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United States Government Accountability Office
Washington, DC 20548

April 18, 2006

The Honorable Todd R. Platts
Chairman, Subcommittee on Government Management,
Finance, and Accountability
Committee on Government Reform
House of Representatives

Subject: *Managerial Cost Accounting Practices: Department of Health and Human Services and Social Security Administration*

Dear Mr. Chairman:

Authoritative bodies have promulgated laws, accounting standards, information system requirements, and related guidance to emphasize the need for cost information and cost management in the federal government. For example, the Chief Financial Officers (CFO) Act of 1990,[1] contains several provisions related to managerial cost accounting, one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information. Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and the Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*[2] established accounting standards and system requirements for managerial cost accounting (MCA) information at federal agencies. The Federal Financial Management Improvement Act of 1996[3] built on this foundation and required, among other things, CFO Act agencies to comply substantially with federal accounting standards and federal financial management systems requirements.

In light of the requirements for federal agencies to prepare MCA information, you asked us to determine the extent to which federal agencies develop cost information and use it for managerial decision making. The objectives of our review were to determine how federal agencies generate MCA information as well as how governmental managers use cost information to support managerial decision making and provide accountability.

[1] Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).
[2] In 2005, JFMIP's responsibilities for financial management and policy oversight were realigned to the Office of Management and Budget, the Office of Personnel Management, and the Chief Financial Officer's Council.
[3] Pub. L. No. 104-208, div. A., § 101 (f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

This report summarizes information provided during our briefing to your staff today concerning our review of MCA practices at the Department of Health and Human Services (HHS) and the Social Security Administration (SSA). This was our third in a series of briefings concerning the status of MCA activities at large government agencies. Our first briefing covered the status of MCA activities at the Department of Veterans Affairs and the Department of Labor.[4] Our second briefing covered the status of MCA activities at the Departments of Education, Transportation, and the Treasury.[5] The slides from today's briefing are presented in enclosure I.

MCA involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits such as performance goals, programs, activities, and outputs. The data analyzed depend on the operations and needs of the organization. Nonfinancial data measure the occurrences of activities and can include, for example, the number of hours worked, units produced, claims paid, grants managed, or time needed to perform individual activities.

Status of Efforts to Implement Managerial Cost Accounting at HHS and SSA

Similar to issues that surfaced in our earlier reports, we found a need for stronger leadership at HHS to promote and monitor the implementation of MCA departmentwide. SSA took a strong leadership role in implementing MCA and promoting the use of MCA information departmentwide.

Department of Health and Human Services

According to an HHS official, MCA at the department level was limited to aggregating costs from its operating divisions (OPDIV) to prepare the Statement of Net Cost (SNC) and did not focus on preparing MCA information for managerial decision making. Furthermore, HHS assigned responsibility for MCA implementation at the component level to its 11 OPDIVs, which are disparate in mission and focus, but HHS did not take an active leadership role to promote MCA or monitor its implementation at its OPDIVs. As a result, department officials did not have information about which components had and used MCA, and they had to refer to component officials to obtain information on the status and application of MCA for their major programs and activities.

Neither of the two components we reviewed—the Centers for Medicare and Medicaid Services (CMS), and the Centers for Disease Control and Prevention (CDC)—had an MCA system in place at the component level to routinely allocate costs to activities, services, and outputs in support of managerial decision making. At the CMS Medicare Program division, an activity-based cost system was developed for Medicare contractors to report their costs for reimbursement. CMS officials used that cost information to compare contractor costs and seek corrective actions when

[4] GAO, *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*, GAO-05-1013R (Washington, D.C.: Sept. 2, 2005).
[5] GAO, *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*, GAO-06-301R (Washington, D.C.: Dec. 19, 2005).

costs were significantly different than anticipated. CDC officials had not yet completed an assessment of their MCA needs.

In the absence of strong leadership to promote and monitor MCA implementation across its OPDIVs, HHS management lacks routine access to reliable cost information to inform management decisions. This absence also contributed to a difference between HHS expectations and the plans of two OPDIVS for implementing an Oracle Projects cost accounting module. HHS officials told us that the Unified Financial Management System (UFMS), currently under development with implementation expected by fiscal year 2008, is to include an Oracle Projects cost accounting module, and that the OPDIVs and the Program Support Center (PSC) will incorporate Oracle Projects in their planned UFMS implementation and tailor it to meet their needs. However, a CMS official said that CMS had not yet analyzed Oracle Projects to determine if it will meet CMS's MCA needs and was uncertain whether CMS would use the module. Similarly, a CDC official said that CDC, a pilot site for implementation of UFMS, had no plans to use the module for MCA and had not yet completed a full assessment of its MCA needs. Without appropriate evaluation of its MCA needs and the Oracle Projects cost accounting module, HHS will not know whether the module can provide the necessary MCA information.

Social Security Administration

SSA's strong leadership promoting MCA and monitoring its usage and implementation, aided by a centrally managed organizational structure and fostered by legislative requirements, has resulted in routine use of MCA information for management decision making. Further, management focused on establishing a system of controls to help ensure the reliability of the data used. SSA reported that it started using cost information to manage its programs 30 years ago and is continuing to improve and expand its financial management efforts. Enhancements to SSA's MCA system, planned for completion in September 2008, are intended to improve the quality, consistency, and accessibility of information used by managers and analysts throughout SSA.

