OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

THE SOCIAL SECURITY ADMINISTRATION'S USE OF THE LIMITATION ON ADMINISTRATIVE EXPENSES APPROPRIATION

September 2011 A-15-11-21170

AUDIT REPORT

Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- **Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- **Promote economy, effectiveness, and efficiency within the agency.**
- **Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- **Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- **Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- **Independence to determine what reviews to perform.**
- **Access to all information necessary for the reviews.**
- **Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.

SOCIAL SECURITY

MEMORANDUM

Date: September 14, 2011 Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Use of the Limitation on Administrative Expenses Appropriation (A-15-11-21170)

OBJECTIVE

Our objective was to review the Social Security Administration's (SSA) unobligated Limitation on Administrative Expenses (LAE) account balances at the end of Fiscal Years (FY) 2005 through 2010 to determine whether some or all of these funds were needed to cover upward adjustments of prior recorded obligations, or to provide funding for any unrecorded obligations at year-end. In our September 2010 report, *Quick Response Evaluation: The Social Security Administration's Use of Limitation on Administrative Expenses Funds (A-15-10-21085),* we determined the Agency had the opportunity to use more of its annual LAE funds to reduce the disability backlog and invest in program integrity workloads.[1] Additionally, given the increased workload demands facing the Agency, we asked that SSA consider using unobligated funds for program integrity and disability service workloads.

BACKGROUND

Congress authorizes an annual appropriation for the administrative costs SSA incurs in fulfilling the terms of the *Social Security Act*. These funds are appropriated under the LAE account. The LAE appropriation language provides SSA with the funds needed to administer the Old-Age and Survivors Insurance, Disability Insurance, and Supplemental Security Income (SSI) programs and to support the Centers for Medicare and Medicaid Services in administering its programs. The functions SSA performs

[1] Program integrity workloads include continuing disability reviews and SSI nondisability redeterminations. SSA's program integrity workloads improve accuracy of benefit programs, protect the integrity of the Trust Funds, and ensure taxpayer dollars are properly used. These program integrity efforts ensure that individuals receiving benefits continue to be eligible and are being paid the correct amount.

include issuing Social Security numbers, maintaining lifetime earnings records, processing initial claims for cash benefits, processing post-entitlement actions,[2] and adjudicating hearings and appeals cases.

Public laws[3] authorizing SSA's annual appropriation for the period of our audit provide that "…unobligated balances of funds provided at the end of [each fiscal year] not needed for [that] fiscal year…shall remain available until expended to invest in the Social Security Administration information technology and telecommunications hardware and software infrastructure…." [4] This provision allows for the transfer of dollars from the annual LAE appropriation to the no-year LAE appropriation for nonpayroll automation and telecommunications investment costs.

SSA stated,[5] "Each year the agency obligates about 99 percent of its LAE appropriation. Given the inevitability of legitimate increases to prior-year obligations, it is neither a sound nor common fiduciary practice to obligate an entire current fiscal year appropriation." SSA also stated, "There are many challenges to effectively utilizing LAE funds, and routinely, prolonged continuing resolutions (CR) contribute to those challenges. The Federal Government consistently operates under a CR at the beginning of each fiscal year and often does not receive an appropriation until one-fourth or more of the fiscal year has elapsed. This frequency drives the date of many agency purchases into later quarters and challenges the effective and efficient use of full-year funding."

The unobligated LAE balances at the end of each FY for FYs 2005 through 2010 ranged between $93 and $176 million. SSA did not transfer the unobligated annual LAE balance at the end of each FY immediately to the no-year LAE

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[2] Post-entitlement actions are services performed after individuals become eligible for benefits. These services include issuing emergency payments, recomputing payment amounts, and processing address and other status changes.

[3] For FYs 2005 through 2010, LAE amounts were appropriated under *Consolidated Appropriations Act, 2005*, Pub. L. No. 108-447, § 4, 118 Stat. 2809, 3161 (2004), Departments *of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2006,* Pub. L. No. 109-149, 119 Stat. 2833, 2877 (2005), *Revised Continuing Appropriations Resolution, 2007,* Pub. L. No. 110-5, § 101, 121 Stat. 8-9 (2007) (incorporating by reference the authority and conditions set forth in the applicable appropriations Act for 2006), *Consolidated Appropriations Act, 2008,* Pub. L. No. 110-161, § 6, 121 Stat. 1844, 2206-2207 (2007), *Omnibus Appropriations Act, 2009*. Pub. L. No. 111-8, § 5, 123 Stat. 524, 800 (2009), and *Consolidated Appropriations Act, 2010*, Pub. L. No. 111-117, § 4, 123 Stat. 3034, 3277-78 (2009), respectively.

