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SOCIAL SECURITY
ADMINISTRATION

Leadership Challenges
Accompany Transition
to an Independent
Agency





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Washington, D.C. 20548

**Health, Education, and
Human Services Division**

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The Honorable Bob Packwood
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Bill Archer
Chairman
The Honorable Sam Gibbons
Ranking Minority Member
Committee on Ways and Means
House of Representatives

The Department of Health and Human Services (HHS), with the largest budget in the federal government and a workforce of approximately 127,000 staff, directs or operates more than 200 health and welfare programs. As a division within HHS, the Social Security Administration (SSA) provides Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) benefits and Supplemental Security Income (SSI) benefits to about 47 million recipients.

As a result of an aging population and an increase in disability claims, SSA's workload has increased dramatically in recent years. Workload increases combined with declines in the quality of service to the public have concerned the Congress. In 1994, the Congress enacted the Social Security Independence and Program Improvements Act of 1994,¹ which removes SSA from HHS as of March 31, 1995. It was expected that, with independence, SSA would have improved program management, continuity of leadership, and an organization more accountable to the public and more responsive to the Congress.

In conjunction with SSA's transition from HHS to an independent agency on March 31, 1995, section 105(c) of the act requires us to evaluate the interagency agreement for transferring personnel and resources from HHS to SSA. On the basis of the Conference Report, we were expected to monitor and report on the transition's progress. This report evaluates the specific transition plans and activities of SSA and HHS and identifies some of

¹P.L. 103-296, Aug. 15, 1994.

the major program and policy challenges SSA will face as an independent agency.

To develop our information, we closely monitored the general activities of the transition and evaluated SSA's and HHS' specific plans and methodology for the transfer of HHS full-time equivalent (FTE)² personnel, property, and other resources. We met regularly with the directors of the respective SSA and HHS transition teams; we also met with those staff responsible for managing specific transition activities and representatives of the Office of Management and Budget (OMB) and General Services Administration on budgeting and computer-related issues. In addition, we conducted a panel discussion on issues surrounding SSA's transition to an independent agency with a number of present and former SSA officials, representatives from national aging organizations, and a member of the academic community on November 15, 1994. As a basis for our discussion of the major issues facing an independent SSA, we relied on our previous work conducted in these areas over a number of years (see Related GAO Products). We did our work between September 1994 and January 1995 in accordance with generally accepted government auditing standards.

Results in Brief

Our work suggests that SSA and HHS have progressed well toward completing the tasks necessary for SSA to become a fully functional independent agency. Although SSA's approximately 65,000 FTE employees who operate and manage agency programs are unaffected by the transition, several support functions that HHS provides to SSA, such as personnel administration, legal support, and audit and investigative support, will need to be transferred along with the equivalent of approximately 1,143 FTE positions. Other HHS resources, such as computer equipment, furniture, and other property, have also been identified and are expected to be transferred to SSA. Although most of SSA's administrative and operational staff will remain in its Baltimore, Maryland, headquarters, SSA plans to establish a Washington, D.C., office of 150 to 200 employees, including the Commissioner of SSA and other senior agency officials. The act creates a Social Security Advisory Board, which will advise the Commissioner and make recommendations to the Congress and the President on SSA program policy. SSA's current plans are for the board to operate and meet in both Baltimore and Washington, D.C.

²The total number of hours worked for all workers is used to derive the full-time equivalent. To do this, it is assumed that all workers work 2,000 hours per year (40 hours per week, 50 weeks per year). Because the workforce includes those who work less than full time, the full-time equivalent will be lower than the actual number of workers.

While the transition initiatives are proceeding satisfactorily, an independent SSA will continue to face serious policy and management challenges. One of these is the long-range shortfall in funds to pay future Social Security benefits. Also, SSA has embarked on a major effort to improve its method for processing disability claims. Further, questions have been raised by us and others about the future growth of the DI program and the recent increase in SSI caseloads. Although these issues are not new to SSA, independence heightens the importance of SSA's taking a strong leadership role in addressing these and other policy and management challenges.

Background

SSA is the largest operating division within HHS. As such, it accounts for approximately 65,000 FTE employees or about 51 percent of HHS' FTE positions. SSA's fiscal year 1995 budget of about \$371 billion accounts for over one-half of HHS' total budget for that year.

