

12068

REPORT BY THE

110885

Comptroller General

OF THE UNITED STATES

Indirect Costs Of The Social Security Administration's Disability Programs Are Excessive And Should Be Reduced

In 1978, the Social Security Disability Insurance program and the Supplemental Security Income program paid about \$19.5 million in indirect charges to the State agencies for services provided in making disability determinations.

In four of the six States GAO visited, these programs were overcharged at least \$645,000 annually in indirect costs. Another \$570,000 in program costs could have been saved if a more equitable method of allocating indirect costs had been used in two States.

HEW regional negotiators do not adequately analyze the propriety of indirect costs. HEW headquarters has no adequate mechanism to assure itself that the regional negotiation procedures are applied effectively and uniformly.

The Secretary of HEW needs to monitor the effectiveness of the procedures under which HEW negotiators approve indirect costs to assure that services being paid for are actually benefiting the disability programs and negotiators consider the most equitable allocation methods.



110885

007834



HRD-80-23

NOVEMBER 19, 1979



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-164031(4)

The Honorable J. J. Pickle
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

HSE 04404

Dear Mr. Chairman:

In response to the Subcommittee's June 29, 1978, letter, we reviewed the indirect cost mechanism of reimbursement of State agencies under the Disability Insurance and Supplemental Security Income programs. In addition, we evaluated the role of the Department of Health, Education, and Welfare in monitoring the propriety of indirect cost rates and agreements.

We identified weaknesses which can result in (1) payment for some services which do not benefit the disability programs and (2) payment of an inequitable share of the cost of some services which do benefit the programs.

As requested by your office, we did not take the time to obtain written comments from the Department of Health, Education, and Welfare. We did, however, discuss the matters covered in this report with personnel of the Department and the Social Security Administration, and their comments are incorporated where appropriate.

Sincerely yours,

Lucas B. Smith

Comptroller General
of the United States

3378 Col.
3379
3380
3381

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, SUBCOMMITTEE
ON SOCIAL SECURITY, HOUSE
COMMITTEE ON WAYS AND MEANS

INDIRECT COSTS OF SOCIAL
SECURITY ADMINISTRATION'S
DISABILITY PROGRAMS ARE
EXCESSIVE AND SHOULD BE
REDUCED

D I G E S T

The Department of Health, Education, and Welfare (HEW) reimburses States for costs they incur in making disability decisions under the Social Security Disability Insurance and Supplemental Security Income programs. Total allowable costs are those charged directly to a program plus a share of indirect costs. HEW pays more than its appropriate share of these indirect costs. 1 FC

HEW negotiators are responsible for approving plans for almost all indirect costs affecting the disability programs. (See pp. 2 and 3.) Between fiscal years 1974 and 1978, indirect disability program costs increased from \$9 million to \$19.5 million annually. GAO visited six States which together accounted for about 55 percent of the program's total indirect cost in fiscal year 1978. (See p. 1.) 1 FC

In four of the six States, GAO estimates that disability programs were overcharged at least \$645,000 for services that did not benefit them. (See pp. 6 and 7.)

Disability programs in two States, New York and California, also were charged an amount of indirect costs which appeared to exceed benefits received from State services. These States used an allocation method which allowed them to charge a high percentage of indirect cost to the disability programs. A comparable third State, Colorado, used a different method which charged a more equitable amount to the disability programs. Had New York and California used Colorado's method, indirect costs charged to the program would have been reduced by almost \$570,000. (See pp. 7 to 9.)

HEW negotiators do not adequately analyze the propriety of indirect costs. State officials generally are not contacted and required to explain how certain services benefit the disability programs. Although one HEW regional office identified a more equitable way of allocating indirect costs to the disability programs, other regional offices were unaware that the same logic could be applied in their States. (See pp. 9 and 10.)

HEW headquarters has no adequate mechanism to assure itself that the regional negotiation procedures are applied effectively and uniformly. Monitoring reviews no longer are being performed. (See p. 11.)