SSA officials said that cost information was used for budgeting, resource allocation, and managing operations by determining unit costs and production rates, as well as SNC preparation. They also said SSA uses MCA information to allocate administrative expenses to the Social Security and Medicare trust funds as required by law.

We identified an opportunity for SSA to use MCA to determine the full costs related to fees that SSA collects from some states. In 2005, SSA collected $276 million in fees from the states for processing claims to state programs that supplement SSA's Supplemental Security Income (SSI) benefits. The original fees were established by law with later provisions permitting yearly increases based on the Consumer Price Index or other rates for each state as determined appropriate by the SSA Commissioner. SSA had not analyzed the costs related to these fees to determine whether the states might be under- or overcharged for full SSA costs incurred.

Recommendations for Executive Action

We are making three recommendations to the Secretary of Health and Human Services and one recommendation to the Commissioner of the Social Security Administration.

Recommendations to the Secretary of Health and Human Services

To help ensure that HHS and its OPDIVS and PSC implement and use reliable MCA methodologies, we recommend that the Secretary of HHS

- take an active leadership role to promote the benefits and uses of MCA;
- direct appropriate department-level officials to develop procedures to monitor the implementation of its MCA policy at its OPDIVs and PSC; and
- direct appropriate officials to evaluate whether the Oracle Projects module will provide MCA information to support decision making at HHS, its OPDIVs, and PSC.

Recommendation to the Commissioner of the Social Security Administration

To better understand the relationship of costs and revenues related to fees SSA collects for administering state SSI supplementation programs, the Commissioner of SSA should direct appropriate officials to study those costs to determine the full cost, including the cost of services provided by other entities for the benefit of SSA.

Agency Comments and Our Evaluation

We requested comments on a draft of our briefing presentation from the Secretary of Health and Human Services and the Commissioner of SSA or their designees. We considered and incorporated, as appropriate, the comments we received by e-mail from HHS and by letter from SSA. The comment letter from SSA is reprinted in enclosure II.

Comments from the Department of Health and Human Services

HHS provided technical comments and did not respond to our conclusions and recommendations to promote MCA, develop procedures for monitoring MCA implementation, and evaluate whether the Oracle Projects module will provide MCA information to support decision making at HHS.

HHS suggested we include information about the "green plan" it is developing, stating that it will provide better financial information to managers and that the effort will include leveraging UFMS projects to provide MCA data. The HHS green plan initiative was undertaken in response to the President's Management Agenda, which

outlined five governmentwide goals to improve federal management, including improved financial performance and budget and performance integration. At the time of our review, an HHS contractor had interviewed OPDIV representatives and conducted benchmarking research to recommend an approach for developing HHS's green plan. The contractor's plan for HHS, however, did not identify how UFMS would be leveraged to provide MCA data. Accordingly, we did not modify our report to address this comment.

Comments from the Social Security Administration

SSA generally agreed with our findings, conclusions, and recommendation to analyze the full cost SSA incurs for processing state SSI supplementation claims in order to better understand the relationship of those costs to related fee revenues. SSA agreed to consider our recommendation when improvements to its workload system for employee time, the Time Allocation System (TAS), is implemented, making it easier to perform a detailed analysis to determine the full cost SSA incurs for the state SSI supplementation programs.

SSA also stated that the elements of cost in the state SSI supplementation program fee and the impact of imputed costs on that fee cannot be readily determined. These kinds of determinations, however, are the essence of cost accounting and, as suggested by SSA, may be facilitated by implementation of TAS.

Scope and Methodology

Our methodology was consistent with the one employed in our prior reviews of MCA practices.[6] To obtain an understanding of how MCA systems at HHS and SSA generate cost information, we interviewed officials and reviewed documentation on the status of MCA system implementation and the related obstacles to managerial costing. We also examined departmental guidance and looked for evidence of leadership and commitment to the implementation of entitywide cost management practices. Using the *Standards for Internal Control in the Federal Government*[7] as a guide, we identified internal controls over the reliability of financial and nonfinancial information used in MCA. To determine how managers use cost information to support managerial decision making and provide accountability, we obtained an understanding of how HHS and SSA use cost accounting data for budgeting, costing services or products, preparation of the Statement of Net Cost, managing contractors' reimbursable costs, and other managerial uses through interviews of agency officials and a review of documentation provided by the agencies.

During our review, we visited HHS headquarters in Washington, D.C., and the SSA headquarters in Baltimore. We also visited the headquarters of HHS's largest component—CMS—in Baltimore, and held teleconferences with officials at CDC, a

[6] GAO-05-1013R, 12; GAO-06-301R, 7.
[7] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

pilot site for implementation of HHS's new departmentwide financial management system, in Atlanta. When possible, we corroborated information obtained in interviews with agency documents such as policies, procedures, system descriptions, and flowcharts. We also reviewed prior Office of Inspector General, independent public accountant, and GAO reports regarding MCA activities, systems, and data. The agencies provided comments on a draft of this report, which we considered and incorporated as appropriate. We performed this work from September 2005 through March 2006 in accordance with U.S. generally accepted government auditing standards.