SSA administers three major federal programs and assists other federal and state agencies in administering a variety of other income security programs for individuals and families. The programs administered by SSA are the OASI program and the DI program—two social insurance programs authorized under Title II of the Social Security Act. SSA also administers the SSI program, a welfare program authorized under Title XVI, to provide benefits to the needy aged, blind, and disabled. SSA serves the public through a network that includes 1,300 field offices and a national toll-free telephone number.

Under the Title II programs, over \$300 billion in benefits were paid in 1993 to over 40 million eligible beneficiaries. About 95 percent of all jobs in the United States are covered by these insurance programs. SSA also performs a number of administrative functions to pay Social Security benefits. For example, it maintains earnings records for over 140 million U.S. workers, which are used to determine the dollar amount of their OASI and DI benefits. To do this, SSA collects annual wage reports from over 6 million employers. Since 1990, it has issued new Social Security numbers to an average of over 7 million people annually.

Under Title XVI, SSA provides almost \$22 billion in SSI benefits annually to about 6 million recipients. This program was established to provide cash assistance to low-income individuals who are age 65 or older or are blind or disabled. In the mid-1970s, SSI replaced the categorical programs for the needy aged, blind, and disabled that were administered by the states.

Historical Perspective on SSA

SSA began as an independent agency with a mission of providing retirement benefits to the elderly. A three-member, independent Social Security Board was established in 1935 to administer the Social Security program.

The Chairman of the Board reported directly to the President until July 1939, when the Board was placed under the newly established Federal Security Agency (FSA). At that time, the Social Security program was expanded to include Survivors Insurance, which paid monthly benefits to survivors of insured workers. In 1946, the Social Security Board was abolished, and its functions were transferred to the newly established Social Security Administration, still within FSA. The FSA administrator established the position of Commissioner to head SSA.

In 1953, the FSA was abolished and its functions were transferred to the Department of Health, Education and Welfare (HEW). Moreover, the position of SSA Commissioner was designated as a presidential appointee requiring Senate confirmation. In 1956, the Social Security program was expanded to include the DI program to provide benefits to covered workers who became unable to work because of disability.

In 1965, amendments to the Social Security Act increased SSA's scope and complexity by establishing the health insurance program known as Medicare. The purpose of Medicare was to help the qualified elderly and disabled pay their medical expenses. SSA administered the Medicare program for about 12 years before Medicare was transferred to a new division within HEW, the Health Care Financing Administration.

Further amendments to the Social Security Act created the SSI program, effective in 1974. This program was designed to replace welfare programs for the aged, blind, and disabled administered by the states. The SSI program added substantially to SSA's responsibilities. The agency then had to deal directly with SSI clients, which entailed determining recipients' eligibility based on income and assets. SSA has remained a part of HHS (formerly HEW) since 1953.

Movement Toward SSA Independence

Since 1984, congressional committees responsible for overseeing SSA's activities have considered initiatives to make SSA an independent agency. While the reasons for independence have varied over the years, legislation seeking independence from HHS has been introduced in several sessions of the Congress.

Concerns expressed in congressional hearings and reports of the past decade have focused on a variety of issues, including the need for (1) improved management and continuity of leadership at SSA; (2) greater public confidence about the long-term viability of Social Security benefits; and (3) removal of the program's policies and budgets from the influence of HHS, OMB, and the administration. Statements by committee chairmen have shown a desire to make SSA more accountable to the public for its actions and more responsive to the Congress' attempts to address SSA's management and policy concerns.

Transition Activities Appear Reasonable and Equitable

The act requires the Secretary of HHS and the Commissioner of SSA to develop a written interagency transfer agreement, effective March 31, 1995, which specifies the personnel and other resources to be transferred to an independent SSA. Our review of the agreement and the supporting documentation shows that SSA and HHS have developed a reasonable methodology for, and progressed well toward implementing the transition. Specifically, we found that HHS and SSA have progressed well in (1) identifying and transferring personnel and other resources; (2) effecting organizational changes prompted by the transition; and (3) addressing changes to SSA's budget process, as called for in the act.

Personnel and Resource Transfers Are Under Way

The interagency agreement submitted by HHS and SSA to the Senate Committee on Finance and House Committee on Ways and Means on December 27, 1994, notes that all major transition tasks have been completed or are under way and that personnel and resource transfers will be completed on March 31, 1995. Elements of the agreement relating to transferring personnel, resources, and property appear to meet OMB guidelines for such transfers.

