

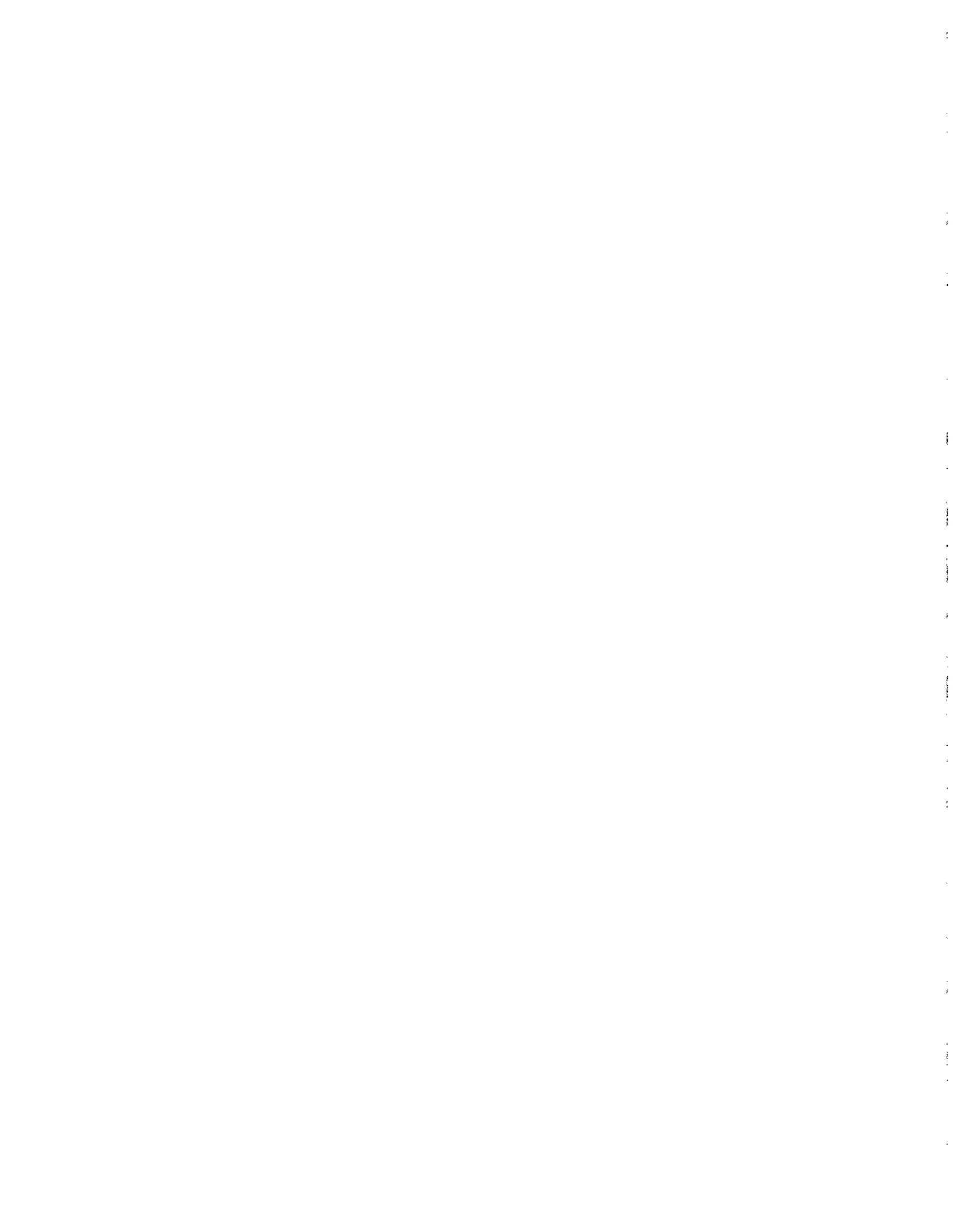
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**TECHNICAL SUMMARY
OF THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
BUDGET DEVELOPMENT SYSTEMS**

**PREPARED
BY THE STAFF
OF THE
U.S. GENERAL ACCOUNTING OFFICE**

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FOREWORD

Our survey of the budget development process and systems at the Department of Health and Human Services focused on the fiscal 1984 budget request to identify (1) budget development systems and (2) timeframes and milestones in the budget development process. The fiscal 1984 budget request process was selected because it was underway during our survey. Our survey did not address the details of the Department's fiscal 1984 budget submission or the specific analyses used by the Department to develop its budget estimates.

This technical summary is one of eleven volumes of detailed information that supports the overall Financial Management Profile of the Department of Health and Human Services (AFMD-84-15, April 9, 1984). The technical summaries provide detailed information on the major organization components of the Department of Health and Human Services (the Department), their financial management systems, and major internal control strengths and weaknesses in these systems.

The financial management profile of the Department and the eleven technical summaries were prepared by GAO as a pilot test of a new audit approach--called Controls and Risk Evaluation (CARE)--for (1) identifying and describing the financial management systems used by an agency and (2) assessing and ranking the internal control strengths and weaknesses of the systems. This analysis is based on reviews of available systems documentation, discussions with agency personnel, and reviews of prior GAO and Inspector General reports. Tests were not performed on actual information processed by and recorded in the systems, therefore, conclusions cannot be reached about whether the systems' internal controls were actually operating as designed.

The information in this technical summary is intended for use in:

- Planning future tests and evaluations of the budget development systems and processes at the Department.
- Supporting and enhancing the understanding and application of the CARE-based methodology by designers, operators, and evaluators of agency accounting and financial management systems.

Our survey of the budget development systems at the Department of Health and Human Services included (1) the Budget Information and A-11 Budget Systems operated by HHS's Office of the Secretary, and (2) the Budget Development Systems run by the Public Health Service and its component agencies, the Health Care Financing Administration, and the Social Security Administration. We did not survey the Budget Development Systems used by the organizational units within the Office of the Secretary and the Office of Human Development Services.

During the course of the survey agency officials were briefed. The technical summary was provided to cognizant agency officials for their review. Agency comments were considered and appropriate changes were made. The assistance and cooperation of agency management enhanced the successful completion of the work.

The results of the survey will be used by GAO as the basis for planning future reviews of the Department's budget development systems. The technical summary is being provided to assist the Department in its continuing efforts to improve financial management.