GAO also looked at the extent of the Social Security Administration's (SSA's) participation in the examination of indirect costs. Regional officials should be familiar with the indirect cost principles, SSA policy states. However, these officials generally are not knowledgeable of indirect cost principles and do not aid HEW in identifying improper charges being made.

Reduction of indirect costs has not been pursued effectively. (See pp. 12 and 13.)

The Secretary of HEW should eliminate inappropriate charges to the disability programs by:

- Assuring that HEW negotiators verify that services being paid for actually are benefiting the programs.
- Assuring that HEW negotiators consider the most equitable method of allocating indirect costs.
- Monitoring the effectiveness of the procedures under which HEW negotiators approve indirect costs. (See p. 14.)

The Secretary should also direct the Commissioner of Social Security to assure that SSA regional offices have a capability in the area of indirect cost principles so that they can effectively participate in the negotiation process. (See p. 14.)

- At the Subcommittee's request, GAO did not obtain written comments from HEW. GAO did discuss major findings with agency officials, and their comments are included in the report where applicable.

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Disability programs	1
Costs charged to Federal programs	2
Uniform standards for determining costs	3
Scope of review	5
2 HEW NEEDS TO BETTER ANALYZE INDIRECT COSTS AND MONITOR THE NEGOTIATION PROCESS	6
States charge for services that do not benefit the disability programs	6
Disability programs pay an inequitable share of indirect costs	7
HEW action revised Colorado's method of allocation	8
Colorado's method should be applied to California and New York	8
Negotiators are not adequately analyzing indirect costs	9
Need to verify indirect costs	10
Closer monitoring is needed over the negotiation process	11
3 SSA SHOULD PARTICIPATE MORE IN THE EXAMINATION OF INDIRECT COSTS	12
SSA regional office participation in reviewing indirect costs varies	12
SSA regional staff lacks knowledge of indirect cost principles	12
4 CONCLUSIONS AND RECOMMENDATIONS	14
Conclusions	14
Recommendations to the Secretary of HEW	14
APPENDIX	
I Letter dated June 29, 1978, from the Chairman of the Subcommittee on Social Security, House Committee on Ways and Means	15

ABBREVIATIONS

DDS	Disability Determination Service
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
SSA	Social Security Administration
SSI	Supplemental Security Income

CHAPTER 1

INTRODUCTION

In response to a June 29, 1978, request from the Chairman of the Subcommittee on Social Security, House Committee on Ways and Means (see app. I), we reviewed the way that indirect costs are reimbursed to State agencies in the Social Security Administration's (SSA's) disability programs.

The Chairman stated there had been numerous allegations that the mechanism for reimbursing indirect costs to State agencies was subject to abuse. He requested that we review the reimbursement mechanism in several States to determine whether it is appropriate for the social security system.

Between fiscal years 1974-78, these indirect costs increased from \$9 million to \$19.5 million annually. We visited six States which together accounted for about 55 percent of the disability programs' total indirect costs in fiscal year 1978. The scope of our review is described on page 5.

DISABILITY PROGRAMS

SSA administers two programs under which disabled persons may be entitled to receive benefits. The first of these programs--Disability Insurance--was established in 1954 under title II of the Social Security Act to prevent erosion of retirement benefits of wage earners who become disabled and are unable to continue payments into their social security account. In 1956, the Disability Insurance program was expanded to authorize cash benefit payments to the disabled.

To be considered eligible for cash benefits, a worker must be fully insured for social security retirement purposes, and generally have at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which the disability began.

The Congress established a separate Disability Insurance Trust Fund to specifically identify the costs of the program and all Disability Insurance benefit payments, and associated administrative costs are disbursed from it.

The second program--Supplemental Security Income--was established by title XVI of the Social Security Act to provide cash assistance to needy aged, blind, and disabled

persons. Effective January 1, 1974, the program replaced the former federally assisted but State administered programs of Old-Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled. The Supplemental Security Income program, financed from Federal general revenues, is intended to provide a minimum income for eligible persons using national eligibility requirements and benefit criteria. Social security coverage is not a prerequisite for eligibility.

