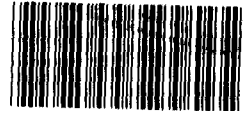


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**GAO's Views on An Independent
Social Security Administration
and The Personal Earnings and
Benefit Statement**

Statement of
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Income Security Issues
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Before the
Subcommittee on Social Security
and Family Policy
Committee on Finance
United States Senate



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Mr. Chairman and Members of the Subcommittee:

I am pleased to present our views on S.216, a bill to make the Social Security Administration (SSA) an independent agency and S.1079, a bill to require SSA to provide personal earnings and benefit statements to workers covered by social security.

S.216 would, among other things, create an independent Social Security Administration headed by a 3-member bipartisan board, establish a Beneficiary Ombudsman within SSA, and authorize SSA certain exemptions from the budget, personnel, and administrative requirements of the Office of Management and Budget, Office of Personnel Management, and General Services Administration.

Few goals are more important than those embodied in this legislation--to increase public confidence in Social Security--and we clearly support this goal. As we have stated previously in testimony before the House Ways and Means Social Security Subcommittee, independence has merit to the extent it promotes the stability and quality of leadership at SSA. It should be noted, however, that if SSA becomes independent, it will lose cabinet-level sponsorship; this could affect its ability to effectively argue against budgetary cuts and assure its programs are effectively integrated with related programs. In addition, regardless whether SSA is an independent agency or not, it would

still be subject to budgetary and policy reviews by both OMB and the President.

Since the National Commission on Social Security Reform advocated an independent SSA in 1981, many changes to the agency's operational environment have occurred which could affect the perceived need for independence. The financial crisis surrounding the title II trust funds has subsided; the threat of wholesale automated data processing (ADP) systems failures has been reduced; and our extensive work to identify SSA's management weaknesses, reported on in March 1987, has, we feel, provided a blueprint for management improvement. In response to our work and their own initiatives, SSA's current leadership embarked on an extensive set of management and public service improvements that are already paying dividends.

Our work showed that most of SSA's longstanding problems were caused by the lack of strong, stable leadership; adequate management processes; and sharply focused and consistent priorities. Corrections of most of these problems, in our view, can occur whether SSA is independent or continues to be part of HHS.

STRONG AND STABLE
LEADERSHIP FOR SSA

Under S.216, the leadership of SSA is invested in a three-member board which would be assisted by an executive director to direct operations. The board structure as envisioned in this legislation would have the advantage of helping to improve policy development activities within SSA. However, our work has convinced us that the board structure has significant operational and management weaknesses.

It is our conviction that strong, stable and focused leadership is essential for sustained action in solving SSA's management and operational problems, particularly as the agency starts addressing the technological, social, and demographic challenges of the 21st century. Many of SSA's problems have been exacerbated by the fact that since 1973, SSA has had 10 commissioners or acting commissioners and has experienced at least five major reorganizations causing many redirections in operating policy, ADP modernization, and associated staff morale problems.

We testified in April of this year that we believe the most effective form of leadership would be a single administrator with a fixed term of office. Our work has shown that boards are not as effective as single administrators for managing an agency like

SSA. Over the years, we compared the board structure with that of a single administrator for several federal agencies, including the Nuclear Regulatory Commission, the Federal Communications Commission, and the Consumer Product Safety Commission. We concluded that those agencies would have been more effectively managed by a single administrator. Some of the basic assumptions about a board structure--stability, insulation from political and economic pressures, and diversity of viewpoints--have not been borne out in practice. Furthermore, we found that the performance of these organizations suffered because of 1) untimely decisions, 2) a tendency by board members to micromanage the daily operations of the agency, and 3) diffused accountability. We also found that administrative matters distracted board members from policy making and other substantive decision making--the primary purpose of and principal justifications for the board structure of leadership.

There is other evidence which suggests that boards are not as effective as single administrators. Studies, such as those by the Hoover Commission, the Ash Council, and the Railroad Retirement Commission, have recommended changes to improve board run agencies or found little value in the board leadership of agencies and have advocated their abolition. Additional details on these studies are in appendix I to this statement.

Given the problems SSA has experienced in its operations and the frequent need for direct, swift, and clear management action, we do not believe that it should have a leadership structure that could result in diffused and sometimes confusing direction over its operations. The best leadership structure for an independent SSA would be a strong single Administrator as head of the agency, appointed for an 8-year, fixed term and assisted by an advisory board for policy matters.