[4] An unobligated balance is the cumulative amount of budget authority that is not obligated and that remains available for obligation under law. The unobligated balance at the end of the year consists of (a) unexpired amounts, which are available for new obligations, and (b) expired amounts, which are only available to cover adjustments to prior year obligations. For purposes of this report, we only discuss expired unobligated balances.

[5] SSA provided us with written comments on the discussion draft on April 1, 2011, and we reference the Agency's statements in this report as "SSA stated" or the "Agency stated" where appropriate.

appropriation but instead transferred funds on an ongoing basis to ensure funds remained available to cover upward adjustments to obligations or other spending actions chargeable to a prior FY.

The no-year LAE funds are apportioned by the Office of Management and Budget (OMB) each FY, and include the carryover of the unobligated no-year balance at the end of the previous FY, recoveries of prior year obligations[6] realized in the current FY, and any transfers of unobligated balances from the five previous annual LAE appropriations. For definitions of the key budgetary terms used in this report, please refer to Appendix D.

SSA stated that its "…nationwide system of multiple offices and their similar prudent management of funds, results in an annual funding lapse of approximately one percent." SSA also stated, "A similar swing in the opposite direction, even a small one, could mean an *Anti-Deficiency Act* violation."[7]

SSA left approximately 1.2 percent of the annual LAE appropriation unobligated at the end of each FY in the last 10 years and approximately 1.7 percent unobligated in the last 30 years. Before the Social Security Online Accounting and Reporting System (SSOARS) was implemented,[8] the Agency lapsed as low as 0.3 percent in FY 1989 and 0.6 percent in FY 1990 of the annual LAE appropriation. Since SSOARS went into production in FY 2004, SSA has lapsed at least 1 percent per year.

[6] Recoveries of prior year obligations are the amount of cancellations of or downward adjustments to unpaid obligations incurred in prior years. Recoveries do not accrue until after the close of the FY. For example, reimbursable work authorizations to the General Services Administration (GSA) may be subsequently cancelled after the close of the annual LAE appropriation.

[7] An *Anti-Deficiency Act* Violation occurs when one or more of the following happens: Making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law (31 U.S.C. § 1341(a)(1)(A)); involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law (31 U.S.C. § 1341(a)(1)(B)); accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property (31 U.S.C. § 1342); or making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations (31 U.S.C. § 1517(a)).

[8] SSOARS became SSA's accounting system of record when it went into production on October 1, 2003. SSOARS reports the financial results of SSA activities, provides financial information for management for use in preparing the administrative budget, and provides information to properly control SSA's assets. SSOARS receives input from SSA Headquarters, field offices, vendors, State agencies, GSA and the Department of the Treasury. SSOARS is integrated with other systems and has online query capabilities.

RESULTS OF REVIEW

We reviewed SSA's unobligated LAE account balances at the end of FYs 2005 through 2010 and determined that none of the funds was needed to cover upward adjustments of prior recorded obligations or to provide funding for any unrecorded obligations at year-end. We found that recoveries of prior-year obligations exceeded the total upward adjustments[9]and significantly increased the total unobligated balance available for transfer to the no-year appropriation. Therefore, the Agency had the opportunity to use more of its annual LAE funds to reduce the disability backlog and invest in program integrity workloads.

SSA stated, "…although the prior-year recoveries exceeded prior-year upward adjustments during the review period, the agency has no way of knowing this would happen for every account and every year and it wisely set aside funds in case. Reliance on recoveries only to cover upward adjustments could leave the agency vulnerable to an *Anti-Deficiency Act* violation if estimated recoveries do not materialize."