An individual's eligibility for benefits under this title is subject to limitations on certain amounts of income and resources which may vary depending on marital status and living arrangements.

The statutory definition of disability under the two programs is basically the same. "Disability" is defined as the inability to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to last for a continuous period of not less than 12 months.

State agencies called Disability Determination Services (DDSs) actually determine disability for both the Disability Insurance program and the Supplemental Security Income program. In rendering the disability decisions, DDSs use the medical histories and disability reports prepared by Social Security district offices. SSA provides the criteria used in making the disability decisions. DDSs are 100 percent funded by the Federal Government under contractual arrangements between the States and the Secretary of the Department of Health, Education, and Welfare (HEW). Charges to HEW for administrative and indirect costs are not separated between the two programs by States. 1/

COSTS CHARGED TO FEDERAL PROGRAMS

The total allowable costs of grants or contracts are generally those directly related to their performance, plus an allocated share of indirect or overhead costs. A "direct cost" is one which usually can be readily identified with, and assigned to, a program. Indirect costs for such things as administration, purchasing, accounting, budgeting, and space often benefit more than one program and usually are

1/There is one DDS in each State, the District of Columbia, Puerto Rico, and Guam and a separate DDS for the blind in South Carolina.

not readily assignable directly to a grant or contract. The indirect costs should be assigned to programs in reasonable and equitable proportions relative to benefits received.

When the amount of Federal assistance was comparatively small, State and local governments generally did not identify and allocate indirect costs to federally assisted programs. As the number and significance of Federal programs increased, the State and local governments' involvement and program administrative costs also increased and States and localities began to identify and allocate indirect costs.

UNIFORM STANDARDS FOR DETERMINING COSTS

Several States expressed concern about the lack of uniformity among Federal agencies in allowing costs under Federal programs. Federal agencies, on the other hand, were often concerned that grantees were recovering more costs than they incurred. To establish consistency in the types of costs charged to Federal programs, the Office of Management and Budget issued Circular A-87 (now FMC 74-4): "Cost Principles Applicable to Grants and Contracts with State and Local Governments." 1/ Effective July 1, 1972, State governments could only charge indirect costs to Federal programs through the mechanism described by the circular. ✓

The circular provided a uniform approach for determining total allowable costs of Federal programs at the State and local government levels and promoted financial accountability and better relationships between grantees and their Federal counterparts. The circular established principles and standards to be applied by all Federal agencies for determining costs applicable to grants and contracts for State and local governments. The circular was designed to ensure that federally assisted programs bear their fair share of costs recognized under the principles, except where restricted or prohibited by law.

HEW issued guidelines for using the circular. The guidelines require States to prepare cost allocation plans before charging costs to the Federal Government. The

1/The General Services Administration replaced Office of Management and Budget Circular A-87 with Federal Management Circular 74-4 dated July 18, 1974. Exec. Order No. 11893, December 1, 1975, returned responsibility for this circular to the Office of Management and Budget, which has yet to reissue it.

purposes of a cost allocation plan are to (1) account for 100 percent of each cost, (2) identify and eliminate costs which are not chargeable to Federal programs, and (3) distribute allowable costs in a logical and systematic manner.

Two types of cost allocation plans are generally prepared. The first is a statewide cost allocation plan, which distributes the cost of State central services, such as accounting, data processing, space, and budgeting, to the State's operating departments and agencies which benefit from the costs.

The second plan, an indirect cost proposal, is used to compute an indirect cost rate. The proposal is prepared by each State and local government operating department that is seeking Federal reimbursement. Each department's indirect cost proposal includes its own indirect costs, plus central service costs allocated by the statewide cost allocation plan.

In the indirect cost proposal, all identified costs are usually converted to a rate (percentage) to be applied to Federal grants. The rate is a ratio of the State department's indirect costs to some element of its direct costs, e.g., direct salaries and wages. Once determined, the rate is used to compute the amount of indirect cost payments made to the States.