Under the interagency agreement, the approximately 65,000 FTE employees currently under SSA will remain with the agency. In addition, about 1,143 HHS FTE personnel who provide support services to SSA are expected to be transferred. Of these, 478 will provide personnel administration services for SSA, 289 will provide legal support, and 263 will perform audit and investigative activities. The remaining 113 FTEs will provide other administrative support services for the agency.

SSA expects to reimburse HHS for providing payroll and certain other support services to SSA on an interim basis. Similarly, HHS will reimburse

SSA for providing certain services to Medicare recipients through its local offices and telephone service centers.

In developing the agreement, HHS surveyed its division heads to identify the functions and FTEs currently supporting SSA. At the same time, SSA developed its own estimate of the number of HHS personnel performing work for it. To supplement these data, SSA also relied on its managers' assessments of the number of HHS FTEs currently supporting the agency. HHS and SSA then engaged in extensive negotiations to agree on the final number of FTEs to be transferred.

Virtually all individuals have been identified, and HHS expects to issue final staff transfer notices by February 21, 1995. Personnel have been selected primarily on the basis of the percentage of their work spent on SSA activities. However, all employees had an opportunity to appeal the transfer actions and some volunteers were sought to obtain the proper skill levels.

HHS and SSA have also agreed on nonpersonnel resources to be transferred, such as funds, computer equipment, and furniture. These decisions are contingent on the numbers and specific personnel transferring to SSA. HHS and SSA are required to prepare for OMB a written itemization of resources to be transferred. OMB officials told us that no problems have arisen and it expects to provide the certification necessary to complete resource transfers on March 31, 1995.

Transition Requires Organizational Changes

SSA will make several organizational changes to be a fully functional independent agency. (See app. I for the SSA organization charts for before and after the transition.) We believe that SSA has reasonably planned for these changes. Our assessment of the transition activities, combined with the review of the SSA and HHS interagency agreement, indicates that the organizational changes should be completed on March 31, 1995.

SSA plans to establish its own Office of the General Counsel and an Office of Inspector General. SSA's Office of the General Counsel will provide the necessary legal advice and litigation services for the programs administered by SSA. An acting General Counsel will be designated to head the office until a permanent appointment is made. The SSA Office of Inspector General will conduct audits and investigations of the agency's programs and operations. The Inspector General will report directly to the Commissioner to ensure objectivity and independence from internal

agency pressures. The HHS Inspector General has agreed to act as SSA's Inspector General until a permanent Inspector General has been confirmed.

SSA expects that additional organizational changes will occur in conjunction with the transition. For example, SSA plans to merge the functions of its Offices of Programs and Policy and External Affairs. The new Office of Programs, Policy, Evaluation and Communications will be responsible for research, policy analysis, and program evaluation. SSA's Office of Legislation and Congressional Affairs will also be repositioned to report directly to the Commissioner. This office will facilitate a working relationship between SSA and the executive and legislative branches.

SSA plans to establish a Washington, D.C., office to facilitate a closer working relationship with the Congress and the executive branch. Staffing in the Washington office is estimated at 150 to 200 permanent employees, including the Commissioner, Principal Deputy Commissioner, legislative liaison staff, Inspector General, the General Counsel, and research and statistics personnel. The agency has defined needed space requirements and acquired temporary office space. It should obtain permanent space by early 1996.

SSA also plans to decentralize and transfer more management authority from its headquarters to its regional offices. Following the transition, Regional Commissioners will have direct authority over public affairs and personnel administration in their respective regions. These functions are currently managed by SSA's headquarters or by HHS. SSA has also indicated that, where possible, some of the approximately 1,143 FTEs identified for transfer may be shifted to local offices and telephone service centers to strengthen service.

Finally, SSA has confirmed that the newly established Social Security Advisory Board will spend a substantial amount of time in Washington, D.C., and members will maintain offices in both the Baltimore and Washington, D.C., locations. The seven-member board will advise the Commissioner, the President, and the Congress on SSA program policies. SSA officials told us that the Congress has appointed four members. However, the President has not yet appointed the three remaining members as required by the act.

New Budget Provision

The act revises the process for submitting SSA's annual budget. The act states, "the Commissioner shall prepare an annual budget for the Administration which shall be submitted by the President to the Congress without revision, together with the President's annual budget for the Administration."

Traditionally, agencies, including SSA, receive budget guidance from OMB beginning in April of each year and spend about 5 months preparing a budget proposal. This proposal is submitted in September to OMB, where it is reviewed for several months. OMB then requires agencies to revise their budget proposals by incorporating OMB decisions and changes. Once approved by OMB, agency budgets are transmitted to the Congress as part of the President's budget for executive agencies. The act does not restrict OMB from continuing to exercise its traditional budgetary oversight role, and our work has shown that both OMB and SSA officials do not envision any substantive change in SSA's budget process.

Presumably, the new budget provision is intended to illuminate differences between the budget SSA proposes and the President's budget for the agency. However, the process allows for OMB's April guidance to influence SSA's September budget proposal. In its comments on this report, SSA agreed that OMB's influence would continue to be a factor in the preparation of its September budget.

An Independent SSA Faces Significant Challenges

While SSA has progressed well toward completing the transition, the agency will continue to face significant challenges as an independent agency. Some of these include the long-range solvency of the Social Security trust funds, growing disability caseloads, and issues surrounding the increase in SSI caseloads. We have identified and documented these challenges in numerous reports, testimonies, and management reviews of SSA over the last several years.

With the passage of legislation creating an independent SSA, it was expected that SSA would take a more active leadership role in addressing its major program challenges. Our work has also demonstrated the need for SSA to address program policy issues and to more aggressively manage its programs. This will be crucial for SSA as it assumes the functions currently provided by HHS.

Trust Funds Solvency Concerns Remain

SSA's independence will heighten the need for it to work with the Congress in developing options for ensuring that revenues are adequate to make

future Social Security benefit payments. As noted in our previous reports, this issue has troubled the agency for many years.

The financial operations of SSA's insurance programs are supported by trust funds, which are credited with revenues derived from (1) payroll taxes on earned income and on self-employment earnings up to specified limits and (2) interest income from trust fund investments. Additional financing is provided from general revenues resulting from the taxation of Social Security benefits.

To address financing issues, the Social Security Amendments of 1977 and 1983 moved the trust funds from a pay-as-you-go financing basis toward the accumulation of substantial temporary reserves. However, as we reported in 1989 and 1994,³ economic and demographic factors have slowed the growth of the trust fund reserves and brought the projected point of insolvency for both the OASI and DI trust funds closer than originally expected. SSA's Office of the Actuary confirmed that the OASI trust fund currently has reserves sufficient to pay annual benefits until the year 2030. The DI trust fund will have funds sufficient to pay annual benefits until the year 2015.

Disability Caseloads and Backlogs Affect Agency Performance

In recent years, we have reported that SSA's DI program has experienced significant caseload increases, and backlogs have remained at unprecedented levels. Moreover, changes in the characteristics of new beneficiaries have accompanied this growth. The new beneficiaries' average age is generally decreasing and is now below 50. Also, mental impairment awards to younger workers increased by about 500 percent between 1982 and 1992, helping to lower the average age. These situations could mean that once on the rolls, these beneficiaries will receive benefits for a longer period of time than other beneficiaries. In addition, an increasing percentage of new beneficiaries receives very low benefits, which indicates that these beneficiaries had limited work histories and are unlikely to return to work.

Program rolls have grown and changed for several reasons. Higher unemployment probably contributes to increasing applications, and policy changes have contributed to changes in the numbers and types of beneficiaries. However, SSA lacks adequate data on how many people in the population suffer from disabilities that might qualify them for benefits.

³Social Security: The Trust Fund Reserve Accumulation, the Economy, and the Federal Budget (GAO/HRD-89-44, Jan. 19, 1989); Social Security: Trust Funds Can Be More Accurately Funded (GAO/HEHS-94-48, Sept. 2, 1994).

As a result, SSA has limited ability to predict future growth and change in the rolls.

SSA has undertaken initiatives to improve its disability application process to more efficiently handle caseloads and reduce backlogs. Implementing these initiatives will significantly challenge SSA because it requires fundamental changes in the way the agency does its work. Further, without additional information, neither SSA nor the Congress can be sure whether the current growth will continue. SSA faces the challenge of determining what actions are needed to better manage the program and whether some fundamentals of the program should be reexamined.

SSI Benefits and Caseloads Have Increased Rapidly

As we reported in previous work,⁴ SSI benefit payments and caseloads have increased significantly over the past several years. From 1986 to 1994, SSI benefit payments for the aged, blind, and disabled increased by \$13.5 billion, doubling in 7 years. Benefits for the disabled accounted for almost 100 percent of this increase. Three groups—disabled children, mentally disabled adults, and legal immigrants—significantly outpaced the growth of all other SSI recipients. As an independent agency, SSA faces the challenge of addressing congressional and public concerns about SSI program growth.

Conclusions

HHS and SSA have developed an acceptable methodology for identifying the functions, personnel, and other resources to be transferred to the independent agency. They have also progressed well toward completing the initiatives necessary for SSA to be a fully functional independent agency on the effective date. However, independence alone will not resolve the problems identified in previous GAO reviews, and SSA will continue to face significant challenges beyond March 31, 1995. The elevation of SSA to an independent agency will create opportunities for the agency to take a leadership role in addressing some of the broader program policy issues and to reexamine its processes to determine how it can improve its effectiveness.

⁴Social Security: Disability Benefits for Drug Addicts and Alcoholics Are Out of Control (GAO/T-HEHS-94-101, Feb. 10, 1994); Social Security: Major Changes Needed for Disability Benefits for Addicts (GAO/HEHS-94-128, May 13, 1994); Social Security: Rapid Rise in Children on SSI Disability Rolls Follows New Regulations (GAO/HEHS-94-225, Sept. 9, 1994); Supplemental Security Income: Recent Growth in the Rolls Raises Fundamental Program Concerns (GAO/T-HEHS-95-67, Jan. 27, 1995).

We obtained official oral comments on this report from senior officials from SSA and HHS. These officials generally agreed with our findings and conclusions. They did offer some technical suggestions that we have incorporated where appropriate in the report.

We are sending copies of this report to the Secretary of HHS, the Commissioner of SSA, and other interested parties. Copies will also be made available to others upon request.

If you or your staffs have any questions concerning this report, please call me on (202) 512-7215. Other major contributors are listed in appendix II.

A handwritten signature in black ink that reads "Jane L. Ross". The signature is written in a cursive style with a large, stylized "J" and "R".

Jane L. Ross
Director, Income Security Issues

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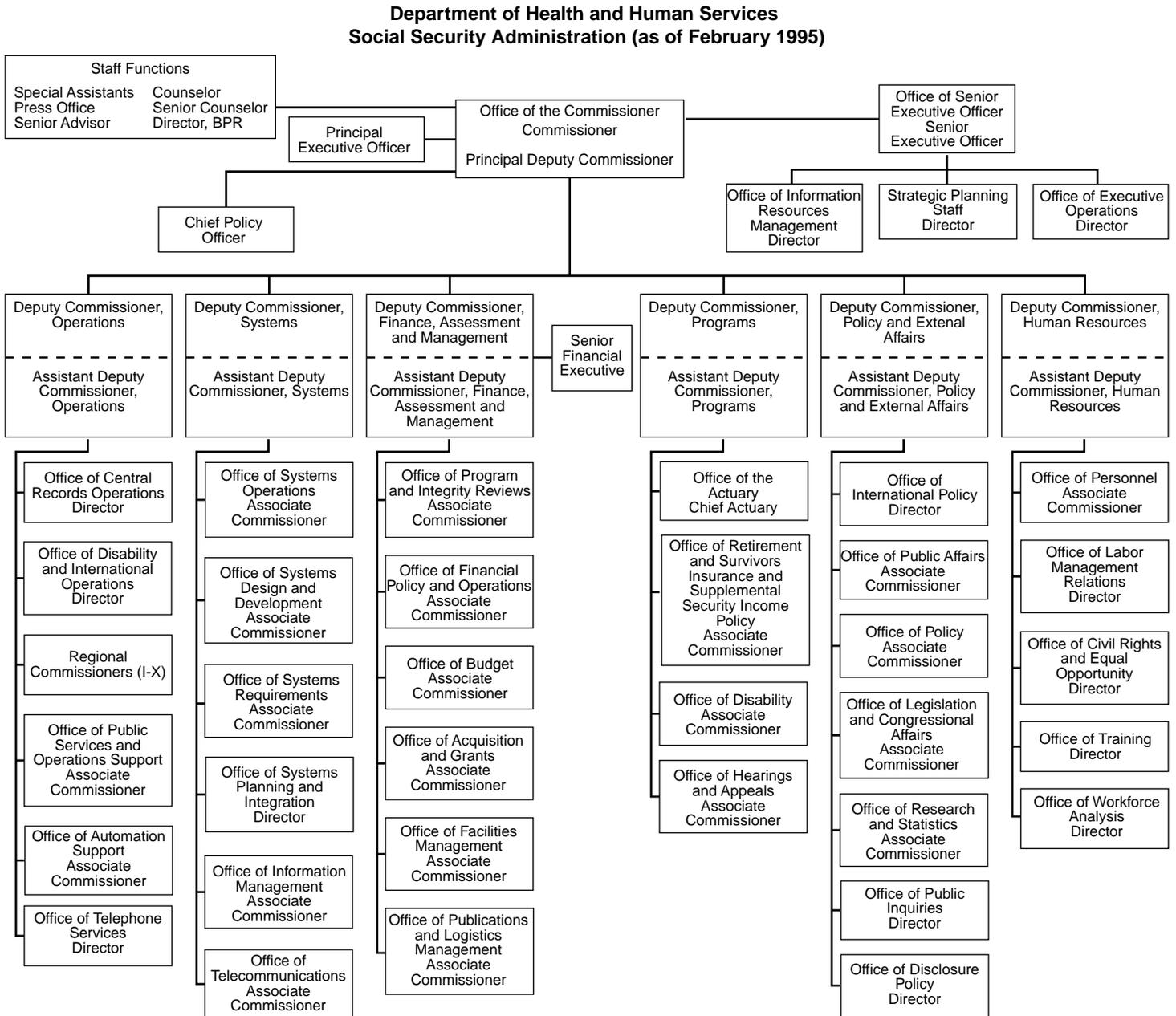
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Abbreviations