Although we believe that authority for managing the operations of the agency should be vested in a single administrator, a board could be established to advise the administrator on the many economic and social policy issues affecting the financial solvency of the social security programs. This would also give the Administration and Congress an opportunity to receive bipartisan views on such issues and help insulate the programs from major shifts in policy direction. The major goals of S.216 could be achieved by adopting this organizational structure while still providing for a strong single administrator.

RESPONSIBILITIES OF KEY OFFICIALS
SHOULD BE CLARIFIED

If the Congress decides to implement a board, the provisions of S.216 that delineate the responsibilities of the board, and the executive director should be clarified to clearly establish

accountability for directing SSA's operations. Title I of the bill prescribes that the board govern, by regulation, programs under titles II and XVI of the Social Security Act and establish and oversee efficient and effective operations in SSA. Title I also prescribes that the executive director will be SSA's chief operating officer, responsible for administering the programs. The legislation should clarify that the Executive Director should be responsible for directing the operations of the agency.

In addition, the bill appears to provide authority for the board to establish SSA's organizational structure, an authority that might better be given to the executive director, who will have to direct operations using that structure. Also, the bill gives the board authority for developing long-range plans for the agency. However, we believe the executive director should do the agency's operational planning.

OTHER CONCERNS

We oppose the provisions requiring the Comptroller General to carry out the inherently contradictory functions of both consulting in the implementation of demonstration projects and reporting on their effectiveness. Although evaluating the effectiveness of executive agency programs is a primary function of GAO, helping to implement those programs would appear to undermine our ability to independently evaluate them.

Section 101 establishing the beneficiary ombudsman does not state to whom this official reports. The role of the ombudsman in representing beneficiaries could be rendered ineffective unless this person reports at a high level within the organization, such as to the board or to a single administrator.

We have some concerns about section 103 of S.216 relating to personnel, procurement, and budgetary matters and these are discussed in appendix II.

PERSONAL EARNINGS AND
BENEFIT STATEMENT

As we stated in our testimony before this subcommittee on July 14, 1988, we believe there is merit in providing covered workers with better information about their Social Security earnings and benefits, as would be required by S.1079. However, before legislatively mandating a personal earnings and benefits statement, we believe the subcommittee should consider the feasibility and costs for doing so.

As you know, SSA began providing such information in August 1988 to those who request it through a "Personal Earnings and Benefit Statement" (PEBS). These statements provide workers with a summary of earnings from 1937 through 1950; an annual breakout of earnings from 1951 to the present with the FICA tax paid each year; benefit estimates for retirement before age 65, at full retirement age, and at age 70; estimates for survivors and

disability benefits; and insured status information for each type of benefit.

Currently, SSA is conducting a pilot test to determine whether it is feasible and useful periodically to send similar statements to all covered workers. This test will also determine the costs and resource impacts, as well as operational problems, associated with sending unsolicited PEBS. SSA plans to complete this effort by mid-1990, at which time it will be able to present to the Congress and the administration alternatives and costs for routinely providing earnings and benefit statements to all covered workers.

PEBS serves several purposes. First, it provides people with the opportunity to verify the accuracy of their earnings records and, if necessary, to resolve discrepancies. The failure to post or to accurately record earnings information could affect both workers' eligibility for, and the amount of, Social Security benefits. As we stated before this subcommittee last year, SSA recorded \$58.5 billion less in workers earnings than the Internal Revenue Service recorded for the period 1978-1984. We estimated that 9.7 million individuals could have uncredited earnings and that beneficiaries lost, on average, nearly \$17 a month. SSA is currently working to resolve these discrepancies.

Since the inception of PEBS, SSA responded to nearly 4.6 million requests for earnings statements from covered workers. In turn, through April 1989, these statements generated about 54,000 cases in which earning discrepancies were found by the requestors. SSA estimates that 3 percent of all requested earnings statements will result in follow-up work to clear up discrepancies. In the longrun, PEBS may be SSA's most effective tool for assuring the accuracy of workers' earnings records.

PEBS also facilitates planning for economic security during retirement, enables workers and their families to make more informed retirement decisions. According to a study done for the American Association of Retired Persons (AARP), 7 out of 10 non-retired Americans believe such planning is important. Obviously, Social Security is a critical element in retirement planning. Early information on prospective benefits payable under Social Security would enable covered workers to plan for supplemental sources of income to complement what they will receive under Social Security.

Finally, PEBS could help educate the public about Social Security and build public confidence. Some of the current public dissatisfaction with Social Security is due to a lack of information on the various benefits. Better information and understanding of all the benefits provided by Social Security should result in improved public confidence. In this regard, the

Home Testing Institute conducted studies for SSA in December 1987 and November 1988 on people's "confidence in" and "knowledge of" Social Security. Results showed a measurable increase in both categories between 1987 and 1988. SSA attributes this increase, in part, to PEBS, which was launched in August 1988.

As we stated previously before this Subcommittee, any legislation that would require SSA to send all workers a statement of earnings and benefit estimates should be drafted with an understanding of the administrative actions that would be required and the cost and resource impacts. Our work at SSA has shown that if legislation is enacted without considering these factors, SSA will have to resort to error prone, inefficient, and labor intensive manual processes. In reference to S.1079, SSA indicates they will not be able to automate adequately some provisions by their effective dates and some of the mandated requirements cannot be implemented without large increases in work years. Consequently, before legislatively mandating a personal earnings and benefit statement, we believe the subcommittee should consider the results of SSA's ongoing research on alternatives for providing such information.

Finally, Section 1 (c) authorizes the disclosure of address information by IRS to SSA. However, this may not go far enough in requiring IRS to provide SSA current address information from its various taxpayer files. IRS considers this information tax

data and has often been reluctant to disclose this information for other than tax purposes.

Mr. Chairman, that concludes my testimony. We would be happy to answer any questions and work with the subcommittee in revising the bills to reflect our concerns.

**Summary of Major Studies on
Board Forms of Leadership**

A number of studies done over the last 50 years have been critical of the board form of organization, primarily for regulatory commissions. The studies reiterated the weaknesses of collegial regulatory bodies and recommended actions to correct the identified problems and vest responsibility for management in a single administrator.

**1937-Brownlow
Committee Report**

In 1937, the Committee on Administrative Management (the Brownlow Committee) published its report which stressed the lack of coordination among independent regulatory commissions and between the independent agencies and other government branches. The report highlighted the need for reorganization to improve coordination. The proposed solution was to abolish the independent regulatory commissions and integrate them into the executive branch where the commissions would become agencies within the executive departments. Once relocated, the commission functions would be divided between an administrative section directed by a single administrator and a judicial section that would remain independent in the making of regulatory decisions.

The main thrust of the Brownlow Committee Report was that policy and administration could be coordinated in the several regulatory fields only if the agencies were responsible to a Cabinet head and ultimately to the President. The Executive Reorganization bill of 1938, which contained many of the recommendations of the Brownlow Committee, was defeated in the Congress, partly out of concern that it would give too much power to the President.

**1949-Hoover
Commission Report**

Unlike the Brownlow Committee, the first Hoover Commission concluded that the regulatory commissions had a rightful place in the political system, but

found that they had generally failed to perform up to expectations. The Commission's recommendations tended to be concerned with the organizational status and administrative structure of commissions. The Commission's report argued that the regulatory commissions would be more effective and efficient if the administrative responsibilities were vested in the commission chairperson. Echoing the Brownlow Committee, the Hoover Commission also noted the lack of coordination between the commissions and the agencies in the executive branch with similar regulatory responsibilities. To overcome this problem, it recommended that the position of administrative management director in the Bureau of the Budget (now OMB) be established to "suggest ways and means to improve and thereby reduce the cost of disposing of business before administrative agencies."

1960-Redford Report
and Landis Report

In 1960, two reports were published addressing in a more limited way the special problems related to operations and coordination posed by independent regulatory commissions. These reports suggested coordinating mechanisms to ensure a greater degree of accountability to the executive branch. The first of these, the Redford Report, prepared for the President's Advisory Committee on Government Organization, suggested statutory changes to allow policy direction from the President. The second report, the Landis Report, proposed that the administrative powers of the commission chairperson be enhanced and that staff positions be made more attractive by delegating authority. The report further suggested that the formulation of regulatory policy come under presidential guidance to ensure uniformity. Such guidance would be provided by naming special White House assistants to oversee and coordinate regulatory policy.

1971-Ash Council
Report

The 1971 report of the President's Advisory Council on Executive Organization (the Ash Council) found the board form of organization for the regulatory commissions to be essentially ineffective and unable

to respond well and in a timely fashion to economic, technological and social changes, and public needs.

These weaknesses were attributed by the Council primarily to independence from presidential authority, collegial administration, and the judicial cast of agency activities.

The Council's report recommended a major restructuring of the independent regulatory commission system "...to assure coordination of regulatory matters with national policy goals, to improve the management efficiency of regulatory functions, to improve accountability to the Congress and the Executive Branch, and to increase the probability of superior leadership for regulatory activities." This was to be accomplished by eliminating, in most cases, the plural-member commissions and replacing them with organizations headed by single administrators responsible to the President.