Based on our review, we found that, had SSA reviewed patterns of its prior year obligations and performed trend analyses, the Agency would have had ample time to identify and reallocate funds during the FY to spend on various workloads. As stated in our 2010 report, early in the budget process, SSA has the opportunity to make different decisions to ensure administrative funds are available to provide the most cost-effective use of resources for the Agency's growing workloads.

TRANSFERS OF ANNUAL LAE FUNDS AS-NEEDED

According to the Agency, it makes transfers of the annual LAE funds to the no-year LAE appropriation on an as-needed basis. SSA stated that funds remain in prior year annual LAE appropriations to ensure funding is available to cover upward adjustments to obligations or other spending actions chargeable to a prior FY. The Agency provided examples of documents dated and funded in one FY, but not recorded until the next FY. We found that, as of the end of FY 2010, the total unobligated balance available for transfer had increased significantly for each FY reviewed because of recoveries of prior year obligations. As a result, for FYs 2005 through 2007, the total amount transferred to the no-year LAE appropriation was more than the unobligated balances of the annual LAE appropriation remaining at the end of each FY. For example, $93 million was unobligated at the close of the FY 2006 annual LAE appropriation on September 30, 2006; however, the Agency transferred $116 million from the FY 2006 annual LAE appropriation to the no-year LAE appropriation between FYs 2007 and 2010. The Agency was able to transfer $23 million more than the amount remaining in the FY 2006 annual LAE appropriation on September 30, 2006 because recoveries of prior year obligations increased the unobligated balance available for transfer.

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[9] Upward adjustments of obligations reduce unobligated balances. The unobligated balances are expired budgetary resources and available for obligation only for valid upward adjustments of obligations that were properly incurred against the appropriation during the unexpired phase.

Additionally, during the periods of availability we reviewed, the cumulative upward adjustments to prior year obligations were less than the cumulative recoveries or the unobligated balance remaining at the end of each FY. At the end of each FY, there should be limited activity that would result in adjustments to obligations; however, our audit showed that the recoveries of prior year obligations alone were enough to cover upward adjustments of prior recorded obligations or to fund any unrecorded obligations at year-end. Therefore, SSA did not need the annual LAE unobligated balances available at the end of each FY to cover any upward adjustments to prior year obligations. See Table 1 for the unobligated balance available, upward adjustments, and recoveries for FYs 2005 through 2010 as of September 30, 2010.

SSA stated, “It should be noted however that from 1991 to 2003, as part of a settlement action, SSA was required to retroactively pay time-and-a-half for overtime worked by thousands of employees. These payments totaled $339.4 million with the largest amount, $226.7 million, paid in 1998.” SSA also stated, “Had the agency not annually prepared for unanticipated needs, funds would not have been available to cover this obligation and would have subjected the agency to an *Anti-Deficiency Act* violation.”

The unobligated balance remaining at the end of each FY consists of both unallowed and unobligated amounts. The Agency stated, “The unallowed amount of the annual LAE funds consists of an amount set aside for unanticipated prior year claims or upward adjustments and amounts returned by components late in the fiscal year.” These unallowed amounts represent the annual LAE funds that were not put in component allowances and the unobligated amounts represent the annual LAE funds that were allowed to components but not obligated by the components. The Agency stated “…there is no determination made on the amounts that are unallowed to the components. Instead, the unallowed simply represents the difference between the allotted amounts and the estimated funding needs for each component within the LAE account.”

SSA also stated, “There are a number of reasons why components return funds issued to them or lapse funds at the end of the fiscal year. For example, the agency has a strong acquisition process focused on competition. This process often generates awards for less than the estimated obligation and can free up funds. When possible, these savings are utilized for other agency priorities. If they cannot be used, they may become part of the lapse and the prior-year account balance at the end-of-the-fiscal-year for use toward upward adjustments or subsequent transfer to the ITS [Information Technology Systems] no-year account.”

See Table 1 for the unallowed and unobligated amounts for FY 2005 through 2010 annual LAE appropriations as of September 30 of each FY.