The circular also provides for the designation of a single Federal agency (cognizant agency) to act for all other agencies in negotiating, approving, and analyzing the cost allocation plans and indirect cost proposals. The Federal agency with the predominant external financial interest in a State shall be considered the cognizant agency and thus responsible for approving departmental cost allocation plans and indirect cost proposals.

In 47 of the 50 States, HEW is considered the cognizant agency. In Delaware, Pennsylvania, and New Jersey, the Department of Labor assumes this role.

Cost allocation plans and indirect cost proposals of each State government must be submitted to the cognizant Federal agencies for negotiation and approval. Negotiation agreements must be approved before obligations may be incurred.

SCOPE OF REVIEW

The indirect cost mechanism used to reimburse State agencies under SSA disability programs is an acceptable and appropriate system if it is properly administered and monitored. Therefore, as agreed with the Subcommittee, our review was directed at ascertaining whether HEW is being charged the proper share of indirect costs by selected States for their work in administering the disability programs. We analyzed and compared cost allocation plans and indirect cost proposals in six States and interviewed State and Federal officials responsible for negotiating and establishing indirect cost charges.

Our review was conducted at SSA headquarters in Baltimore; HEW headquarters in Washington, D.C.; SSA and HEW regional offices in Chicago, Dallas, Denver, New York, and San Francisco; and State offices in Arkansas, California, Colorado, New York, Ohio, and Texas.

CHAPTER 2

HEW NEEDS TO BETTER ANALYZE INDIRECT COSTS AND MONITOR THE NEGOTIATION PROCESS

Under the current administrative arrangements, State agencies are reimbursed for services provided to the disability programs. Our review showed that HEW (1) pays for some services which do not benefit the programs and (2) pays an inequitable share of the cost for some services that do benefit the programs. These inequities exist, in part, because HEW cost negotiators are not adequately analyzing indirect costs, and the HEW central office is not monitoring the effectiveness of negotiation procedures. These matters are discussed in this chapter. Chapter 3 discusses the inability of SSA regional offices to effectively participate in the indirect cost determination area, a factor which, in our view, further affects HEW's payment of inappropriate indirect costs.

STATES CHARGE FOR SERVICES THAT DO NOT BENEFIT THE DISABILITY PROGRAMS

States usually establish indirect cost pools to distribute administrative service costs to State and Federal programs. In four of the six States visited, we interviewed State officials and identified several administrative offices that provide no service to the disability programs but charge indirect costs to the pools, a portion of which are charged to the disability programs in subsequent distributions.

We estimate that the disability programs in the States visited are overcharged at least \$645,000 annually, as shown below:

<u>State</u>	<u>Estimated overcharge to programs</u>
California	\$ 71,000
Colorado	13,000
New York	494,000
Texas	<u>67,000</u>
Total	<u>\$645,000</u>

Following are examples of charges made to the disability programs without beneficial services being received:

- A management planning office in New York controls and designs departmental forms. An official told us he knew of no past or future work that would benefit the disability programs. In fact, one major project specifically excluded them. The estimated annual charge to the programs is about \$120,000.
- An executive communication unit in the New York Commissioner's office issues directives and routes mail to appropriate agencies. An official of the unit stated that none of these functions benefit the disability programs. The estimated annual cost to the programs is about \$66,000.
- A research and statistics office in Texas compiled data for a vocational rehabilitation program. The office director told us that data on the disability programs are never requested. The estimated annual charge to the programs is about \$36,000.
- A New York accounting office processes accounts receivable for grant-in-aid programs. The office supervisor stated that the disability program has no receivables. The estimated annual charge to the program is about \$18,000.
- A social services advisory board studies statewide problems related to welfare and social service programs. Officials in California and Colorado told us that their efforts never benefit the disability programs. The estimated combined annual cost is about \$74,000 to the programs.

DISABILITY PROGRAMS PAY AN INEQUITABLE
SHARE OF INDIRECT COSTS

HEW policy states that indirect cost pools should be allocated to programs based on the relative benefits received. Our review showed that some allocation methods used by the States caused disability programs to pay an inequitable share of costs for services.

