848,804	-
NJ	35,887,946	36,167,849	279,903
NY	113,618,126	113,618,126	-
PR	11,552,978	11,652,595	99,617
DE	2,973,917	2,973,917	-
DC	3,927,808	3,927,808	-
MD	14,627,880	14,627,880	-
PA*	50,182,227	52,424,231	2,242,004
VA	20,118,041	20,118,041	-
VW	13,466,497	13,466,497	-
AL	25,585,721	25,720,234	134,513
FL	53,220,906	53,220,906	-
GA	33,436,517	33,659,978	223,461
KY	23,782,402	23,848,495	66,093
MS	18,450,578	18,597,095	146,517
NC	26,663,216	26,927,631	264,415
SCVR	15,353,012	15,494,509	141,497
SCBL	60,819	62,799	1,980
TN	28,799,438	28,801,700	2,262
IL	56,228,407	56,375,675	147,268
IN	20,115,335	20,460,728	345,393
MI	54,569,531	54,048,686	-
MN	12,904,524	12,932,469	27,945
OH	56,360,472	56,360,472	-
WI	15,586,342	15,756,162	169,820
AR	11,991,526	12,139,901	148,375
LA	29,049,957	29,466,375	416,418
NM	7,486,733	7,606,703	119,970
OK	10,967,156	11,131,072	163,916
TX	73,117,084	74,732,749	1,615,665
IA	9,012,964	9,055,299	42,335
KS	9,279,870	9,354,460	74,590

CHART 2 : Fiscal Year 1995

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
MO	22,822,434	23,193,759	371,325
NE	5,021,768	5,130,698	108,930
CO	12,072,582	12,155,713	83,131
MT	2,914,015	2,919,366	5,351
ND	1,242,389	1,242,560	171
SD	1,969,671	1,976,750	7,079
UT	4,057,227	4,129,491	72,264
WY	1,367,929	1,372,576	4,647
AZ	13,381,743	13,705,950	324,207
CA	145,178,011	147,330,216	2,152,205
GUAM	84,232	86,114	1,882
HI	3,439,310	3,610,094	170,784
NV	5,034,809	5,096,126	61,317
AK	3,058,151	3,058,151	-
ID	3,046,569	3,085,898	39,329
OR	10,979,110	10,979,110	-
WA	18,774,300	18,879,293	104,993
Total			\$ 8,306,226

*PA not included in National Total

CHART 3: Fiscal Year 1996

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
ME	\$ 5,318,868	\$ 5,464,019	\$ 145,151
CT	12,842,433	12,860,330	17,897
MA	27,939,287	27,939,317	30
NH	2,991,576	3,043,206	51,630
RI	4,077,254	4,077,254	-
VT	2,076,312	2,091,963	15,651
NJ	31,808,108	32,159,621	351,513
NY	117,644,169	117,644,169	-
PR	10,740,223	10,890,353	150,130
DE	2,715,670	2,715,670	-
DC	3,586,363	3,636,162	49,799
MD	14,287,932	14,287,932	-
PA*	50,748,978	52,726,638	1,977,660
VA	19,118,764	19,238,040	119,276
VW	13,313,822	13,705,246	391,424
AL	24,784,072	24,862,068	77,996
FL	50,675,277	50,675,277	-
GA	32,872,885	33,140,482	267,597
KY	26,243,969	26,243,970	1
MS	17,074,369	17,917,109	842,740
NC	27,748,368	28,069,463	321,095
SCVR	16,113,390	16,227,094	113,704
SCBL	52,590	52,590	-
TN	26,970,186	28,034,784	1,064,598
IL	54,226,289	54,453,358	227,069
IN	20,591,763	20,983,643	391,880
MI	54,294,860	54,609,467	314,607
MN	14,741,168	14,877,558	136,390
OH	52,596,246	52,596,246	-
WI	16,480,185	16,720,217	240,032
AR	12,924,063	12,924,328	265
LA	28,784,178	28,848,302	64,124
NM	7,829,769	7,844,136	14,367
OK	11,758,649	12,090,043	331,394
TX	64,737,130	67,666,062	2,928,932
IA	9,406,295	9,416,801	10,506
KS	9,391,112	9,403,708	12,596

CHART 3: Fiscal Year 1996

	(A) Form-4513 Obligation Amount	(B) Form-872 Authorization Amount	(C)=(B)-(A) Excess Funding Authority
MO	24,859,740	24,859,740	-
NE	4,645,448	4,696,566	51,118
CO	12,457,663	12,163,466	-
MT	3,067,897	3,080,716	12,819
ND	1,264,918	1,265,019	101
SD	2,001,278	2,009,300	8,022
UT	4,117,242	4,243,574	126,332
WY	1,240,525	1,318,713	78,188
AZ	13,691,956	13,889,432	197,476
CA	150,648,528	153,113,481	2,464,953
GUAM	103,621	103,621	-
HI	3,865,137	3,918,808	53,671
NV	4,781,274	4,781,274	-
AK	3,025,318	3,046,407	21,089
ID	3,131,336	3,178,384	47,048
OR	12,479,501	12,479,501	-
WA	19,817,854	21,149,900	1,332,046
Total			\$ 13,045,257

*PA not included in National Total

CHARTS OF EXCESS OBLIGATIONS

Fiscal Years 1994 through 1996

	(A)	(B)	(C)=(A)-(B)
	Form-4513 Obligation Amount	Form-872 Authorization Amount	Excess Obligations
CO - FY 1996	\$ 12,457,663	\$ 12,163,466	\$ 294,197
MI - FY 1995	54,569,531	54,048,686	520,845
NY - FY 1994	107,840,643	107,819,093	21,550
WA - FY 1994	18,336,014	18,302,596	33,418
Total			\$ 870,010

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SSA ORGANIZATIONAL CHART