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ABBREVIATIONS

| | |
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| ADAMHA | Alcohol, Drug Abuse and Mental Health Administration |
| CARE | Controls and Risk Evaluation |
| CDC | Center for Disease Control |
| FDA | Food and Drug Administration |
| GAO | General Accounting Office |
| HCFA | Health Care Financing Administration |
| HHS | Department of Health and Human Services |
| NCI | National Cancer Institute |
| NIH | National Institutes of Health |
| OMB | Office of Management and Budget |
| SSA | Social Security Administration |



THE DEPARTMENT OF HEALTH AND HUMAN SERVICES--
BUDGET DEVELOPMENT TIMEFRAMES, PROCESSES AND SYSTEMS

The Office of the Secretary develops the Department of Health and Human Services' (HHS) annual budget request and supporting ADP and telecommunications budget exhibit. This exhibit is prepared pursuant to Office of Management and Budget (OMB) Circular A-11. Both documents are submitted to OMB, the President, and the Congress. To perform this function, the Office of the Secretary uses two automated systems: the Budget Information System and the A-11 Budget System. We recognize that the Budget Information System and the A-11 Budget System could be considered major subsystems of an overall automated budget formulation system. For ease of discussion and presentation we considered them as separate systems.

The Budget Information System is supported by budget development systems in each of HHS' five major organizational components: (1) Public Health Service, (2) Health Care Financing Administration (HCFA), (3) Office of Human Development Services, (4) Social Security Administration (SSA) and (5) Office of the Secretary. The A-11 Budget System essentially uses manually prepared input from the five major organizational components. Some of the input for the A-11 Budget System is based on information from other automated financial management systems.

Based on our survey of the Department's budget systems we determined that HHS's:

- Budget development systems include the controls needed to ensure that budget requests developed at the major organizational component levels are accurately and completely entered into Budget Information System.
- Organizational components' budget requests - except for SSA's administrative budget--are not based on the actual financial results of the immediately preceding year's program and administrative operations.

In addition, the following other areas relating to HHS's budget systems and processes that came to our attention during the survey. A significant portion of HHS's spending authority is based on estimates developed by outside organizations. For example, states estimate the annual level of MEDICAID expenditures. In addition, the majority of funds expended by HHS during any fiscal year are not directly controlled by Congress through the annual appropriation process. For example, HHS's budget requests for the MEDICARE, MEDICAID, and SSA benefit programs are estimates of anticipated obligations and expenditures under these programs rather than proposed spending levels. Also, SSA is the only HHS organizational component to have integrated its budget and accounting systems.

We discussed the foregoing issues with cognizant agency officials. In our discussions, we advised agency officials that we focused on the Department's budget development systems rather than

on the details involved in developing the annual budget submission itself. Agency officials offered suggestions either to expand or clarify matters presented in this summary. The summary was changed, where appropriate, to incorporate the comments received. Agency comments are included in appendixes II and III.

In addition to the suggestions to expand or clarify matters presented in this technical summary, agency officials commented that:

- The use of prior year's actual financial results of program and administrative operations in developing a budget request is impossible given the long period of time necessary to prepare the budget request.
- A close link between accounting and budget formulation systems and processes is not necessary and that most of HHS' requests for spending authority and staff levels are based on factors such as Presidential policy decisions, likely Congressional actions, and likely interest group or press reaction.

OBJECTIVES, SCOPE, AND METHODOLOGY

This survey viewed the budget development process as an entity and focused on identifying the financial management systems used in the process. The survey applied GAO's Controls and Risk Evaluation (CARE) audit approach.

The primary objectives of our survey of HHS's budget development process were to ascertain if HHS's:

- budget development systems included the needed controls to ensure that budget requests developed at the major organizational component level are accurately and completely entered into the Budget Information and A-11 Budget systems, and
- financial results of the immediately preceding year's program, trust, and administrative operations are integrated into the budget development process.

The Budget and Accounting Procedures Act of 1950, as amended in 1956 by Public Law 84-863, provides for use of accrual accounting, cost-based budgeting for internal operations and appropriation requests, and consistent classifications. This legislation established the Federal Government's Joint Financial Management Improvement Program whose objectives include promoting the:

- Integration of programming, budgeting, and reporting practices with the accounts to provide adequate support for budget formulation and review of annual cost-based appropriation requests.
- Effective integration of agency accounting and reporting in management information and control systems that will satisfy the requirements of the budget process, internal management

needs, and the control accounting and reporting of the Treasury Department.

The Accounting Principles and Standards for Federal Agencies promulgated by the Comptroller General provide:

"To the extent possible, programming, budgeting, and accounting classifications should be consistent with each other and should be synchronized with the agency's organizational structure. Such consistency is necessary so that data produced by an accounting system will be of maximum use in support of internal operating budgets and budgets that are presented to the Congress."

Congressional policy, as expressed in law calls for the use of cost information in budgeting and in the management of operations. Public Law 84-863 (31 U.S.C. 24) specifically provides for the use of cost based budgets in developing requests for appropriations. The law also provides that, for purposes of administration and operations, such cost-based budgets shall be used by all departments and establishments and their subordinate units and that administrative sub-divisions of appropriated funds shall be made on the basis of such cost-based budgets.

Our survey of the budget development systems at HHS included the (1) Budget Information and A-11 Budget Systems operated by HHS's Office of the Secretary, and (2) Budget Development Systems run by the Public Health Service and its component agencies,¹ HCFA and SSA. We did not survey the budget development systems used by the (1) organizational units within the Office of the Secretary and (2) Office of Human Development Services.

Our survey of the budget development process at HHS focused on the fiscal 1984 budget request to identify (1) budget development systems and (2) timeframes and milestones in the budget development process. The fiscal 1984 budget request process was selected because it was the process underway during our survey. Our survey did not address the details of the Department's fiscal 1984 budget submission or the specific analyses used by the Department to develop its budget submission. In addition, we recognize that the Budget Information System merely records the decisions that have been made and does not in and of itself make level of funding decisions. Further, we realize that the budget decisions process is the result of intensive policy analysis, overall resource constraints, and many other variables.

Our survey was made in accordance with our current "Standards for Audit of Government Organizations, Programs, Activities and Functions" except no tests were performed of system operations or of information processed by and recorded in the systems.

¹Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA); Center for Disease Control (CDC); Food and Drug Administration (FDA); National Institutes of Health (NIH); and Health Resources and Services Administration (HRSA).

BACKGROUND

The budget development process at the HHS involves two major operations:

- Development of budget requests by the HHS's five major organizational components.
- Aggregation of the component budget requests into the overall Department-wide budget request prepared by the Office of the Secretary budget staff.

The budget development processes at HHS's five major organizational components begin about 23 months before the start of the fiscal year for which the requests are being developed. For example, the Public Health Service began work on its fiscal 1984 budget request in November 1981.² The budget development process for the Department-wide request begins about 18 months before the start of the fiscal year for which the request is being prepared. HHS, for example, began work on the fiscal 1984 budget request in February 1982.