In California, Colorado, and New York, the State Department of Social Services is the parent agency responsible for the State DDS, 1/ and each DDS is staffed entirely by State

1/See p. 2.

employees. Other programs that the parent agency administers may be staffed by county employees or county and State employees. As a result of HEW actions discussed below, Colorado uses the total number of State and county employees involved in its programs in allocating indirect costs. California and New York use only State employees. This difference causes the DDS's share of indirect costs to vary widely among these States. For example, in Colorado, where county employees are included in the data base, the DDS's share of indirect costs seldom exceeds 19 percent of total costs, as compared to about 45 percent in California and about 31 percent in New York.

HEW ACTION REVISED COLORADO'S METHOD OF ALLOCATION

Before July 1, 1978, the Colorado Department of Social Services allocated its indirect cost pool through a computation which considered only State employee positions in the various programs. HEW regional negotiators stated that using only State employees to compute the allocation percentage resulted in an unequal distribution of the indirect costs, because most of the Department's support functions, such as accounting, personnel, and administration, provide services (e.g., policy guidance and support) to counties and county employees, as well as State employees. In the fiscal year 1979 Colorado Indirect Cost Proposal, the negotiator required that cost distribution consider both State and county employees because this method more closely approximates the relative benefits derived.

The Colorado Department of Social Services revised its method of distributing overhead cost pools to disability programs. The fiscal year 1979 allocation base includes about 670 State and 2,000 county employees. The base is used to compute appropriate ratios for distributing departmental administrative costs. As a result, the indirect costs charged to the disability programs have decreased significantly.

Colorado's method should be applied to California and New York

The Departments of Social Services in California and New York have respectively about 37,000 and 39,000 county employees that administer their social programs, but these States have chosen not to consider county employees when allocating departmental administrative costs. A sizable saving to the disability program could be realized if California and New York included State and county employees

in their administrative cost allocation bases. For example, in fiscal year 1979, executive office costs would be substantially reduced, as shown below:

<u>State</u>	<u>Executive office cost</u>	<u>Allocation to DDS based on number of State employees</u>	<u>Allocation to DDS based on number of State and county employees</u>	<u>Differ- ence</u>
California	\$ 602,484	\$271,119 (@ 45%)	\$19,098 (@ 3%)	\$252,021
New York	1,093,366	339,708 (@ 31%)	21,867 (@ 2%)	317,814

In our opinion, the indirect cost allocation methodology used in Colorado is appropriate for the disability programs in both California and New York and would result in a more equitable distribution of costs. In addition to Colorado and New York, other States may have a similar situation, and HEW should carefully review their allocation plans to determine if the Colorado formula should be used. HEW officials agreed with our observations.

NEGOTIATORS ARE NOT ADEQUATELY ANALYZING INDIRECT COSTS

The HEW negotiator is primarily responsible for the propriety of indirect cost rates and agreements. To carry out this responsibility effectively, the negotiator must perform a sufficient analysis of each proposal and supporting documents to provide reasonable assurance of the agreement's fairness to the Government and the State. The scope and depth of this analysis should be tailored to the specific circumstances involved; therefore, sound judgment must be exercised in determining the extent of the analysis required for each proposal.

HEW policy states that indirect cost pools should be distributed to programs by using bases that will be equitable in considering relative benefits derived. The HEW negotiator should determine that

- the proposed bases include all activities which benefit from the indirect costs that are allocated and
- the bases result in an equitable distribution of indirect costs.

Need to verify indirect costs

HEW negotiators seldom interview parent agency officials to determine whether the disability programs are receiving services commensurate with the indirect cost levied against them. In two HEW regional offices, negotiators told us they allow administrative costs to be included in overhead pools if it appears that services will benefit all programs. They do not generally contact officials to verify that services are actually provided to the programs. In one State, HEW negotiators did not even visit the parent agency--the Department of Social Services. Because of other priorities, HEW negotiated the indirect cost rate over the telephone.

In another region, a State's cost allocation plan showed the type of indirect costs which are subject to allocation to DDS. According to an HEW regional official, they examine and approve only the methodology of allocation; they do not determine the extent to which services benefit the programs.

