



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

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October 1, 1997

The Honorable Donna E. Shalala
The Secretary of Health and Human Services

The Honorable Kenneth S. Apfel
Commissioner
The Social Security Administration

Subject: Consultant's Review of the Social Security Administration's Cost
Assignment Methodology

This letter responds to an October 18, 1996, joint request from the Secretary of the Department of Health and Human Services and the Commissioner of the Social Security Administration (SSA) for GAO's assistance in carrying out a study of the cost assignment methodology SSA uses to charge costs to the Medicare Trust Funds. The conference committee report on the Social Security Independence and Program Improvements Act of 1994 (Public Law 103-296) requires SSA and the Department of Health and Human Service's Health Care Financing Administration (HCFA) to conduct this study. GAO's assistance was requested to help produce an objective and technically sound cost allocation approach.

In March 1997, after a series of discussions with your agencies' staffs, we agreed to assist in performing the study by engaging a public accounting firm, Price Waterhouse LLP, to review SSA's cost assignment methodology, on a reimbursable basis from your agencies. In connection with the contract, we developed the scope of work, selected the contractor, reviewed Price Waterhouse's report and related workpapers, and discussed the work with its representatives. We also kept SSA, HCFA, and Office of Management and Budget representatives involved throughout the project. Price Waterhouse LLP discussed its review results with representatives of your agencies, who have agreed with the study's findings and recommendations.

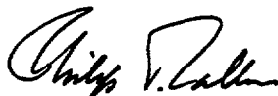
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Price Waterhouse LLP issued a report dated September 29, 1997, entitled Social Security Administration Cost Assignment Methodology Review, which has been provided to you. In summary, Price Waterhouse LLP reports that, although SSA's cost practices are consistent with a cost assignment methodology developed in the early 1970s for assigning SSA's administrative costs for the programs it supported, including the Medicare programs—which are now administered by HCFA—and while this methodology may have satisfied costing needs at the time, changes in federal activities, requirements, technologies, and assumptions over the last several years indicate that many of SSA's cost assignment bases need to be revisited and updated. Consequently, the report includes a number of recommendations to significantly change SSA's cost assignment methodology to more accurately allocate costs among programs. These recommendations also will provide cost information to support performance measurement and reporting requirements of the Government Performance and Results Act and the Chief Financial Officers Act.

Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on SSA's cost accounting system. Price Waterhouse LLP is responsible for the report and the conclusions expressed in it. However, the results of our review disclosed no instances where Price Waterhouse LLP did not comply, in all material respects, with applicable professional standards.

We believe that the consultant's conclusions are reasonable and its recommendations are appropriate. We are available to provide assistance as SSA undertakes efforts to implement the recommendations.

Please contact me at (202) 512-3900 if you or your staffs have any questions about this letter.


Philip T. Calder
Chief Accountant

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