Table 1:
FYs 2005 Through 2010 Annual LAE Appropriations
Recoveries, Upward Adjustments, and Unobligated Balances
($ in millions)

Description	Annual LAE Appropriation						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010[10]	Total
Unallowed Amounts	$149	$47	$42	$55	$84	$73	**$450**
Unobligated Amounts	$27	$46	$77	$64	$56	$62	**$332**
Total Unobligated Balance Remaining at end of FY[11]	$176	$93	$119	$119	$140	$135	**$782**
Total Recoveries (through 9/30/2010)	$180	$127	$198	$83	$153	$0	**$741**
Total Upward Adjustments (through 9/30/2010)	$(51)	$(62)	$(96)	$(61)	$(115)	$0	**$(385)**
Total Unobligated Balance Available for Transfer (through 9/30/2010)	**$305**	**$158**	**$221**	**$141**	**$178**	**$135**	**$1,138**
Amounts Transferred to the No-year LAE Appropriation (through 9/30/2010)	$(301)	$(116)	$(130)	$(75)	$(50)	$0	**$(672)**
Total Unobligated Balances Remaining (as of 9/30/2010)[12]	**$4**	**$42**	**$91**	**$66**	**$128**	**$135**	**$466**

[10] The FY 2010 annual LAE appropriation was able to make new obligations until September 30, 2010. Therefore, the Agency did not record recoveries and upward adjustments until FY 2011 for this appropriation.

[11] The unobligated balance remaining at the end of the FY is the amount of annual LAE that OMB apportioned but was not obligated as of September 30 for FYs 2005 through 2010.

[12] The period of availability of budget authority for the FY 2005 LAE appropriation ended in FY 2010. Therefore, the total unobligated balance remaining of $4 million must be returned to the Trust Funds. During FY 2011, the annual LAE appropriations for FYs 2006 through FY 2010 are within their period of availability and remain available for disbursements and/or transfer to the no-year LAE appropriation.

RECOVERIES AND UPWARD ADJUSTMENTS

We reviewed the Standard Form-133, *Report on Budget Execution and Budgetary Resources,* and the Agency's Status of Available LAE Appropriations worksheets as of September 30 for FYs 2005 through 2010. We gained an understanding of the effect recoveries and upward adjustments had on the unobligated balance remaining in the available annual LAE appropriation.

SSA stated, it "…must ensure that it manages its resources wisely, while avoiding *Anti-Deficiency Act* violations. Sound fiduciary practices preclude relying on an unknown recovery to cover upward adjustments to prior year obligations. Not having some contingency funding to cover those adjustments could knowingly subject the agency to *Anti-Deficiency Act* violations."

Based on our review, we believe that, had SSA reviewed patterns of its prior year obligations and performed trend analyses, it would have had ample time to identify and reallocate funds during the FY to spend on various workloads. The recoveries increased the unobligated balance available for transfer, and the upward adjustments decreased the unobligated balance available for transfer. Cumulatively, recoveries of prior year obligations exceeded upward adjustments by $356 million as of September 30, 2010 for all the annual appropriations we reviewed. See Table 2 for the cumulative recoveries and upward adjustments for the annual LAE appropriations we reviewed. Table 2 shows that, historically, the upward adjustments were less than the recoveries of prior year obligations for each annual appropriation.

Table 2:
Cumulative Change in the Unobligated Balance Available for Transfer Through September 30, 2010
for the FY 2005 Through FY 2010 Annual LAE Appropriations
($ in millions)

Description	Annual LAE Appropriation						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Recoveries	$180	$127	$198	$83	$153	$0	**$741**
Upward Adjustments	$(51)	$(62)	$(96)	$(61)	$(115)	$0	**$(385)**
Change in the Unobligated Balance Available for Transfer	**$129**	**$65**	**$102**	**$22**	**$38**	**$0**	**$356**

See Appendix C for details of recoveries, upward adjustments, and changes in unobligated balance available for transfer for each annual LAE appropriation reviewed through September 30, 2010.

CONCLUSION AND RECOMMENDATIONS

The Agency's financial records show that, cumulatively, the FYs 2005 through 2010 annual LAE appropriations had recoveries of prior year obligations that exceeded the upward adjustments to prior year obligations. As a result, SSA did not need the unobligated annual LAE remaining at the end of the FY to cover upward adjustments to existing obligations. Accordingly, we recommend that SSA review existing policy and procedures and make changes as needed to decrease the amount of unobligated LAE funds remaining at the end of each FY to cover potential upward adjustments in obligations for future years.

SSA stated it "…plans to make changes as needed to decrease the amount of unobligated LAE funds remaining at the end of each FY to cover potential upward adjustments in obligations for future years." Additionally, SSA stated, although the Agency "…is reviewing existing policy and procedures, it is important to note the amounts not spent were relatively small, amounting to approximately one percent of SSA's overall administrative budget." By recognizing the need to make changes and obligate more of its annual LAE funds, SSA can process more claims, work to reduce backlogs, and/or conduct program integrity reviews and other activities to reduce the disability backlog, improve the quality of the disability process, improve service, and preserve the public's trust in SSA's programs.

SSA stated that, "…in FY 2010, the agency did reduce the amount held in reserve for prior-year claims adjustments from $50 million to $25 million, and it is prudent for the agency to set aside funds for uncertainties." As of September 30, 2010, a total of $135 million was unobligated and remaining in the FY 2010 annual LAE appropriation (see Table 1). Subsequently, SSA transferred $80 million from the FY 2010 annual LAE appropriation to the no-year LAE appropriation.

SSA also stated it is piloting an Agency-level initiative called Systematic Tracking of Agency Resources (STAR) "…to assist components to better manage and to allow the agency to better track usage of resources against component allowances. The expected result of STAR will be to allow components and agency level reviewers an opportunity to recognize unutilized resources earlier in the fiscal year that could be used for other agency priorities." We are encouraged by the steps SSA is taking to identify and reallocate funds during each FY to spend on its various workloads.

AGENCY COMMENTS

SSA disagreed with our recommendation. SSA stated it manages its appropriations in a sensible, robust manner, which allows it to meet its financial obligations and have sufficient funds in prior year accounts to cover legitimate upward adjustments to contracts or other spending actions that may be chargeable to those years. SSA further stated it does not lapse annual funding to carry it over to the ITS no-year account. In addition, the Agency stated, “The Office of the Inspector General receives a separate appropriation each year for administrative expenses and lapses funds at about the same rate.” See Appendix E for the full text of SSA’s comments.

OIG RESPONSE

We are aware that SSA typically lapses 1 percent of LAE funding each year. We recognize that SSA is transferring its unobligated funds from prior year accounts to the no-year LAE appropriation in accordance with the language provided in the public law. However, we continue to believe that earlier in the budget process, SSA can do an even better job than it is doing to provide the most cost-effective use of resources for the Agency’s growing workloads, reduce the disability backlog, and invest in program integrity workloads.

We are committed to reducing OIG’s lapse of LAE funding to considerably less than 1 percent each FY. See Table 3 below for our lapsed funds for FYs 2008 through 2010.

Table 3:
OIG Lapse Percentage of the LAE Appropriation for FYs 2008 Through 2010

FY	LAE - OIG Allocation	Unobligated Balance, Remaining at Year-End	Lapse Percentage
2008	$91,914,901	$281,392	0.306%
2009	$99,505,700	$375,212	0.377%
2010	$102,682,000	$61,000	0.059%

Patrick P. O’Carroll, Jr.

Appendices

Acronyms

CR	Continuing Resolution
FY	Fiscal Year
GSA	General Services Administration
ITS	Information Technology Systems
LAE	Limitation on Administrative Expenses
OIG	Office of the Inspector General
OMB	Office of Management and Budget
Pub. L. No.	Public Law Number
SSOARS	Social Security Online Accounting and Reporting System
SSA	Social Security Administration
SSI	Supplemental Security Income
STAR	Systematic Tracking of Agency Resources
U.S.C.	United States Code

Scope and Methodology

To accomplish our objective, we:

- Reviewed applicable laws and regulations, and pertinent sections of the Social Security Administration's (SSA) Accounting Manual related to the Limitation on Administrative Expenses (LAE) appropriation.

- Interviewed personnel from SSA's Office of Finance to obtain LAE's
  - annual unobligated balances;
  - recoveries of prior year obligations;
  - annual upward adjustments; and
  - no-year transfers.

- Calculated recoveries of prior year obligations using SSA's reports to determine the difference between upward adjustments to prior year obligations and the change in unobligated balance available for transfer chargeable to an annual LAE appropriation in a fiscal year.