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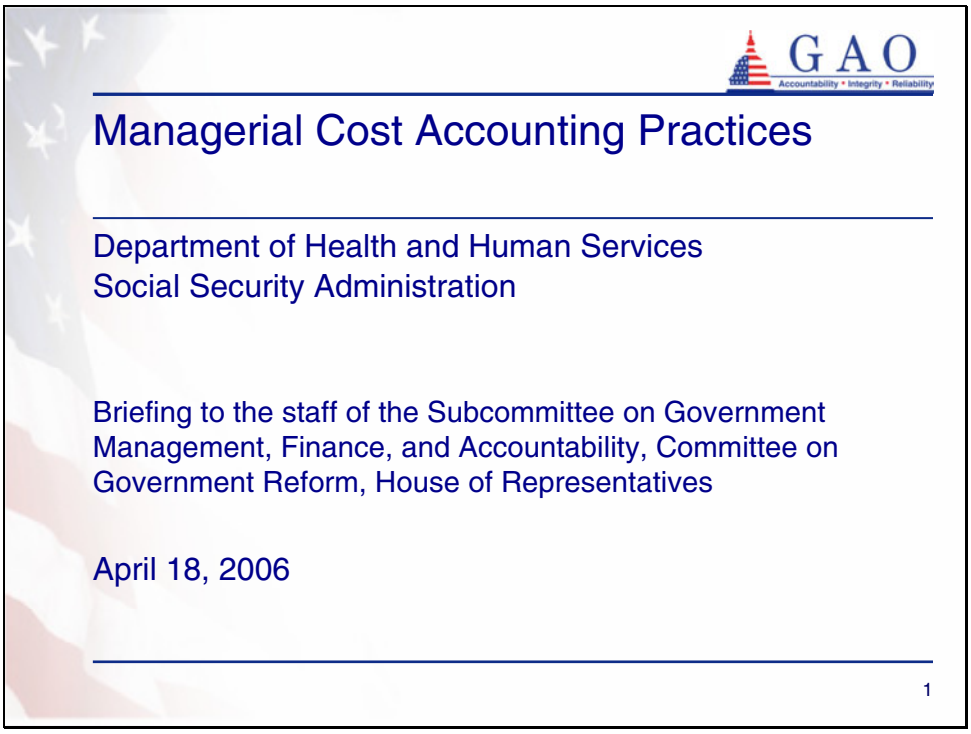
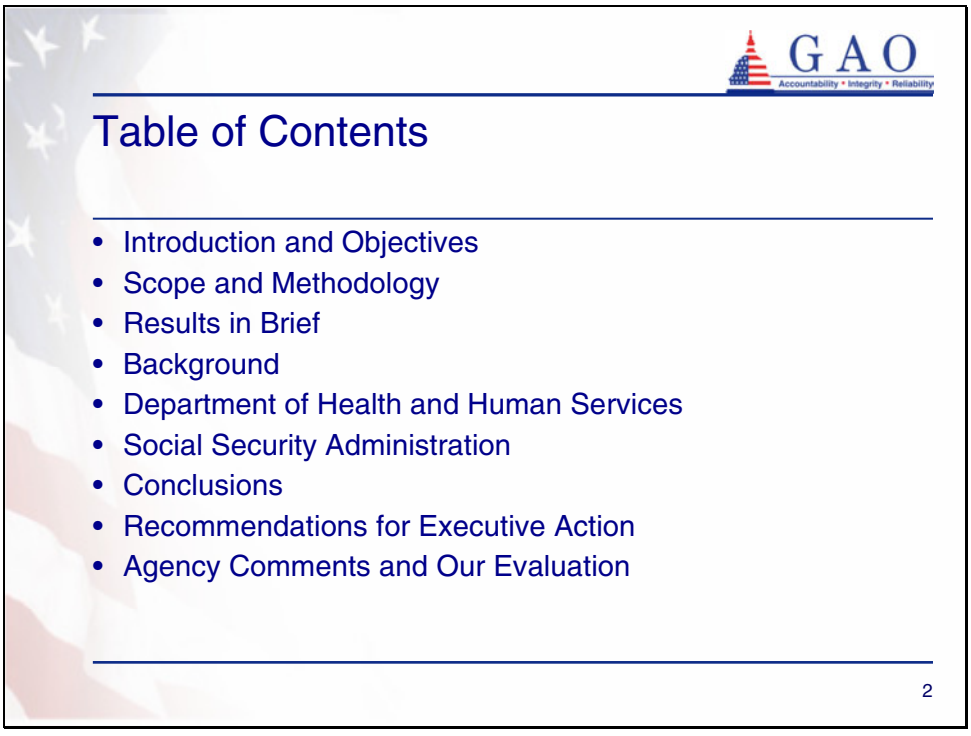
We are sending copies of this report to the Secretary of Health and Human Services and the Commissioner of the Social Security Administration; the Director of the Office of Management and Budget; and other interested parties. Should you or your staff have any questions on the matters discussed in this correspondence, please contact me at (202) 512-6131 or martinr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

Sincerely yours,

Robert E. Martin
Director, Financial Management and Assurance

April 18, 2006, Briefing





Introduction and Objectives

- Authoritative bodies have promulgated laws, accounting standards, system requirements, and related guidance to emphasize the need for cost information and cost management in the federal government:
  - Congress
  - Federal Accounting Standards Advisory Board (FASAB)
  - Joint Financial Management Improvement Program (JFMIP)
  - Office of Management and Budget (OMB)
- In light of these requirements, you asked us to determine the extent to which federal agencies develop cost information and use it for managerial decision making.

3

Introduction and Objectives

- The objectives of our review were to determine how
  - federal agencies generate managerial cost accounting (MCA) information and
  - government managers use cost information to support managerial decision making and provide accountability.
- This is the third in a series of briefings concerning the status of MCA activities at large government agencies.
- This briefing summarizes our observations at the Department of Health and Human Services (HHS) and the Social Security Administration (SSA).