DI	Disability Insurance
FSA	Federal Security Agency
FTE	full-time equivalent
HEW	Department of Health, Education and Welfare
HHS	Department of Health and Human Services
OASI	Old-Age and Survivors Insurance
OMB	Office of Management and Budget
SSA	Social Security Administration
SSI	Supplemental Security Income

Social Security Administration Current and Proposed Organizational Charts

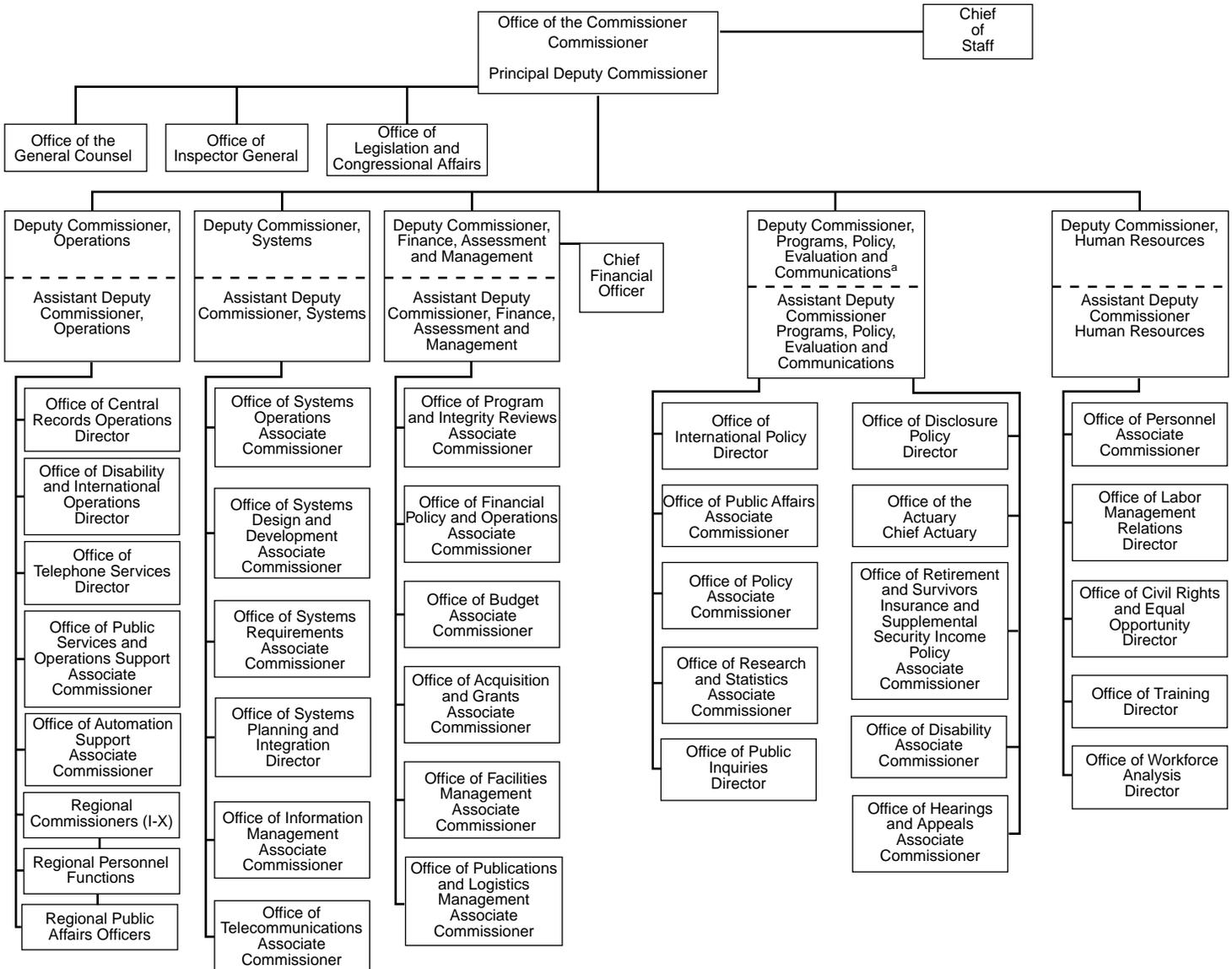
Figure I.1: Current Organization



**Appendix I
Social Security Administration Current and
Proposed Organizational Charts**

Figure I.2: Draft of Proposed Organization

**Social Security Administration
(draft as of February 1995)**



^aNew organization resulting from the merger of two Deputy Commissioner offices. Suboffice structure will be more defined at a later date.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: Leslie Aronovitz, Associate Director, Income Security Issues; Daniel Bertoni, Senior Evaluator; Mary Reich, Staff Attorney; Valerie Rogers, Evaluator; and Jacquelyn Stewart, Senior Evaluator.

Appendix II
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Related GAO Products

Social Security: Rapid Rise in Children on ssi Disability Rolls Follows New Regulations (GAO/HEHS-94-225, Sept. 9, 1994).

Social Security: Trust Funds Can Be More Accurately Funded (GAO/HEHS-94-48, Sept. 2, 1994).