In one regional office, the HEW negotiator does interview some agency personnel. The negotiator told us that he disallows a charge to a specific program if the program is not receiving at least 5 percent of the supporting offices' services. He added that over, the past 4 or 5 years, several State costs had been disallowed because they did not meet the criteria. Additional costs are also being questioned. Although the negotiator identified some questionable costs, we interviewed departmental officials in the same State and identified other significant costs which should not be charged to the disability programs.

We discussed the inappropriate indirect costs identified with HEW negotiators and State officials who agreed with our position. As a result, these charges will no longer be allocated to the disability programs, and HEW negotiators said they would conduct more thorough evaluations of indirect costs.

In our opinion, interviewing is an effective tool for determining whether State services benefit disability programs. We believe HEW negotiators should routinely interview parent agency officials, and if costs appear questionable, they should have the officials define the rationale for assigning costs to programs.

CLOSER MONITORING IS NEEDED
OVER THE NEGOTIATION PROCESS

HEW headquarters is not effectively monitoring the negotiation process to ensure that no excessive indirect costs are being charged to disability programs. HEW officials said that headquarters has a program for conducting reviews to evaluate judgments made by regional negotiators; however, no reviews have been made for about 2 years because of higher priority work and a shortage of personnel.

Currently, the HEW Audit Agency performs two types of financial audits of SSA's disability programs. The first certifies the propriety of funds paid for the State services rendered to disability programs, and the second audits the cost allocation plans and indirect cost proposals. HEW officials told us that these types of audits are infrequent and are not structured to identify indirect costs which are being improperly or inequitably charged to the disability programs.

We believe HEW headquarters needs to improve its monitoring of the regional negotiation process by reviewing the effectiveness of procedures and judgments used in approving indirect costs. These reviews can be used to identify more equitable allocation methods (e.g., use of county employees) which could be uniformly applied in other States.

CHAPTER 3

SSA SHOULD PARTICIPATE MORE IN

THE EXAMINATION OF INDIRECT COSTS

Although SSA has no direct responsibility for determining the amount of indirect costs to be paid to State agencies, SSA policy states that regional officials should be familiar with indirect cost principles. Our review showed that SSA regional officials generally lack an adequate understanding of indirect cost principles, and because of this, they do not effectively participate in the determination of indirect costs applicable to disability programs.

Although SSA officials believe that, because of significant indirect cost increases over the years, the DDS's share of State indirect costs may be too high and inequitable, they have done little to address the problem.

SSA REGIONAL OFFICE PARTICIPATION IN REVIEWING INDIRECT COSTS VARIES

The extent of SSA regional office participation varies from region to region. SSA officials in one region who became directly involved in the negotiation process reviewed a State cost allocation plan and were able to identify offices that were allocating charges but were not providing any service to the DDS. Written comments were forwarded to HEW negotiators, and SSA officials attended the negotiation meeting with State officials. This overall cooperation resulted in a significantly lower indirect cost rate for the DDS.

SSA officials in another region who were asked by HEW negotiators to comment on a department cost allocation plan did not furnish comments because they did not know enough about indirect costs to provide any meaningful information. SSA officials in a third region stated it would be difficult to comment on plans without knowing more about how the State computes indirect cost charges.

SSA REGIONAL STAFF LACKS KNOWLEDGE OF INDIRECT COST PRINCIPLES

SSA regional office staffs are not generally knowledgeable of the indirect cost principles and have not contributed to identifying improper charges. In one region, the DDS was recently placed under a different department and became subject to the existing departmental cost allocation

plan. The plan distributes a significantly higher percentage of executive level cost to the DDS than was allocated by the previous department. SSA regional officials were not aware of the change. In another region, officials told us they are program oriented and do not have time to familiarize themselves with indirect cost policies and procedures. They said their fiscal responsibility is limited to estimating costs for budget planning purposes and monitoring program expenditures.