4

Scope and Methodology

- To determine how MCA systems at HHS and SSA generate cost information, we interviewed officials and reviewed documentation at the HHS and SSA headquarters and at selected HHS component agencies, on
  - the status of MCA system implementation;
  - departmental guidance, leadership, and commitment to the implementation of cost management practices entitywide;
  - departmental internal controls to help ensure the reliability of financial and nonfinancial information used in MCA; and
  - any obstacles to managerial costing.

5

Scope and Methodology

- To determine how HHS and SSA managers used cost information to support managerial decision making and provide accountability, we interviewed officials at the HHS and SSA headquarters and at selected HHS component agencies on the use of cost accounting data for
  - budgeting; costing activities, services, or products; monitoring operations; and enhancing performance measures and operational efficiency;
  - preparing the Statement of Net Cost; and
  - any other uses.

6

Scope and Methodology

- We visited the HHS headquarters in Washington, D.C., and the SSA headquarters in Baltimore. We also visited the headquarters of HHS's largest component - the Centers for Medicare and Medicaid Services (CMS) - in Baltimore, and held teleconferences with officials at HHS's Centers for Disease Control and Prevention (CDC), a pilot site for implementation of a new agencywide financial management system, in Atlanta.
- When possible, we corroborated information obtained in interviews with agency documents, such as policies, procedures, system descriptions, and flowcharts. We also reviewed prior Office of Inspector General (OIG), independent public accountant, and GAO reports regarding MCA activities, systems, and data.
- We performed this work from September 2005 through March 2006 in accordance with U.S. generally accepted government auditing standards.

7

Results in Brief

- At the department level, HHS did not have a MCA system focused on managerial decision making. HHS assigned responsibility for MCA implementation to its 11 operating divisions (OPDIV), which are disparate in mission and focus, but did not take an active leadership role to promote MCA or monitor its implementation at its OPDIVs. Thus, only one of the two component agencies we reviewed used MCA.
- An HHS official told us that the department-level focus is on aggregating costs for external financial reporting, not MCA.
- HHS officials told us that the Unified Financial Management System (UFMS), currently under development, is to include an Oracle Projects cost accounting module.

8

Results in Brief

- SSA management took a strong leadership role in developing, promoting, and implementing the benefits and use of managerial cost accounting policies and procedures departmentwide.
- Further, management focused on establishing a system of controls to help ensure the reliability of the data used.
- SSA reported that it started using cost information to manage its programs 30 years ago and is continuing to improve and expand its financial management efforts.

9

Results in Brief

- The use of cost information varied between HHS and SSA.
  - An HHS official said that HHS used cost information at the department level to prepare the Statement of Net Cost (SNC). At CMS, in addition to compiling program costs for the SNC, officials used cost information to compare contractor costs and seek corrective actions when costs were significantly different than anticipated.
  - SSA officials said that cost information was used for budgeting, resource allocation, and managing operations by determining unit costs and production rates, as well as SNC preparation. We also identified an opportunity to use MCA in determining the full cost related to certain fees that SSA collects.

10

Results in Brief

- To address our findings, we made three recommendations to HHS and one recommendation to SSA. We received comments by e-mail from HHS and by letter from SSA on a draft of this briefing. We considered and incorporated the comments, as appropriate.

11

Background

- The Chief Financial Officers (CFO) Act of 1990 calls for the development and reporting of cost information and the systematic measurement of performance. The FASAB Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* and JFMIP's *Framework for Federal Financial Management Systems* establish accounting standards and requirements for MCA at federal agencies.[1]
- The Federal Financial Management Improvement Act of 1996 builds on the foundation provided by the CFO Act and includes requirements for CFO Act agencies to comply with federal accounting standards and for the agencies' systems to comply substantially with, among other things, federal financial management systems requirements.

1 In 2005, JFMIP's responsibilities for financial management and oversight were realigned to OMB, the Office of Personnel Management, and the Chief Financial Officer's Council.

12

Background

- MCA involves accumulating and analyzing financial and nonfinancial data to allocate costs to organizational pursuits, such as performance goals, programs, activities, and outputs in support of managerial decision making. The data analyzed depend on the operations and needs of the organization.
- Financial data include the costs of all activities associated with a given output, including direct and indirect costs.
- Nonfinancial data measure the occurrences of activities and outputs to which costs are assigned.
- Nonfinancial data could include, for example, information on the number of hours worked, units produced, grants managed, inspections conducted, people trained, or time needed to perform activities.

13

HHS Background

- HHS's mission is to enhance the health and well-being of Americans by providing for effective health and human services and fostering advances in sciences underlying medicine, public health, and social services.
- HHS has 11 OPDIVs that are disparate in mission and focus. These include CMS, its largest OPDIV, and CDC, a pilot OPDIV for implementation of a new agencywide financial management system. In addition, the HHS Program Support Center (PSC) provides business services for the OPDIVs and HHS departmental offices.
- In fiscal year 2005, HHS had approximately 67,400 employees and reported net outlays of about $581 billion.
- HHS awarded a reported average of 74,000 grants totaling more than $230 billion annually from fiscal years 2001 through 2004. As the largest grant-awarding agency in the federal government, HHS manages grant programs funding basic and applied science, child development, and other health and social services.