The Ash Council Report was the subject of extensive discussion for several years after its release. Although the report has had its supporters, most commentators have been unconvinced, believing that the Council failed to make a logical case because it lacked factual or analytical evidence for most of its conclusions. The changes and reforms directly attributable to the Ash Council were negligible.

1972-Report by the
Commission on
Railroad Retirement

In 1972, The Commission on Railroad Retirement concluded that the Railroad Retirement Board should no longer operate as a separate independent agency and that it should be headed by a single administrator rather than a board. In arriving at their conclusion on independence, the Commission stated that independent agencies lack the strength of a presidentially-appointed cabinet officer which prevents them from achieving maximum administrative effectiveness and that an independent agency serving a single clientele has a more difficult task in representing the best interests of the general public.

The Commission's report was critical of the board form of organization and stated that an agency which has responsibilities of an administrative

nature should preferably be headed by a single administrator. The Commission observed that boards suffer real handicaps in the achievement of effective administrative or managerial leadership.

In developing its conclusion, the Commission reiterated the findings of the 1971 report by the President's Advisory Council on Executive Organization which extolled the merit of vesting responsibilities in a single administrator as opposed to a board.

1984-Report by the
National Academy of
Public Administration

The National Academy of Public Administration (NAPA) concluded that single administrators are far more effective and accountable than boards. Their report stated that even if a board's role is carefully defined and its membership carefully selected, it is almost impossible to keep such a board from interjecting itself into the management of the organization. In discussing the disadvantages of boards, the NAPA report stated

"...the likelihood is that they would end up confusing and debilitating the authority of the agency head, creating conflict for the staff, and becoming another layer of management which adds little and detracts much. Furthermore, the composition of such boards becomes an issue in itself, and all too often breeds preoccupation with diversionary issues of balance, representativeness, or political fairness, rather than the ability of such boards to contribute to the success of the program."

**GAO's Specific Concerns About Section 103
Personnel; Budgetary Matters;
Facilities and Procurement**

The central management agencies of the executive branch have an appropriate role in broad policy development and oversight of agency operations, but these roles should be carried out as unobtrusively as possible. Thus, we support removal of detailed controls, which is the intent of this legislation, but not if achieved in a way that erodes the ability of the central management agencies to apply policy and regulations consistently throughout the federal government.

**Contract Authority
for Computer
Purchases and
Facilities
Construction**

We support the provision that allows contract authority for computer purchases and facilities construction to (1) cover the total cost of such acquisitions and (2) be available until expended. But this authority should be provided only after SSA's currently inadequate financial controls have been substantially strengthened. While such funding may increase the likelihood that projects will be completed without interruptions once they have been approved, there is no assurance that the government will get what it pays for without reliable financial information and reporting on costs and performance.

**Comprehensive
Workforce Plan**

We agree with the requirement that SSA requests for staffing and personnel be based upon a comprehensive workforce plan. Our ongoing work shows that SSA needs to improve its work measurement system for it to be a reliable basis for work force planning, but we believe SSA can make these improvements.

Demonstration
Project for
Personnel

We have concerns regarding the requirements for proposed demonstration projects relating to personnel matters. We believe the proposals are overly broad, with no limits on the number of employees participating in or the time period for the projects. The time frame for evaluating the results and reporting appears to be too short to permit any valid conclusions. Finally, we note that the Office of Personnel Management (OPM) already has authority in chapter 47 of title 5, U.S.C., to permit similar demonstration projects.

Pay for Key
Technical and
Professional Staff

We believe that raising the current level of pay for SSA's key technical and professional staff, as the bill would allow, should go a long way towards attracting and retaining quality people. However, we are concerned that the legislation appears to grant the board authority to appoint staff totally at its own discretion, without specific regulations or criteria to protect the interests of the government. While there may be a legitimate need for SSA to have an increased number of senior executive service and executive-level positions, SSA should be required to justify the extent of such an increase in accordance with OPM regulations.

We also believe that the amount of salary that can be paid to hire high-quality managers and technical staff under the bill is too low. As we have stated on many occasions in the past, executive pay levels should be raised. It is difficult to attract highly skilled technical managers from the private sector, where pay scales are much higher. SSA officials have told us repeatedly that they have had difficulties attracting high-quality executives because of inadequate pay levels.

OMB's Involvement
in Apportionment
Process

We also have concerns over the provision in the bill that would restrict OMB's involvement in the apportionment process. We do not favor constraining OMB's authority under the Antideficiency Act. But recognizing the concern over how OMB might use the process, the provision in the bill could be revised to require OMB to report to the Congress any restriction of or deduction from SSA's apportionment with an explanation of why OMB took that action.