We discussed our findings with SSA headquarters and regional officials, and they concurred with our view that SSA regional office staff should include a capability in the area of indirect cost principles. They also agreed that the regional staff should participate in the negotiation process to help identify inappropriate indirect cost charges to the disability programs.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

HEW is paying more than its share of indirect costs. Our review showed that HEW pays for some services which do not benefit the disability programs, and in some cases it pays an inequitable share of the cost for services that do benefit them. These inequities exist because (1) HEW negotiators are not adequately analyzing indirect costs, (2) HEW headquarters is not monitoring the effectiveness of negotiation procedures, and (3) SSA regional personnel generally do not adequately understand indirect cost principles, and thus do not effectively participate in the determination of indirect costs.

We believe that improvements in HEW negotiation and monitoring procedures and more SSA participation in the negotiation process represent excellent opportunities to identify savings and reduce SSA costs.

RECOMMENDATIONS TO THE SECRETARY OF HEW

We recommend that the Secretary eliminate inappropriate charges to the disability programs by:

- Assuring that HEW negotiators verify that services being paid for are actually benefiting the programs.
- Assuring that HEW negotiators consider the most equitable method of allocating indirect costs.
- Monitoring the effectiveness of the procedures under which HEW negotiators approve indirect costs.

We also recommend that the Secretary direct the Commissioner of Social Security to:

- Assure that SSA regional offices have a capability in the area of indirect cost principles so that they can effectively participate in the negotiation process.

APPENDIX I

APPENDIX I

JAMES A. BURKE, MASS., CHAIRMAN
SUBCOMMITTEE ON SOCIAL SECURITY

JOE D. WAGGONER, JR., LA.
ANDY JACOBS, JR., IND.
J. J. PICKLE, TEX.
WILLIAM R. COTTER, CONN.
ABNER J. MIKVA, ILL.
JIM GUY TUCKER, ARK.
RICHARD A. GEPHARDT, MO.
RAYMOND F. LEDERER, PA.

BILL ARCHER, TEX.
WILLIAM A. STEIGER, WIS.
WILLIAM M. KETCHUM, CALIF.
RICHARD T. SCHULZE, PA.

EX OFFICIO:
AL ULLMAN, OREG.
BARBER B. CONABLE, JR., N.Y.

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

SUBCOMMITTEE ON SOCIAL SECURITY

NINETY-FIFTH CONGRESS

AL ULLMAN, OREG., CHAIRMAN
COMMITTEE ON WAYS AND MEANS

JOHN M. MARTIN, JR., CHIEF COUNSEL
J. P. BAKER, ASSISTANT CHIEF COUNSEL
JOHN K. MEAGHER, MINORITY COUNSEL

June 29, 1978

Honorable Elmer B. Staats
Comptroller General of
the United States
General Accounting Office
441 "G" Street, N.W.
Washington, D.C. 20548

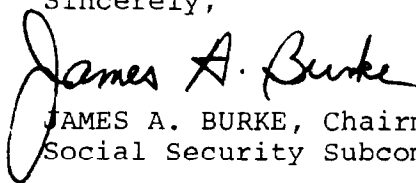
Dear Mr. Staats:

During the last couple of years the Subcommittee on Social Security and its staff have heard numerous allegations that the "indirect cost" mechanism of reimbursement of State agencies under the disability insurance program is subject to abuse. Under the current administrative arrangement the parent State agency is reimbursed under an HEW formula for the services it renders to the disability determination unit (DDS). Although this approach is perhaps appropriate to grant-in-aid programs, it would appear questionable for a national social security program supported wholly by the payroll tax. Currently the Social Security Administration which generally supervises the expenditures of the DDS's has no responsibility in determining whether these "indirect" costs charged to the disability insurance program are valid.

With this in mind the Subcommittee would greatly appreciate your looking at the situation in a number of States to determine whether the "indirect costs" reimbursement mechanism is appropriate for the disability insurance system.

With all good wishes, I remain

Sincerely,



JAMES A. BURKE, Chairman
Social Security Subcommittee

JAB/am

(105060)

Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of \$1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office
Distribution Section, Room 1518
441 G Street, NW.
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

PLEASE DO NOT SEND CASH

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS