

# Report Summary

Social Security Administration Office of the Inspector General

June 2012



## Objectives

Our objectives related to the cost allocation methodology were to: (1) determine whether the Social Security Administration's (SSA) methodology for allocating administrative costs between the Social Security and Medicare Trust Funds was equitable and accurate, (2) determine whether SSA's cost allocation process was efficient, and (3) review and test internal controls surrounding the transfer and payment between the Social Security and Medicare Trust Funds.

## Background

SSA's cost allocation methodology determines actual administrative costs chargeable to Trust Fund activities, general fund programs, and other reimbursable programs. The policy for allocating administrative costs states that costs related solely to one program will be assigned exclusively to that program, while costs benefitting multiple programs will be equitably distributed based on a proportionate value of those shared costs.

To view the full report, visit <http://oig.ssa.gov/audits-and-investigations/audit-reports/A-15-10-20152>

## The Social Security Administration Cost Allocation Methodology (A-15-10-20152)

### Our Findings

We contracted with Grant Thornton LLP to conduct four Cost Analysis System (CAS) reviews. For this fourth review, Grant Thornton identified the following findings that need to be addressed.

- The cost allocation methodology could be improved in allocating administrative costs between the Social Security and Medicare Trust Funds.
  - The basis for allocating shared workload costs to Trust Funds did not reflect a cause-and-effect relationship between resources and outputs.
  - Critical work measurement data were unreliable.
- To determine final Trust Fund charges, SSA needed to perform additional spreadsheet calculation outside the official cost allocation system, CAS.
- Substantial manual intervention was required for data collection and validation.

Grant Thornton was not able to conclude whether the methodology for allocating administrative costs between trust funds was equitable and accurate because of the underlying data concerns and the non-compliance issues related to Statement of Federal Financial Accounting Standards No. 4.

### Our Recommendations

Grant Thornton's recommendations included:

1. Implement an annual review process for reviewing the method of allocating costs.
2. Reduce manual intervention using CAS' existing technological capability to the extent practical.

SSA provided responses to all recommendations from the four CAS reviews. The Agency agreed with 7 of Grant Thornton's 14 recommendations.