14

HHS
Background

- CMS had approximately $484.3 billion (83 percent) of HHS's reported fiscal year 2005 net outlays, and administered Medicare, Medicaid, and other programs.
  - CMS had approximately 4,750 employees in fiscal year 2005 and did most of its work through third-party contractors. There were 42 Medicare contractors in 2005. CMS and its Medicare contractors process over 1 billion Medicare claims annually. The contractors submit an annual budget to CMS for administrative costs and throughout the year file reports to draw down budgeted funds. At year-end, the contractors file a final report on costs incurred. CMS also provides the states with matching funds for Medicaid benefits.
- CDC works in the United States and abroad to address public health issues. It had approximately 9,400 employees and, with fiscal year 2005 net outlays of about $5.9 billion, represented about 1 percent of HHS's fiscal year 2005 net outlays.

15

HHS
MCA Systems in Place

- HHS management did not actively support MCA implementation.
  - HHS had issued a policy on MCA at components, but it had not monitored component compliance.
  - Department officials did not have information about which components had and used MCA, and they referred us to component officials to obtain information on the status and application of MCA to their major programs and activities.
- According to an HHS official, MCA at the department level was limited to aggregating costs from the OPDIVs to prepare the SNC and did not focus on managerial decision making.
- The official also stated that MCA implementation for grants to states and other entities posed difficulties since HHS did not have access to state systems to obtain grant cost information.
  - The reported average $230 billion annual grants awards was about 40 percent of HHS's fiscal year 2005 net outlays.

16

HHS
MCA Systems in Place

- According to HHS's MCA policy issued in 1998, determining the cost of an agency's specific programs and activities is essential for effective management of government operations. Each OPDIV is responsible for implementing MCA in accordance with its specific needs.
  - Each OPDIV should determine the appropriate detail for its cost accounting processes and procedures, and accumulate and report the cost of its programs and activities on a regular basis for management information purposes.
  - At the department level, the Secretary and assistant secretaries should be informed of the costs and revenues of each OPDIV segment so that they can report the net cost of operating the department.

17

HHS
MCA Systems in Place

- HHS MCA policy also states that MCA should be a fundamental part of the financial management system and, to the extent possible, should be integrated with other parts of the system.
- HHS is currently implementing a new financial management system, UFMS, a COTS-based Oracle software package, which is expected to replace outdated systems by fiscal year 2008. Plans for UFMS include a module – Oracle Projects – which can be used for cost accounting.
- An HHS official told us that the OPDIVs and PSC will incorporate Oracle Projects in their planned UFMS implementation and tailor it to meet their needs. However, a CMS official told us CMS was uncertain whether it would use the Oracle Projects cost accounting module for MCA. Similarly, a CDC official said that CDC had no current plans to use the module for MCA and had not yet completed a full assessment of its MCA needs.

18

HHS
MCA Systems in Place

- HHS believes that UFMS will provide relevant, reliable, and timely financial information to support decision making and cost-effective business operations at all levels of HHS.
- In 2004, we reported that UFMS implementation was at risk of not fully meeting one or more of its cost, schedule, and performance objectives, and we made 34 recommendations related to the lack of disciplined processes, security controls, and human capital issues.[2]
  - In response, HHS reevaluated the UFMS implementation schedule and delayed UFMS implementation at CDC, a pilot OPDIV for UFMS implementation, until April 2005.[3]
  - We will review actions HHS has taken on these recommendations as part of our normal audit follow-up process.

[2] GAO, *Financial Management Systems: Lack of Disciplined Processes Puts Implementation of HHS' Financial System at Risk,* GAO-04-1008 (Washington, D.C.: Sept. 23, 2004).

[3] GAO, *Financial Management Systems: HHS Faces Many Challenges in Implementing Its Unified Financial Management System,* GAO-04-1089T (Washington, D.C.: Sept. 30, 2004).

19

HHS
MCA Systems in Place

- Material weaknesses in internal control can result in inaccurate data, which may adversely affect any decision based on these data.
  - In fiscal year 2005, HHS's auditors noted that it continued to have serious weaknesses in financial systems and processes. Because of system limitations, many OPDIVs recorded numerous entries outside of the general ledger system and employed intensive manual procedures to prepare the year-end financial statements.
  - That year, CMS's auditors noted a material weakness related to reviewing and processing managed care payments, a lack of documentation and procedures to determine the eligibility of managed care providers, and a lack of a comprehensive methodology in implementation of a new payment system.
- According to an HHS official, the implementation of UFMS will address these concerns. UFMS implementation is scheduled to be complete in fiscal year 2008.

20

HHS
MCA Systems in Place

- CMS headquarters did not have a MCA system in place to routinely allocate costs to activities, services, and outputs in support of managerial decision making.
  - CMS officials used cost-finding techniques to prepare the SNC for external reporting. This was accomplished by allocating indirect costs to its three operating divisions based on annual surveys of labor hours worked.
- A CMS official told us the agency has not yet analyzed Oracle Projects to determine if it will meet its MCA needs.
- At the CMS Medicare Program division, an activity-based cost (ABC) system was developed for Medicare contractors to report their costs for reimbursement. It took cost data from the contractors' accounting systems; distributed the costs among activities (e.g., paying claims); and provided CMS managers with fully loaded costs of contractor products, services, and activities.

21

HHS
MCA Systems in Place

- Medicare Program division officials noted that certain controls exist to help ensure the reliability of contractors' financial and nonfinancial data:
  - Reviews by CMS of costs and activities self-reported by Medicare contractors, to check for reasonableness of the data.
  - Reconciliation of Medicare contractors' self-reported cost data to their budgeted amounts and interim expenditure reports.
  - Review by independent public accountants of the operational effectiveness of internal controls and reviews of Medicare contractor account receivable balances.
  - Documentation of the ABC system used by the Medicare contractors.

22

HHS
MCA Systems in Place

- Additionally, the HHS OIG audits CMS's Medicare contractors to determine the allowability of costs claimed for reimbursement. For example, we identified 39 OIG audits of CMS's Medicare contractors reported in fiscal year 2005. While these audits are a control mechanism, they also have raised issues about costs claimed.
  - Specifically, these audits uncovered issues related to the allowability of Medicare contractor pension costs, overhead, and severance and terminations costs.

23

HHS
MCA Systems in Place

- CDC officials said that it does not have a MCA system in place and noted that prior to fiscal year 2005, CDC used a cost allocation system (METIFY) to help determine indirect program costs. Officials said they stopped using the system in fiscal year 2005 when indirect costs were separately budgeted.
- In addition, though department-level officials said components were expected to use the Oracle Projects cost accounting module when they implement UFMS, CDC officials said that CDC had no current plans to use the module for MCA, and had not yet completed a full assessment of its MCA needs.

24

HHS
MCA Systems in Place

- A document provided by HHS noted that the nature of some grant programs posed challenges and obstacles to successfully implementing MCA:
  - There is inherent difficulty in tracking performance of and obtaining information on mandatory grants, which account for 85 percent of HHS's annual grant funds disbursed.
  - Grant-making OPDIVs expressed concern about a number of grant management issues, including data lags from grantees and the inability to verify and validate data.

25

HHS
Use of MCA Information

- According to HHS officials, while they had no MCA system in place at the department level for managerial decision making, they used cost-finding techniques to support budget formulation, and they aggregated cost information from CMS, CDC, and other OPDIVs to prepare the HHS SNC.
- CMS Medicare contractors used a Medicare ABC system to report their costs for reimbursement.
  - CMS officials used the reported cost data to analyze contractor performance and compare unit costs of activities. Officials said, in some cases, they would seek corrective action if costs were higher than the national average for contractors, or they would transfer subsequent contracts to better-performing contractors.

26

SSA
Background

- SSA's mission is to advance the economic security of the nation's people through shaping and managing America's Social Security programs. The programs include Old-Age and Survivors Insurance, Disability Insurance, and Supplemental Security Income (SSI).
- SSA also does work to support other programs and entities, such as the Medicare program at HHS and, in some states, state supplementation of SSI.
- In fiscal year 2005, SSA reported annual operating expenses of approximately $10.2 billion and employed approximately 65,000 people. SSA's reported total net outlays, including benefit payments, were more than $561 billion in fiscal year 2005.
- SSA's organization is centrally managed with a nationwide network of over 1,500 offices, which includes field offices, regional offices, teleservice (800-Number) centers, and program service centers.

27

SSA
MCA Systems in Place

- SSA management promoted the benefits of MCA and monitored its implementation.
  - For example, SSA's Commissioner committed to better integrating financial and budget data for decision making in her opening message of the agency's 2004 performance and accountability report.
  - The status of MCA system conversion to the Managerial Cost Analysis System (MCAS) is tracked as a monthly performance indicator.
- SSA has implemented a cost system with a unified structure for its focused line of programs that collects cost data from its nationwide network of offices.

28

SSA
MCA Systems in Place

- According to SSA officials, SSA's basic cost allocation policy for allocating direct and indirect costs to Medicare programs was established about 1965.
- SSA background documentation provided to us noted that SSA's departmentwide MCA system, the Cost Analysis System (CAS), was first put in use in 1976.
  - SSA officials said that the agencywide CAS measures costs on a full-cost basis, except for those expenses incurred by other agencies for SSA's benefit, such as certain postretirement costs paid by OPM.
  - According to SSA documents, the system integrates data from payroll, work measurement, accounting, and other management information systems, and assigns costs to the specific workloads and later to funding sources.
- Since 1987, SSA has tracked productivity improvement, and has current productivity improvement goals of 2 percent per annum.

29

SSA
MCA Systems in Place

- To better integrate data and systems for decision making, management is in the process of implementing MCAS, a new second-generation MCA system. SSA officials expect that MCAS will be implemented by September 2008. It is intended to:
  - Eliminate several legacy systems and integrate with a new data warehouse – the Social Security Unified Measurement System (SUMS) – for operational, performance, and nonfinancial data.
  - Update and expand upon the CAS system and, when integrated with SUMS, provide more detailed management information to meet changing business requirements.
  - Help address outstanding audit findings which noted a lack of policies, procedures, and documentation concerning the collection, review, and reporting of information for some individual performance indicators.

30

SSA
MCA Systems in Place

- A component of the MCAS/SUMS project is the development of the Time Allocation System (TAS). SSA documentation noted that:
  - TAS is intended to gather employee time from workload information drawn directly from an individual's computer terminal, as work is being performed.
  - The new system is expected to enhance the accuracy of employee time from workload data, which under the existing CAS system is based on extensive sampling procedures.
  - The need for labor-intensive work sampling procedures would be reduced or eliminated.

31

SSA
MCA Systems in Place

- SSA's system of internal control includes:
  - Demonstrated tone at the top setting SSA's values, competence, philosophy, and operating style.
  - Documented policies and procedures.
  - Financial data integration that includes edit checks and variance analysis to help ensure data quality.
  - Routine monitoring and assessment of performance and financial information.
  - Annual audits of financial statements, which resulted in 12 consecutive years of unqualified audit opinions, and an unqualified auditor's opinion on internal controls over financial reporting for fiscal year 2005 (SSA was the only CFO Act agency to receive positive assurance on the adequacy of internal controls over financial reporting for fiscal year 2005).

32

SSA
MCA Systems in Place

- SSA's system of internal control also includes regular internal review of financial and feeder systems by a contractor for the Office of Financial Policy and Operations. According to SSA documents, this review program:
  - Tests key systems within a 5-year cycle.
  - Uses GAO's *Federal Information System Controls Audit Manual* (FISCAM) methodology.
  - Identifies system weaknesses and unresolved findings from past reviews and recommends system improvements.
  - For example, in a June 2004 CAS review report, auditors recommended improvements in certain documentation, report distribution, and general computer controls. While management considered the risks associated with CAS to be low because the conversion to MCAS is under way, officials told us management nonetheless took corrective action on most recommendations.

33

SSA
Use of MCA Information

- SSA uses MCA information to allocate administrative expenses, as required by law, to
  - SSA trust funds (e.g., Old Age and Survivors Insurance, Disability Insurance);
  - HHS administered trust funds (e.g., Medicare Health Insurance and Supplementary Medical Insurance), which according to SSA officials, account for about 15 percent of SSA's administrative expenses; and
  - general funds (e.g., SSI).

34

SSA
Use of MCA Information

- According to SSA documents and SSA officials, MCA data from CAS are also routinely used to:
  - Determine unit costs and production rates for various time periods.
  - Track workload output, such as transactions processed and pending.
  - Measure actual performance against planned and past performance.
  - Assist with budget formulation and execution and the development of the Service Delivery Budget – the Commissioner's multiyear plan to improve productivity and fiscal stewardship – which aligns costs and work years with overarching performance goals in SSA's strategic plan.

35

SSA
Use of MCA Information

- SSA uses MCA to facilitate recovery of full cost for reimbursable activity, such as earnings records requests from pension funds and individuals. However, SSA has not analyzed the costs related to fees that it charges to states for processing state supplementation claims to determine whether the states might be under- or overcharged for full SSA costs incurred.[4]
- The original fees were established by law with later provisions permitting yearly increases based on the Consumer Price Index or a different rate as the Commissioner of SSA determines is appropriate for each state.

[4] In fiscal year 2005, SSA collected $276 million in SSI fees from the states. As provided by authorizing legislation, $151.2 million of this amount went to the Department of the Treasury.

36

SSA
Use of MCA Information

- SSA expects that implementation of SUMS/MCAS will improve the quality, consistency, and accessibility of information used by managers and analysts throughout SSA by:
  - Capturing and counting work more consistently across the agency.
  - Improving documentation controls over the workload data generation and calculation processes.
  - Providing, down to the local manager level, valid productivity information and more comprehensive information about the full cost of work activities.
  - Minimizing manual data collection and inputs.

37

Conclusions

- Strong leadership is needed to implement MCA across government. This is true regardless of whether a department chooses a departmentwide system or delegates responsibility for system development to component agencies. In either case, the reliability of the data used will depend on how well system implementation is monitored and whether a sound system of internal controls is established.

38

Conclusions

Department of Health and Human Services

- In the absence of strong leadership to promote and monitor MCA implementation across its OPDIVs, HHS management lacks routine access to reliable cost information to inform management decisions. This absence also contributed to a difference between HHS expectations and CDC and CMS plans for implementing the Oracle Projects cost accounting module. Without appropriate evaluation of their MCA needs and the Oracle Projects cost accounting module, HHS will not know whether the module can provide the necessary MCA information.

39

Conclusions

Social Security Administration

- SSA's strong leadership promoting MCA and monitoring its usage and implementation, aided by a centrally managed organizational structure and fostered by legislative requirements, has resulted in routine use of MCA information for management decision making. Further opportunities for MCA could include analysis of costs and revenues related to fees for state supplementation. Enhancements to SSA's MCA system, planned for completion in September 2008, are intended to improve data precision of its workload sampling procedures.

40

Recommendations for Executive Action

Recommendations to the Secretary of Health and Human Services

- To help ensure that HHS and its operating divisions implement and use reliable MCA methodologies, we recommend that the Secretary of Health and Human Services
  - take an active leadership role to promote the benefits and uses of MCA;
  - direct appropriate department-level officials to develop procedures to monitor the implementation of its MCA policy at its OPDIVs and PSC; and
  - direct appropriate officials to evaluate whether the Oracle Projects module will provide MCA information to support decision making at HHS, its OPDIVs, and PSC.

41

Recommendations for Executive Action

Recommendation to the Commissioner, Social Security Administration

- To better understand the relationship of costs and revenues related to fees for administering state supplementation programs, the SSA Commissioner should direct appropriate officials to study those costs to determine the full cost, including the cost of services provided by other entities for the benefit of SSA.

42

Agency Comments and Our Evaluation

- We requested comments on a draft of our briefing presentation from the Secretary of Health and Human Services and the SSA Commissioner or their designees. We considered and incorporated, as appropriate, the comments we received by e-mail from HHS and by letter from SSA.
- HHS did not respond to our conclusions and recommendations to promote MCA, develop procedures for monitoring MCA implementation, and evaluate whether the Oracle Projects module will provide MCA information to support decision making at HHS.