Further, while HHS is developing the budget request for any fiscal year, three fiscal year budgets are simultaneously being executed, considered by the Congress, and developed. For example, when HHS was developing its fiscal year 1984 budget request, the Congress was considering its fiscal 1983 budget request, and HHS was executing its fiscal 1982 budget authority.

OVERVIEW OF HHS BUDGET DEVELOPMENT SYSTEMS AND BUDGET DEVELOPMENT PROCESS

The budget development systems at the HHS are a mixture of automated systems and manual processes. The Office of the Secretary uses two automated systems--Budget Information and the A-11 Budget systems--to prepare the overall HHS budget request. These two systems could be viewed as major subsystems of an overall automated budget preparation system. For ease of discussion, however, we are presenting these two systems as separate entities.

The various organizational components of HHS--except for SSA, the National Cancer Institute, and FDA--use manual processes to develop their budget requests. However, sources of the information in these budget requests, in many cases, are reports and information produced by other automated management information systems.

SSA's budget development and accounting--general ledger/administrative control of funds--systems are integrated. The integration of these systems allowed SSA to use actual fiscal 1983 financial results of administrative operations in developing its

²Fiscal 1984 started October 1, 1983.

fiscal 1984 administrative budget request. SSA is the only component of HHS to integrate its budget development and accounting systems.

In the following sections of this summary, we discuss the (1) operations of the Budget Information System, (2) A-11 Budget System, and (3) budget development systems, processes, and timeframes at the Public Health Service, HCFA and SSA. A summary of the strengths and weaknesses in HHS's budget development systems appears in appendix I and agency comments appear in appendixes II and III.

BUDGET INFORMATION SYSTEM

The Office of the Secretary uses the Budget Information System to develop the overall HHS budget request. The system is run on computer equipment owned and operated by the Control Data Corporation which is located in Cleveland, Ohio. HHS organizational components develop budget requests which are entered into the Budget Information System to support development of the annual Department-wide budget request.

System inputs

The Office of Budget in the Office of the Secretary receives hard copy budget requests from HHS organizational components except for the Public Health Service (PHS). The staff in the Public Health Service's Office of Budget enters budget request information directly into the Budget Information System by computer terminal.

System processing

The Budget Information System maintains a series of automated masterfiles containing budget information. A file is maintained for each HHS organization component that receives specific budget authority. For example, a separate file is maintained for (1) each staff office within the Office of the Secretary like the Office of General Counsel, (2) major organizational units in the Public Health Service like FDA, (3) individual institutes within the National Institutes of Health like the National Cancer Institute, and (4) all other organizational components in HHS like HCFA. In addition, the system maintains a separate file for HHS's overall budget request which is a consolidation of the organizational components' budget requests.

After the components' initial budget requests are entered into the system, they are reviewed by the Office of the Secretary. Any modifications to these requests made by the Office of the Secretary are entered into the Budget Information System. Subsequent changes made by OMB, Office of the President, various congressional committees, and ultimately by the entire Congress are also entered into the Budget Information System.

System outputs

The Budget Information System produces a series of reports that show the status of organizational component budget requests and the HHS overall budget request after each review stage. These reports provide records of the results of each stage of the budget development and review process from development of the initial budget request through ultimate granting of spending authority by the Congress.

A-11 BUDGET SYSTEM

The Office of the Secretary uses the A-11 Budget System to develop the HHS overall budget exhibit for ADP and telecommunications. This budget exhibit is prepared pursuant to the requirements OMB Circular A-11.

ADP and telecommunications proposed spending levels are included in the HHS overall budget request. This request, however, does not break-out ADP and telecommunications costs as a separate line item. The function of the A-11 budget exhibit is to separately set-out the Department's resource needs for ADP and telecommunications.

The Department's A-11 budget exhibit shows ADP and telecommunications costs for:

- Capital Investment,
- Personnel,
- Equipment,
- Space and utilities,
- Commercial services,
- Interagency ADP and telecommunications services,
- Intraagency ADP and telecommunications services, and
- Other services.

All HHS major organizational components of the Department prepare A-11 budget requests. The Office of the Secretary uses the A-11 Budget System to develop the HHS-wide A-11 request. The timeframes for developing the A-11 budget request and the inputs, processes, and outputs of the A-11 Budget System are discussed in the following sections.

Timeframes for the A-11 budget request

The timeframe for developing the A-11 budget request spans about seven months. For example, the development process for HHS's fiscal 1984 A-11 budget request covered the period April 1982 through September 1982.

In April 1982 the Office of the Secretary issued instructions to its organizational components for preparing and submitting their fiscal 1984 A-11 budget requests. The organizational components were given the period April through May 1982 to prepare and submit the A-11 budget requests to the Office of the Secretary. In June 1982, the organizational components submitted their A-11 budget requests to the Office of the Secretary. During the period June through August 1982, the Office of the Secretary, in consultation with the operating components, modified the A-11 budget requests and arrived at the Department-wide A-11 budget request. This budget request was submitted to the Office of Management and Budget in September 1982.

When HHS submitted its fiscal 1984 A-11 budget request to the Office of Management and Budget, it had not yet completed executing its fiscal 1982 budget authority for ADP and telecommunications. Consequently, when HHS submitted its fiscal 1984 A-11 budget request, it had not even started to execute its fiscal 1983 A-11 budget authority and to record and accumulate fiscal 1983 actual ADP and telecommunications costs.

Operations of the A-11 Budget System

The A-11 Budget System is run on computer equipment located in Cleveland, Ohio, which is owned and operated by the Control Data Corporation. Information is entered into and retrieved from the system by computer terminal. A brief discussion of the system inputs, processes, and outputs follows.

System inputs

Based on the guidance published by the Office of the Secretary, HHS's operating components prepare their A-11 budget requests. These requests must cover costs for (1) capital equipment, (2) personnel, (3) equipment, (4) space and utilities, (5) commercial services, (6) interagency and intraagency ADP and telecommunication services, and (7) other services. The budget requests must show these costs for the prior fiscal year, the current fiscal year, the budget fiscal year, and the four out-years after the budget year. For the fiscal 1984, the A-11 budget request had to show ADP and telecommunications costs for FY 1982, FY 1983, FY 1984, and fiscal years 1985 through 1988.

The processes used by HHS's organizational components to develop the A-11 budget requests, are essentially manual processes. Once the operating components develop their A-11 budget requests, the information is entered, by computer terminal, into the automated A-11 Budget System. All modifications made to these A-11 budget requests by the Office of the Secretary, in consultation with HHS organizational components, are also entered by computer terminal into the A-11 Budget System.

System processing

The A-11 Budget System accepts the budget request information entered by HHS operating components and the Office of the Secretary

and posts this information to a file called the A-11 History File. The A-11 History File maintains a separate record for each HHS organizational component. This record shows the A-11 cost elements for the prior fiscal year, the current fiscal year, the budget year, and the four out-years after the budget year.

In addition to the A-11 History File, the A-11 Budget System maintains two other files: the Reports File and the Merge and Consolidate File. The Reports File consolidates the information by organizational components in the A-11 History File into a single Department-wide A-11 budget request file. The Merge and Consolidate File is used to accumulate selected information, by HHS organizational components, from the A-11 Reports File and to produce budget analyses of A-11 cost information budget requested by HHS organizational components.

System outputs

The A-11 Budget System uses information in the Reports File to produce HHS's A-11 budget request which is sent to the Office of Management and Budget. The system uses information in the Merge and Consolidate File to produce the A-11 budget request and any special analysis of A-11 cost information requested by HHS organizational components.

SUPPORTING BUDGET SYSTEMS USED BY HHS ORGANIZATIONAL COMPONENTS

The budget development systems used by the Public Health Service, HCFA, and SSA are representative of similar systems used by other HHS organizational components. The basic budget processes and timeframes for the Public Health Service, HCFA, and SSA are discussed in the following three sections.

Public Health Service

The Public Health Services' budget development process is essentially a manual process. Budget requests for component agencies are sent to the Office of Assistant Secretary for Health. After the Assistant Secretary for Health reviews and makes the appropriate changes to these budget requests, they are consolidated into an overall request which is entered by computer terminal into the Office of the Secretary's automated Budget Information System. The budget development process for fiscal 1984 spanned 23 months and began in November 1981. Because of the length of the process, the fiscal 1984 budget request was not based on the actual financial results of program and administrative operations for fiscal 1983. Instead it was based on fiscal 1981 and partial fiscal 1982 results which were adjusted to estimate fiscal 1983 results of operations.

The budget process for the Public Health Service begins with the planning and policy analysis process. For the fiscal 1984 budget request, the planning process began in November 1981. This planning process established program goals and priorities (budget

development guidance) for the Public Health Service's five organizational components. This guidance consists of two major sections: priority decisions and commitment base. Priority decisions deal with programs, and the commitment base deals with funding.

In priority decisions the Assistant Secretary for Health identifies the programs that are most important to and consistent with the mission of the Public Health Service. The result of the priority decision process is a list of all programs in priority order. This list includes all worthwhile programs to allow the Public Health Service to meet its overall mission of protecting and improving the health of American citizens.

The commitment base is an estimate of the funding level needed to fund all grantees and to support all programs the government is committed to continuing based on the assumption that there will be no changes to existing policy.³ The commitment base also assumes no reduction or increases in staff levels. For fiscal 1984 the commitment base was computed by starting with the fiscal 1983 Presidential budget submission adjusted for (1) anticipated government-wide pay raises for civilian employees and Public Health Service commissioned officers, (2) proposed merit pay increases for Merit Pay Employees, and (3) proposed bonuses for Senior Executive Service personnel.

Priority decisions, commitment bases, and other instructions for developing budget requests were put together in a budget planning document by the Office of Assistant Secretary for Health staff and were provided to organizational components in February 1982. This planning document gave instructions on the format of budget requests and described in detail the various budget request schedules that had to be prepared. In terms of format, organizational components budget requests had to be presented in terms of decision units and decision packages.

A decision unit is a program or organizational entity that is given resources and the authority to set work levels and use resources to achieve a specific goal. In FDA, for example, a decision unit is its Food Safety, Food Labeling, and Cosmetics program. Decision units or aggregates of several units correspond to line items in the budget request submitted to OMB, the President, and ultimately the Congress.

A decision package is composed of the required funding and program justification for a decision unit or aggregation of several decision units. The organizational components were required to prepare decision packages at several different funding levels. For fiscal 1984, three levels of decision packages were generally prepared; that is, the programs and administrative support that were required for:

³Research grants, for example, are usually awarded on a 3/5 year basis. Funds for research grants, however, are appropriated annually, but the grantees are generally guaranteed 3-5 years of funding as long as the projects proceed satisfactorily.

--Minimum funding--an estimate of the funds needed to carry out only the most critical programs.

--Current funding--fiscal 1983 spending levels plus a five percent inflation factor.

--Enhanced funding--an estimate of the money needed to carryout current programs plus new programs.

The budget development systems used by Public Health Service's components are described below:

--NIH's budget formulation system, with the exception of the National Cancer Institute (NCI), is a manual system which accumulates and rolls-up the budget requests prepared by NIH's institutes. NCI's Budget Formulation and Presentations System is an automated system which prepares a hard copy budget request that is sent to the Director of NIH for inclusion in NIH's budget request. NCI also prepares a second budget request showing all desirable cancer research that should be done if there were no funding or program priority constraints imposed on NCI. This second budget request, called the by-pass budget, is sent directly to the OMB and The President.

--FDA's budget development system is a partially automated system. FDA's Program Management System receives quarterly information on actual obligations for procurement of supplies and services from FDA's Umbrella Accounting System summarized according to FDA's budget categories. The system provides financial information on past costs of supplies and services to support budget development. Manually developed estimates of personnel and overhead costs were added to the information from the Program Management System to develop FDA's overall fiscal 1984 budget request.

--CDC, HRSA and ADAMHA used manual processes to develop their fiscal 1984 budget requests.

The organizational components were given March and April 1982 to develop and submit their fiscal 1984 budget requests to the Office of the Assistant Secretary for Health. These requests were submitted in the budget request format specified in the budget guidance sent out in February 1982. From May through July 1982, the staff reviewed, and--through meetings and discussions with officials of the Public Health Service organizational components--modified the budget requests.

In July 1982, the Public Health Service entered directly, by computer terminal, its consolidated fiscal 1984 budget request into the Office of the Secretary's Budget Information System. At the same time voluminous supporting justifications for requested funding levels were also sent to the Office of the Secretary. From July until October 1982, the consolidated budget request was

reviewed and modified by Office of the Secretary staff. All changes were posted to the Budget Information System.

In October 1982, the Office of the Secretary combined the Public Health Service's budget request with the budget requests from other HHS organizational components and submitted the Department-wide fiscal 1984 budget request to the Office of Management and Budget. At this point, HHS had just completed executing its fiscal 1982 spending authority and was just beginning to execute its fiscal 1983 spending authority.

From October 1982 to January 1983, OMB reviewed and modified HHS's Department-wide fiscal 1984 budget request. In January 1983, HHS's fiscal 1984 budget request was submitted to the Congress.

Health Care Financing Administration

HCFA prepared three fiscal 1984 budget requests for (1) grants to states for MEDICAID, (2) payments to the Health Care Trust Fund (MEDICARE), and (3) program management costs. The grants and trust fund payments budget development systems were manual systems. The program management budget development system was a combination manual and automated system.

HCFA's budget development timeframes were essentially the same as those for the Public Health Service. HCFA began planning for the fiscal year 1984 budget request in November 1981 and submitted its budget requests to the Office of the Secretary in July 1982. The processes to develop the three HCFA budget requests are discussed below.

HCFA's Division of Budget had overall responsibility for preparing the three budget requests. Specific responsibilities for developing the budget requests were:

--Grants to States for MEDICAID--HCFA's Bureau of Program Operations.

--Payments to Health Care Trust Funds (MEDICARE)--HCFA's Bureau of Data Management and Strategy.

--Program Management Budget--HCFA's Division of Budget.

The Division of Budget consolidated the three budgets into one submission that was sent to the Office of the Secretary.

In November 1981, HCFA's Division of Budget began planning and issuing guidance for the development of HCFA's three budget requests for fiscal 1984. Similar to the Public Health Service, HCFA had to develop and send its fiscal 1984 budget request to HHS's Office of the Secretary for input to the Department's Budget Information System by July 1982. Unlike the Public Health Service, however, HCFA's three budget requests were sent in hard copy to HHS's Office of the Secretary for input by computer terminal into the Budget Information System.

Since the procedures and timeframes for Departmental, Office of Management and Budget, and Congressional review of HCFA's fiscal 1984 budget requests were basically the same as those for the Public Health Service, these aspects of HCFA's budget development process are not discussed. The following sections discuss the bases for the three budget requests.

Grants to states for MEDICAID

The grants to states for MEDICAID fiscal 1984 budget request was based on estimated payments that would be made to states for payments to health care providers under the MEDICAID program. Quarterly, states estimate the amount of MEDICAID payments to be made during the subsequent year and send these estimates to HCFA's Bureau of Program Operations.

The Bureau of Program Operations maintains a current estimate of the subsequent year's MEDICAID payments based on the estimates received from the states. This estimate is modified each quarter. Consequently, the original fiscal 1984 budget request submitted to the Office of the Secretary for grant payments to states was based on estimates made for the quarter ended July 1982--more than 15 months before the start of fiscal 1984. Subsequently when the budget request was submitted to OMB it was updated based on the November 1982 payment estimates submitted by the states.

The Bureau of Program Operations adjusts the MEDICAID budget estimates made by the states if changes have been made to the regulations or if authorizing legislation had been enacted subsequent to the states submission of their final estimates. The Bureau of Program Operations sent its fiscal 1984 request to the HCFA Division of Budget for review, modification, and transmission to the HHS Office of the Secretary.

The budget request for Grants to states for MEDICAID does not represent HCFA's proposal for a level of spending, but rather an estimate of anticipated obligations and expenditures under the program. The HCFA request is only an estimate because the amount of funds to be expended is determined by the number of people who apply for and receive payments based on eligibility and payment computation criteria set in legislation that created the MEDICAID program. As a result, expenditures under the MEDICAID program are open-ended and will not be known until the end of the fiscal year when actual obligations and expenditures are totalled. The grants to states for MEDICAID budget request provides the Congress with an estimate of program obligations and expenditures rather than a proposed spending level. The Congress can modify the estimate only by changing the legislation that authorizes the MEDICAID program.

Payments to health care trust funds (MEDICARE)

The payments to health care trust funds (MEDICARE) budget request is based on actuarial projections. Specifically, actuaries in the Bureau of Data Management and Strategy used historical payment data, inflation rates, and other factors--such as,

population trends, program utilization trends, and proposed changes in MEDICARE legislation--and actuarial projections to estimate the amount of MEDICARE payments to be made during fiscal 1984. These estimates were based on information available from November 1981 through July 1982. The annual MEDICARE payment estimates for fiscal 1984 were sent to the Division of Budget for review, modification, and transmission to the HHS Office of the Secretary.

The budget request for payments to Health Care Trust Funds (MEDICARE) does not present HCFA's proposal for a spending level for this program. Instead, it presents an estimate of anticipated obligations and expenditures under the program like the grants to States for MEDICAID. As with MEDICAID, this occurs because the amount of funds expended under the MEDICARE program is determined by the number of people who apply for and receive payments based on eligibility and payment computation criteria set in the legislation. Therefore, expenditures under the MEDICARE program will only be determined at the end of each fiscal year when actual obligations and expenditures are totalled.

The budget request for the MEDICARE program essentially provides the Congress with an estimate of program obligations and expenditures. Congress can modify the proposed spending level by changing existing legislation that governs the program. Congress will appropriate funds for the MEDICARE program based on the Department's budget request, and if this appropriation falls short of actual program obligations and expenditures, the following year's appropriation will be adjusted to cover any shortfall in the prior year's appropriation.

HCFA's program management budget request

HCFA's program management budget request was composed of six segments:

- Professional Standards Review Organizations which provide for reviews of health care services provided under MEDICAID to determine whether services provided are medically necessary and whether they were provided at the lowest practicable cost.
- Research, Development and Evaluation Projects which are designed to identify ways to improve the delivery, quality, and financing of health care services.
- MEDICARE Contractors which provides the funds to pay contractors for performing the claims processing and payment function.
- State Certification Activities which provides the funds to pay states to survey and certify MEDICARE health care providers.
- End Stage Renal Disease Network which provides the funds needed to coordinate and support the delivery of kidney dialysis and transplant services.

--Administrative Costs which includes the funds needed for staff salaries, travel, and other administrative costs--like rent, utilities, printing and publications--to administer health care financing programs.

The Division of Budget is responsible for preparing the program management budget. It prepares the administrative cost segment of the program management budget and receives budget data for the other five segments from the following HCFA components:

- The Health Standards and Quality Bureau prepares the (1) Professional Standards Review Programs, (2) State Certification Activities, and (3) End Stage Renal Disease budget requests.
- The Research, Development and Evaluation Project prepares its own budget request.
- The Bureau of Program Operations prepares the MEDICARE Contractor budget request.

The budget development processes for all segments of the program management budget are manual processes which involves an analysis of relevant data pertaining to HCFA's prior year expenditures, current year estimated expenditures, changes in workload brought about by new legislation and management initiatives, available resources, and other variables. The budget development process for the administrative costs segment of the program management budget, however, is supported by a automated process - HCFA's automated Budget Information System. This system is made up of two major subsystems: the Control Table Subsystem and the Allotment/Allowance Reporting Subsystem. The Budget System is run on computer equipment located in HHS's Washington Computer center. Information is entered into and retrieved from the system by computer terminal and printers connected to the computer terminals.