Social Security: New Continuing Disability Review Process Could Be Enhanced (GAO/HEHS-94-118, June 27, 1994).

Social Security: Major Changes Needed for Disability Benefits for Addicts (GAO/HEHS-94-128, May 13, 1994).

Social Security: Disability Rolls Keep Growing, While Explanations Remain Elusive (GAO/HEHS-94-34, Feb. 8, 1994).

Social Security: Increasing Number of Disability Claims and Deteriorating Service (GAO/HRD-94-11, Nov. 10, 1993).

Social Security: Sustained Effort Needed to Improve Management and Prepare for the Future (GAO/HRD-94-22, Oct. 27, 1993).

Social Security: Telephone Busy Signal Rates at Local SSA Field Offices (GAO/HRD-93-49, Mar. 4, 1993).

Social Security: Reporting and Processing of Death Information Should Be Improved (GAO/HRD-92-88, Sept. 4, 1992).

Debt Management: More Aggressive Actions Needed to Reduce Billions in Overpayments (GAO/HRD-91-46, July 9, 1991).

Social Security Downsizing: Significant Savings But Some Service Quality and Operational Problems (GAO/HRD-91-63, Mar. 19, 1991).

Social Security: Status and Evaluation of Agency Management Improvement Initiatives (GAO/HRD-89-42, July 24, 1989).

Social Security: Staff Reductions and Service Quality (GAO/HRD-89-106BR, June 16, 1989).

Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness (GAO/HRD-87-39, Mar. 18, 1987).

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