43

Agency Comments and Our Evaluation

- In its technical comments, HHS said that it is developing a "green plan" to provide better financial information to managers, and that the effort will include leveraging UFMS projects to provide MCA data.
- The HHS green plan initiative was undertaken in response to the President's Management Agenda which outlined five government-wide goals to improve federal management, including improved financial performance and budget and performance integration.
- At the time of this review, an HHS contractor had interviewed OPDIV representatives and conducted benchmarking research to recommend an approach for developing HHS's green plan. The contractor's plan for HHS, however, did not identify how UFMS would be leveraged to provide MCA data. Accordingly, we did not modify our report to address this comment.

44

Agency Comments and Our Evaluation

- SSA generally agreed with our findings, conclusions and recommendation to analyze the full cost SSA incurs for processing state SSI supplementation claims. SSA agreed to consider our recommendation when TAS is implemented, making it easier to perform a detailed analysis to determine the full cost SSA incurs for the state SSI supplementation programs.

- SSA also stated that the elements of cost in the state SSI supplementation program fee and the impact of imputed costs on that fee cannot be readily determined. These kinds of determinations, however, are the essence of cost accounting and, as suggested by SSA, may be facilitated by implementation of TAS.

45

Comments from the Social Security Administration

SOCIAL SECURITY
The Commissioner

March 23, 2006

Mr. Robert E. Martin
Director, Financial Management and Assurance
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Martin:

Thank you for the opportunity to review excerpts from your upcoming report, "Managerial Cost Accounting Practices: Department of Health and Human Services and the Social Security Administration." Our comments are enclosed.

If you have any questions, please have your staff contact Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Sincerely,

Jo Anne B. Barnhart

Jo Anne B. Barnhart

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) DRAFT REPORT, "MANAGERIAL COST ACCOUNTING PRACTICES: DEPARTMENT OF HEALTH AND HUMAN SERVICES AND THE SOCIAL SECURITY ADMINISTRATION" (GAO CODE 197009)

Thank you for the opportunity to review and provide comments on excerpts of this GAO draft report concerning managerial cost accounting (MCA) at SSA. The report acknowledges SSA management's strong leadership role in developing, promoting and implementing the benefits and use of MCA policies and procedures, and recognizes our progress in implementing a second-generation system, the Managerial Cost Analysis System (MCAS), to better integrate data and systems for decision making.

GAO Recommendation

To better understand the relationship of costs and revenues related to fees for administering State Supplemental Security Income (SSI) supplementation programs, the Commissioner of Social Security should direct appropriate officials to study those costs to determine the full cost, including the cost of services provided by other entities for the benefit of SSA.

SSA Comment

The GAO draft report notes that a component of our implementation of the MCAS is development of the Time Allocation System (TAS). We agree to consider this recommendation when the maturity of the TAS makes it feasible to perform a detailed analysis to determine the full cost SSA incurs for the State SSI supplementation programs.

Other Comments

We suggest the following changes to the GAO report for improving the accuracy and clarity of matters addressed in the report.

To enhance the report's clarity with regard to determination of fees for State SSI supplementation programs, we suggest the following background information be included in the GAO report. The original fees were established by law with later provisions permitting an increase based on the consumer price index (CPI) or establishing a different rate as the Commissioner of Social Security determines is appropriate for each State. Each year, SSA has increased this fee by the appropriate CPI. Since the original fee was established by law and not the actual full cost, the elements of cost in the fee cannot be precisely determined. Thus, the estimated impact of imputed costs in the SSI administrative fee also cannot be readily determined. This does not necessarily mean the

fee does not cover the imputed costs. It only means a reasonable fee was established based on law, not a precise cost accounting methodology, for each State participating in the SSI supplementation program.

Page 12, 2nd bullet should be revised to read, "SSA also does work to support other programs and entities, such as the Medicare program at HHS and, in some States, State supplementation of SSI."

Page 12, 3rd bullet, second sentence should be revised to read, "SSA's reported net outlays, including benefit payments, were more than $563 billion in fiscal year 2005." Additionally, we want to clarify that the $10.2 billion in operating expenses noted on page 12, 3rd bullet, first sentence, includes not only SSA's Limitation on Administrative Expense expenses, but also: 1) Department of the Treasury expenses to assist in managing the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance (DI) Trust Fund (which Treasury draws directly from the trust funds as managing trustee); 2) reimbursement payments to State Vocational Rehabilitation agencies; and 3) Ticket to Work payments to Employer Networks for rehabilitation services provided to DI and SSI beneficiaries.

Page 16, 2nd and 3rd bullets should be revised by inserting the words "employee time from" immediately before the word "workload" in both the 2nd and 3rd bullets.

Page 21, the second sentence in the bullet should be revised by deleting the word "SSI."

Page 21, footnote #4 should be revised to read, "In fiscal year 2005, SSA collected $275 million in SSI fees from the States. Of this total, $151.2 million went to the Department of Treasury."

Page 24, the second sentence should be revised to read, "Further opportunities for MCA could include analysis of costs and revenues related to fees for State supplementation."

Page 25, the second line should be revised by deleting the word "SSI."

GAO Contact and Staff Acknowledgments

GAO Contact

Robert E. Martin (202) 512-6131 or martinr@gao.gov

Acknowledgments

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(197009)

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