The Control Table Subsystem records and reports HCFA's initial budget request and subsequent changes made by the Office of the Secretary, OMB, and House and Senate appropriations subcommittees. HCFA's long-range plans for the control table subsystem provide for automating routine tasks, currently done manually, for acquiring, recording, and manipulating the information needed to support HCFA's budget request. When fully developed and implemented, the control table subsystem will assist budget analysts in computing different budget requests based on different assumptions on levels of effort in the various HCFA programs. These levels of effort would be based on varying assumed levels of program activity that could be authorized by the Congress.

The Allotment Allowance and Reporting Subsystem accepts, stores, and reports the spending authority granted HCFA for program management by the Congress and all subsequent changes thereto-- that is, supplemental appropriations--and produces official notifications to HCFA organizational components of their spending

authority. The system helps ensure that the spending authority provided to HCFA's organization components does not exceed the total spending authority provided HCFA by the Congress.

The Division of Budget is responsible for putting together the six segments of the program management budget into a single document. The Division of Budget then combines the three parts of HCFA's budget request--Grants to States for MEDICAID, Payments to Health Care Trust Funds, and Program Management--into a single budget request which is sent in hard copy format to HHS's Office of the Secretary for input into the Office of the Secretary's Budget Information System.

Social Security Administration's Budget Process, Systems and Timeframes

The SSA's annual budget request is comprised of two parts: (1) estimate of benefit payments to be made under the various benefit programs operated by SSA and (2) estimates of administrative costs. The budget development systems for benefit payments consist of automated and manual processes. Whereas, the budget development system for administrative costs is primarily an automated system. The Budget Management System is fully integrated with SSA's accounting system and is supported by four automated management information systems.

The timeframes for development of SSA's fiscal 1984 budget request were basically the same as those previously discussed for the Public Health Service and HCFA. SSA began developing its fiscal 1984 budget request in November 1981 for submission to the Office of the Secretary in June 1982. The basic difference, however, between SSA's budget development process and the similar processes for the Public Health Service and HCFA is that SSA's budget request for administrative costs was based on the actual financial results of administrative operations as of January 1983, because SSA's Budget Management System is fully integrated with SSA's accounting system.

SSA's Office of Financial Resources is responsible for developing and submitting SSA's budget request to HHS's Office of the Secretary. The Office of Financial Resources is composed of three major budget divisions: (1) Division of Program Budgets, (2) Division of Administrative Budgets, and (3) Division of Budget Systems. The responsibilities of the three divisions are as follows:

--Division of Program Budgets is responsible for reviewing and presenting estimates of benefit payments and trust fund income for the income security programs administered by SSA. These programs are (1) Old-age and Survivors Insurance, (2) Disability Insurance, (3) Black Lung, (4) Supplemental Security Income, and (5) Assistance Programs. The Division also incorporates these estimates with the administrative estimates to develop a complete budget for SSA.

--Division of Administration Budgets is responsible for developing annual estimates of administrative costs.

--Division of Budget Systems is responsible for maintaining and upgrading SSA's automated Budget Management System and supporting automated management information systems.

In November 1981, SSA's Office of Financial Resources began planning and issuing guidance for developing SSA's program and administrative budget request for fiscal 1984. Similar to the Public Health Service and HCFA, SSA was required to develop and send its fiscal 1984 budget request to HHS's Office of the Secretary by July 1982 for input into the Department-wide Budget Information System. SSA's budget request was sent to the Office of the Secretary in hard copy format for input, by computer terminal, to the Budget Information System.

Since the procedures and timeframes for Departmental, Office of Management and Budget, and congressional review, modification, and approval of SSA's budget request were basically the same as those for HCFA and the Public Health Service, these aspects of SSA's budget development process are not discussed. The following sections do, however, discuss the (1) operations of SSA's automated Budget Management System, (2) four supporting automated management information systems, and (3) bases for SSA's program and administrative budget requests.

Operations of the Budget Management System

The Budget Management System is composed of three major subsystems:

- Cost Analysis Subsystem.
- Budget Execution Subsystem.
- Budget Formulation/Presentation Subsystem.

The operation of each of subsystems is discussed below.

Cost Analysis Subsystem

The Cost Analysis Subsystem receives information on the financial results of SSA program and administrative operations from SSA's Financial Accounting System, which is SSA's accounting - general ledger/administrative control of funds system. It also receives workload information--such as number of claims processed per employee--work year and salary data by workload, support function, and staff function for SSA's major organizational components through a variety of semi-automated interfaces and manual data transfers.

The Cost Analysis Subsystem computes administrative costs for each program and each workload function. The subsystem is

updated monthly with cumulative data for the current fiscal year to date,

The Cost Analysis Subsystem is used to:

- Determine actual administrative costs and work-year expenditures by major program (trust fund, general fund appropriation, or major reimbursable activity) for SSA and its principal component organizations.
- Determine actual administrative costs, work-year expenditures, production rates, and unit costs by workload, support function, and staff function within each program activity and in total for SSA and its principal component organizations.
- Provide the budget base of actual data on workloads, work-years, production rates, and costs for use in projecting future resource requirements (see Budget Formulation and Presentation Subsystem below).
- Provide actual data for use in comparisons to budget estimates (see Budget Execution Subsystems below) and for measuring actual work output, work-year input, and productivity compared to budgeted levels for SSA and its principal component organizations.

The results of the computations made by the Cost Analysis Subsystem are included in a series of hard copy reports which are produced by the subsystem each month. All of the basic data used to produce these reports is stored on a machine media file. The data is available for use by other subsystems in the Budget Management System and by other major SSA components for a variety of management applications. For example, the subsystem determines actual workload and cost data by SSA organizational component and program. Also, the subsystem compares actual workload and production data with projected data, and it computes workload and production baselines. These baselines are used in formulating the next fiscal year's budget request.

The results of the computations and comparisons made by the Cost Analysis Subsystem are included in a series of hard copy reports produced by the subsystem and are also recorded on a machine media file. The machine media file created by the Cost Analysis Subsystem is used by other subsystems in the Budget Management System.

Budget Execution Subsystem

The Budget Execution Subsystem computes prior fiscal year cost and workload information which is the basis for preparing the next fiscal year's budget request for administrative operations. This subsystem computes the current year's costs and workloads based on information received from other SSA and HHS systems and on information entered by computer terminal by SSA budget analysts.

Specifically, the Budget Execution Subsystem receives:

- Hours actually worked and number of employees on-board in a machine media file from SSA's Time and Attendance System.
- Workload measures--number of benefit claims processed, number of claims with errors, number of benefit payments made, etc.--from other SSA work measurement systems in machine media files.
- Personnel positions and other personnel information in a machine media file from SSA's automated Personnel System.
- Obligations, disbursements and fund balances in a machine media file from SSA's Financial Accounting System.
- Regional office obligations and disbursements in a machine media file from HHS's Regional Accounting System.
- Costs and workload information for current fiscal year by SSA program and organizational component in a machine media file prepared by the Cost Analysis Subsystem of the Budget Management System.
- Estimates of the next fiscal year's workloads by computer terminal.

The results of the computations made by the Budget Execution Subsystem are stored on machine media files for use by the Budget Formulation/Preparation Subsystem. The results of the subsystem's computations are also printed out in a series of hard copy reports.

Budget Formulation/Presentation Subsystem

The Budget Formulation/Presentation Subsystem provides support in the development of SSA's budgets--administrative and program. It consists of two distinct but related sections, Administrative and Program.

The Administrative Section consists of five interconnected modules, all of which access the same Budget Formulation/Administrative Database. This modular structure allows for both automatic transfer of data from one module to another during one budget development cycle, and use of previous years' historical data directly in support of current cycle development. These modules are as follows:

- Workload Estimates Module - provides output on all of the SSA workload data (e.g., claims received, processed, and pending). All estimates are input by computer terminal, previous years' actuals are automatically retained from earlier budget cycles.
- Work-Year Module - provides work-year output for SSA, including all administrative work-year estimates as well as

indications of year-to-year changes in output and productivity. Much of the work-year output is derived from data transferred from the Workload Estimates Module; the remainder is input via computer terminal.

- Payroll Module - provides output of payroll costs. Work-Year data are transferred automatically from the Work-Year Module. Hourly rates and benefit cost/ratios are input via computer terminal.
- Other Objects Module - provides other objects cost data all input is via computer terminal.
- Allocation/Distribution Module - allocates and distributes work-years and costs to budget activities and workloads (i.e., carries out the same function for the budget estimates as the Cost Analysis Subsystem carries out for the actual data) and provides reports on work output and productivity at the SSA level. Most data are transferred automatically from the Work-Year, Payroll and Other Objects Modules. The remainder are input via computer terminal.

The Program Section of the Budget Formulation and Presentation Subsystem provides computer support for assembling and preparing documents related to the President's Budget as required by A-11. These documents provide data on total SSA income, obligations and outlays, etc., for all SSA programs. All data are input via computer terminal. Budget Formulation and Presentation Subsystem data are recorded on machine media files and printed out in hard copy reports.

In addition to the Budget Management System, SSA operates four additional management information systems which produce estimates of certain costs for the next fiscal year. These four systems are the:

- Status of Funds Database System. This system receives a monthly magnetic tape from SSA's Financial Accounting System on obligations, disbursements, and status of funds. This system provides budget analysts with various fund analyses.
- Train Database System. This system receives, by computer terminal, information on training costs for SSA district office personnel. Based on this historical information and on estimated training for the next fiscal year, entered by computer terminal, this system develops the training budget for SSA district office personnel.
- Personnel Services Modeling Database System. This system is used to forecast salary and benefit costs for SSA district office personnel based on different staffing levels in the district offices. Information is entered into and retrieved from the system by computer terminal.
- Timekeeper and Common Account Number Database System. This system maintains the current valid lists of timekeepers and

common account numbers used by SSA. The common account numbers identify different SSA budget activities, programs, and organizational components and are used to allocate costs to these entities.

Bases for SSA's Program Budget Request

SSA's program budget presents estimates of required funding for the Old-age and Survivors Insurance, Disability Insurance, Black Lung, Aid to Families With Dependent Children, and Supplemental Security Income programs. The program budget is comprised of two parts: that is, estimates of benefit payments to be made and administrative costs. The bases for the two parts of SSA's budget request are discussed in the following paragraphs.

Estimates of benefit payments

Estimates for benefit payments are developed based on (1) historical trends in benefits payments, (2) actuarial assumptions on beneficiaries' life expectancies and other demographic factors, and (3) economic trend factors such as inflation and employment rates. The sources of the information to estimate benefit payments are various automated systems that accept applications for benefits and compute and issue payment checks. The actual determinations of estimates and total benefit payments to be made under each program during the ensuing fiscal year are essentially manual processes supported by automated systems.

The budget request for benefit payments does not present SSA's proposal for a level of spending, but rather an estimate of anticipated obligations and expenditures under the various benefit payment programs. This happens because the amount of money to be expended annually under the various SSA benefit payment programs is determined by the number of people who apply for and receive payments based on eligibility and payment computation criteria set in laws that created the various SSA benefit programs. In short, expenditures under the SSA programs are open-ended and will only be known at the end of the fiscal year when actual obligations and expenditures can be totalled.

Estimates of administrative costs

Estimates of administrative costs that relate to SSA's benefit payment programs are based on workload estimates - for example, number of claims to be received and planned systems and procedural changes for the ensuing fiscal year and actual administrative costs incurred as of the date of preparation of the budget request. These estimates are developed by SSA's automated Budget Management System previously discussed.

Estimates of administrative costs are set four times during the budget development process. The budget development process for HHS's fiscal 1984 budget request spanned the time period November 1981 through October 1982. Key milestones during this time period were:

- May 1982 when SSA developed its initial budget request.
- July 1982 when SSA submitted its budget request to HHS's Office of the Secretary.
- October 1982 when HHS submitted its budget request to OMB.
- January 1983 when the President submitted his budget request to the Congress.

The Budget Management System developed administrative cost estimates as of each of the aforementioned four dates based on actual administrative costs incurred as of these three dates. The Budget Management System receives actual administrative costs directly from SSA's automated Financial Accounting System.

Basis for SSA's administrative
budget request

SSA's administrative budget request covers the estimated costs of operating the Office of the Commissioner and other SSA-wide management functions that are not directly attributable to operating SSA's benefit payment programs. This budget request was prepared from the automated Budget Information System and was based on the actual administrative costs incurred as of November 1982 for the fiscal 1984 budget request when the request was submitted to OMB. The SSA fiscal 1984 budget request for administrative cost was based on actual cost incurred because its budget and accounting systems are integrated.

DEPARTMENT OF HEALTH AND HUMAN SERVICES - BUDGET CYCLE

Control Weaknesses

Controls In Place

Budget Cycle Control Objectives

Authorization

1. The agency's budget should be developed in accordance with the missions of the agency and its components.

2. The budget should be authorized in accordance with laws, regulations and management's policy.

3. The agency budget should be developed in accordance with Congressional, OMB, legal and management policy and procedures.