- Reviewed the Standard Form-132, *Apportionment and Reapportionment Schedule,* for SSA's approved transfer requests.

- Gained an understanding of the transfer of unobligated funds from the annual LAE appropriation to the no-year LAE appropriation.

- Reviewed the SF-133, *Report on Budget Execution and Budgetary Resources,* for LAE's annual unobligated balances and upward adjustments

We conducted our work at SSA Headquarters in Baltimore, Maryland, in December 2010. We determined that the data used in this report were sufficiently reliable given the review objectives and their intended use. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Changes in the Unobligated Balance Available for Transfer by Fiscal Year

We reviewed the changes in the unobligated balance available for transfer (that is, the net effect of recoveries of prior year obligations and upward adjustments to prior year obligations) for Fiscal Years (FY) 2005 through 2010 annual Limitation on Administrative Expenses (LAE) appropriations, as described below. As of September 30 of each FY, recoveries exceeded upward adjustments to prior year obligations with the exception of two FYs. In FY 2008, the upward adjustments to the FY 2006 annual LAE appropriation totaled $4 million more than recoveries, and during FY 2009, the upward adjustments to the FY 2007 annual LAE appropriation totaled $30 million more than recoveries. See Table 1 for the recoveries, upward adjustments, and changes in the unobligated balance available for transfer as of September 30 for the FYs 2005 through 2010 annual LAE appropriations.

Adjustments to Prior Year Obligations in the First Quarter of FY 2011

At the end of FY 2010, $135 million was unobligated and remained in the FY 2010 annual LAE appropriation. However, the expired phase did not begin until FY 2011, which started on October 1, 2010. By the end of the first quarter of FY 2011, the Agency had identified $43 million in recoveries and $1 million in upward adjustments for the FY 2010 annual LAE appropriation. Therefore, recoveries exceeded upward adjustments by $42 million from October 1 through December 31, 2010.

The Agency also recorded $11 million in recoveries and $9 million in upward adjustments to prior year obligations for the FYs 2006 through 2009 annual LAE appropriations in the first quarter of FY 2011.

Because of adjustments to prior year obligations in the first quarter of FY 2011, the cumulative recoveries and upward adjustments for the FYs 2006 through 2010 annual LAE appropriations increased by $54 million and $10 million, respectively. Therefore, cumulatively, recoveries exceeded upward adjustments by an additional $44 million for the annual LAE appropriations we reviewed.

Table 1: Changes in the Unobligated Balance Available for Transfer for the FY 2005 Through 2009 Annual LAE Appropriations ($ in millions)								
Annual Appropriations	Description	FYs (as of September 30)						
		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
FY 2005	Recoveries		$72	$27	$20	$31	$30	**$180**
	Upward Adjustments		$(15)	$(16)	$(7)	$(8)	$(5)	**$(51)**
	Change		**$57**	**$11**	**$13**	**$23**	**$25**	**$129**
FY 2006	Recoveries			$70	$21	$19	$17	**$127**
	Upward Adjustments			$(17)	$(25)	$(13)	$(7)	**$(62)**
	Change			**$53**	**$(4)**	**$6**	**$10**	**$65**
FY 2007	Recoveries				$100	$18	$80	**$198**
	Upward Adjustments				$(43)	$(48)	$(5)	**$(96)**
	Change				**$57**	**$(30)**	**$75**	**$102**
FY 2008	Recoveries					$63	$20	**$83**
	Upward Adjustments					$(44)	$(17)	**$(61)**
	Change					**$19**	**$3**	**$22**
FY 2009	Recoveries						$153	**$153**
	Upward Adjustments						$(115)	**$(115)**
	Change						**$38**	**$38**

Definitions of Key Budgetary Terms Used in the Report[1]

Allotment	Authority delegated by the head or other authorized employee of an agency to incur obligations within a specified amount, pursuant to the Office of Management and Budget (OMB) apportionment or reapportionment action or other statutory authority making funds available for obligation. Amount allotted cannot exceed the amount apportioned by OMB.
Allowance	A classification of authority below the allotment level that is issued to components to make funds available for spending.
Annual Budget Authority (Appropriation)	Budget authority that is available for obligation during only 1 fiscal year or less.
Anti-Deficiency Act Violation	An *Anti-Deficiency Act* violation occurs when one or more of the following happens: overobligation or overexpenditure of an appropriation or fund account (31 U.S.C. § 1341(a)); entering into a contract or making an obligation in advance of an appropriation, unless specifically authorized by law (31 U.S.C. § 1341(a)); acceptance of voluntary service, unless authorized by law (31 U.S.C. § 1342); or overobligation or overexpenditure of (1) an apportionment or reapportionment or (2) amounts permitted by the administrative control of funds regulations (31 U.S.C. § 1517(a)).
Apportionment	A distribution made by OMB of amounts available for obligation in an appropriation or fund account into amounts available for specified time periods, program, activities, projects, objects, or any combination of these. The apportioned amount limits the obligations that may be incurred. An apportionment may be further subdivided by an agency into allotments, suballotments, and allocations.

[1] We obtained the majority of definitions from OMB Circular No. A-11; however, the allotment and allowance definitions were obtained from the U.S. Department of Health and Human Services' Food and Drug Administration Staff Manual Guide. The *Anti-Deficiency Act* Violation definition was taken from the Government Accountability Office's *Glossary of Terms Used in the Federal Budget Process* (September 2005, GAO-05-734SP).

Appropriation	A provision of law authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
Budget Authority	Authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections.
Expired Phase	During this time period, the budget authority is no longer available for new obligations but is still available for disbursement. This phase lasts five years after the last unexpired year unless the expiration period has been lengthened by legislation. Specifically, you may not incur new obligations against expired budget authority, but you may liquidate existing obligations by making disbursements.
No-year Budget Authority (Appropriation)	The language for a specific appropriation of budget authority or the authorization of the appropriation may make all or some portion of the amount available until expended. That means you can incur obligations against it indefinitely.
Recoveries of Prior Year Obligations	The amount of cancellations of or downward adjustments to unpaid obligations incurred in prior years.
Unexpired Phase	During this time period the budget authority is available for incurring "new" obligations. You may make "new" grants or sign "new" contracts during this phase and you may make disbursements to liquidate the obligations.
Unobligated Balance	The cumulative amount of budget authority that is not obligated and that remains available for obligation under law.
Upward Adjustments of Prior Recorded Obligations	Upward adjustments of obligations reduce unobligated balances.

Agency Comments

SOCIAL SECURITY

MEMORANDUM

Date: August 11, 2011 Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: Dean S. Landis
Deputy Chief of Staff /s/

Subject: Office of the Inspector General Draft Report, "Follow-up: The Social Security Administration's Use of the Limitation on Administrative Expenses Appropriation" (A-15-11-21170)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Frances Cord at (410) 966-5787.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "THE SOCIAL SECURITY ADMINISTRATION'S USE OF THE LIMITATION ON ADMINISTRATIVE EXPENSES APPROPRIATION" (A-15-11-21170)

General Comments

This audit is a follow-up to your September 2010, Quick Response Evaluation (QRE), *The Social Security Administration's Use of the Limitation on Administrative Expenses Appropriation.* Your latest report reflects the same conclusions as the previous QRE, and we continue to disagree.

Your position, for the years studied, is that we could have managed our budget more effectively, devoted more funds to processing claims and other workloads, and decreased unused balances available for transfer to the information technology systems (ITS) account. Generally, you assert that we use our Limitation on Administrative Expenses (LAE) funding and transfer authority improperly. Characterized in this way, others have misconstrued our ITS transfer authority as a "slush fund." This characterization is regrettable since it leads the public to conclude that the ITS carryover fund is not authorized and, more importantly, is used for an improper purpose. The ITS carryover fund is a funding mechanism specifically authorized by Congress and managed closely by the Office of Management and Budget (OMB).

Our fiscal year (FY) 1996 LAE appropriation stated, "[t]hat unobligated balances at the end of fiscal year 1996 not needed for fiscal year 1996 shall remain available until expended for a state-of-the-art computing network, including related equipment and administrative expenses associated solely with this network." A Senate report accompanying an earlier version of this appropriations bill explained that this language "has been added specifying that funds unobligated at the end of the fiscal year remain available until expended to augment multiyear automation initiatives." Based on Congress' authorization and OMB's approval, we transferred available balances to our automation investment fund to fund a "state-of-the-art" computing network that allowed us to provide our employees with desktop computers that were the backbone for significant employee productivity improvements.

Congress included similar language in the FY 2001 appropriation that allowed us to carry forward unobligated LAE funds to invest in LAE ITS costs. Congress has continued to provide this authority in every succeeding appropriations act since FY 2001. The legislative history is clear: Congress has specifically authorized our LAE unobligated funds carryover mechanism.

We concur with the statements in your reports that the language included in the annual LAE appropriation does not automatically authorize the transfer of funds to the ITS no-year account. OMB oversees the entire budget and ITS carryover processes to ensure that funding decisions are transparent and justified. We must justify the transfer to OMB, and OMB must give us formal approval through the apportionment process before we can transfer and spend any funds. Moreover, available ITS carryover funding factors into our annual budget request. During the budget process, we work with OMB to determine how much of our information technology (IT) needs will be covered with ITS carryover funding, thereby decreasing the amount of new funding we may need in any given year.

Recommendation

Review existing policy, procedures, and make changes as needed to decrease the amount of unobligated LAE funds remaining at the end of each fiscal year to cover potential upward adjustments in obligations for future years

Response

We disagree.

We manage our appropriations in a sensible, robust manner. We meet our financial obligations and have sufficient funds in our prior year accounts to cover legitimate upward adjustments to contracts or other spending actions that may be chargeable to those years. We typically lapse only about one percent of our LAE funding each year. The Office of the Inspector General receives a separate appropriation each year for administrative expenses and lapses funds at about the same rate.

Because decreases in our obligations exceeded increases in FY’s 2005 through 2010, you concluded that the agency had the opportunity to use more of its annual LAE funds to reduce the disability backlog and invest in program integrity workloads. We have a long history of sound financial management practices that avoid Anti-Deficiency Act violations. We cannot make business decisions that depend on the possibility of obligations coming in lower than estimated. In FY’s 2000, 2001, and 2002, the net changes in obligations were higher than at the close of the fiscal year. Fortunately, we had funds in those years to cover the increases.

Under our current process, we allocate annual resources as soon as we have an appropriation from Congress and approved apportionments from OMB. We continually monitor our resources and reallocate them to our highest priorities as the year progresses. We also recently implemented a system that strategically tracks agency resources. It would be imprudent to over allocate resources by assuming that we might free up money toward the end of the fiscal year. With nearly 80,000 Federal and State employees, small swings in salary or benefit costs equal millions of dollars. An over allocation could cause an Anti-Deficiency Act violation if costs are not lower than we assumed.

When we receive a budget each year, we determine the level of staff we can fund and support in future fiscal years. Your suggestion that we use annual LAE resources more aggressively to process more claims and complete program integrity work would require us to hire additional staff. Prolonged continuing resolutions can delay the hiring process. Uncertainty about future funding makes it difficult to predict how many employees we can support in future years. We cannot make long-term commitments to hire employees when future budgets may not support retaining them, potentially forcing us to implement furloughs or other drastic cost saving measures.

We do not lapse annual funding in order to carry it over to the ITS no-year account. Nevertheless, with the complexity of our budget, two-thirds of which is payroll costs, a small amount of lapsed resources is unavoidable and often necessary to avoid an Anti-Deficiency Act violation.

ITS transfer authority allows us to make technology improvements that help our employees work more efficiently. Our IT investments have helped us achieve average annual employee productivity increases about 4 percent each of the last four years. Most of our annual ITS funding is necessary for ongoing operational costs such as our 800 number service and our online services, among others. It also helps us maintain sufficient capacity to store ever-increasing amounts of data. Additionally, prior year resources helped fund IT projects such as making our disability process fully electronic, developing robust and user-friendly online services, and opening our second data center. Without these IT investments, we would not have been able to keep pace with the recent increases in claims. If we did not have the ITS transfer authority but still invested the same amount of resources in IT enhancements to improve employee productivity so we could keep pace with growing workloads, we would have completed nearly 1 million *fewer* disability claims or nearly 500,000 *fewer* hearings since FY 2001.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

In addition to those named above:

Yvasne Simmons, Senior Auditor

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OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

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