Economy, Efficiency and Effectiveness

4. Planned program results should be in accordance with laws, regulations and management's policy and plans.

The mission programs statements are included in the budget. The budget is reviewed and approved by the various echelons of management from each program/organizational category level. For example, through the agency level within each PHS component, through PHS management, up to HHS. Each budget is also reviewed by OMB and Congress. HHS provides guidance on the budget process. The HPCA, PHS and SSA budgets are incorporated as part of the total HHS budget; HHS provides overall policy decisions on major budget issues; and the various organizational budgets are therefore prepared to be compatible with and in accordance with HHS's mission.

See cycle control objective 1.

See cycle control objective 1.

Budget categories are generally based on missions/programs of HHS, and these categories are formally established prior to preparing each year's budget. The budget is prioritized based on relative importance of programs and for levels of service. In addition to dollars, staffday data and work plan narratives are included on the budget. These narratives often provide data on expected accomplishments and planned workloads for the budget year.

DEPARTMENT OF HEALTH AND HUMAN SERVICES - BUDGET CYCLE

Budget Cycle Control Objectives

Controls In Place

C

5. Programs should be planned in an economical and efficient manner.
6. Budget processing procedures used should be economical and efficient.

See cycle control objective 4.

Detailed budget instructions are issued by HHS. The budget development process is automated for HHS's Department-wide budget request. Data is keyed-in on terminals and transmitted to the computer. The automated system enables input of numerous changes and prompt calculations and production of revised reports.

The budget HHS organi: level--for Disease Cor manual pro zational co are sent to Secretary I Department- Information format. Of Service can request dir Information terminal.

Transaction Processing

7. Budgetary information should be properly classified in accordance with federal budget guidelines.
8. Actual information for previous periods included with the budget should be taken from or reconciled to reliable financial reporting systems.

Budget data is classified in accordance with guidance established by the Office of Management and Budget. The Office of the Secretary's Automated Budget Information System's files are structured to conform to the budget classifications established by the Office of Management and Budget.

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DEPARTMENT OF HEALTH AND HUMAN SERVICES - BUDGET CYCLE

Cycle Control Objectives

Control In Place

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9. The budget information developed from the lowest levels of the organization should be accurately and promptly classified, summarized and reported.
10. Changes made to budget submissions by OMB and Congress should be properly controlled and reconciled with final budgets.
11. Approved final budgets should be properly entered into appropriate agency systems.

HHS's instructions provide for uniform budget request preparation procedures. Budget request preparation timetables are established at the beginning of the budget cycle.

The Office of The Secretary's automated budget system facilitates the recording of changes, the tracking of changes, and the preparation of reports before and after changes are processed. The Congressionally approved budget results in OMB's apportionment to the agency, which becomes the agency's authorized funds. Allotments to HHS organizational components are then given out based on the approved budget.

See cycle control objective 10.

integrated with general ledger. In addition, t for HHS benefi — for example Black lung, Su Income, and Ol Insurance prog proposed spend rather are est obligations ar to be made und the ensuing fi Congress can n expenditures t the authorizir

DEPARTMENT OF HEALTH AND HUMAN SERVICES - BUDGET CYCLE

Cycle Control Objectives

Controls in Place

Classification

12. Apportionments made by the OMB should be properly accounted for and reconciled with overall appropriations.

See cycle control objective 11.

13. Budget reports should be prepared accurately, promptly and on a consistent basis that adequately presents the information they purport to display.

See cycle control objective 11.

Substantiation and Evaluation

14. Detail budget data should be properly controlled and accounted for and reconciled with final appropriations.

HHS's eight accounting/general ledger systems prepare the official reports of fund authority, obligations and expenditures incurred against that fund authority. As indicated in item 11, the budgets for each agency agree in total with fund authority. Access to the budget system terminals is limited by use of codes and knowledge of terminal operating procedures.

Physical Safeguards

15. Access to critical budget forms and records, processing areas and processing procedures should be permitted only in accordance with laws, regulations and management's policy.

Budget forms, records, and systems are maintained in a normal office environment.



Washington, D.C. 20201

DEC 22 1988

MEMO TO: David V. Dukes
Deputy Assistant Secretary, Finance

THRU : Anthony Itteilag, DASB *[Signature]*

FROM : John P. Scully *[Signature]*
Director, Division of Budget Policy and Management

SUBJECT: Comments on GAO Chapter IV - Round Two

I have reviewed GAO's revised Chapter IV on OS Budget Development Timeframes, Processes and Systems. Since they have not accepted my August comments, which were admittedly strongly phrased, I will try a calmer approach in addressing both the original report and the GAO response. I continue to believe, however, that Chapter IV is, in crucial respects, wrong. Since GAO has not made significant modifications, I believe that it is time to convene a meeting among GAO and HHS principals at your level to correct some fundamental misimpressions contained in Chapter IV.

In summary, I continue to believe that:

- o The GAO "determination" regarding controls on the Budget Information System are not based on a valid question. While the conclusion of the Chapter is positive, it is meaningless and should be stricken or stated without reference to controls. If the latter revision is accepted, the report should simply state that it is describing the BIS and OPDIV input into it.
(See GAO Note 1)
- o The GAO "determination" that HHS budget development systems are not based on accounting systems is also based on an invalid question. The relationship between accounting and budgeting is tenuous, and while good budgeting practice fully utilizes accounting data in budget formulation, there can and should be no 100 percent linkage. Chapter IV and the GAO comments seem to posit such a link and "determine" that budget development, except in SSA, is not based on accounting data and systems. If this is not a negative judgment, the GAO report should say so, and should add those contextual factors which explain why, and should delete the seemingly judgmental "determination" language.
(See GAO Note 2)
- o GAO's "observation" concerning Congress' lack of control over entitlement programs is likely to lead to negative conclusions on the part of unknowledgeable readers. It should either be stricken or the reasons why it is not a problem should be made clear at the point of the narrative where the "observation" is made.
(See GAO Note 3)

These points are discussed more fully below.

Budget Information System (BIS)

I originally commented that GAO's focus on "controls" to ensure that HHS component requests are recorded accurately in the BIS is not a valid inquiry. As discussed in more detail on August 29, this is because there is no significant possibility, beyond temporary and minor error, that information could be inaccurately entered. Hence, to look for controls where none are needed beyond normal ADP security procedures, is not a valid inquiry.

There is no doubt that such "controls" (GAO never even mentions what controls they are referring to) is one of the study's two main foci. The first of its two main "questions" is stated on page 5:

"In assessing the Department's budget development process, we focused on answering two main questions:

- Do the Department's budget development systems include the needed controls to ensure that budget requests developed at the major organizational component level are accurately and completely entered into the Department-wide Budget Information...systems?"
(Underscoring added).

GAO's latest work (see yellow Tab A) contends that, since they originally stated that controls "generally seem to be adequate," that our original comments do not address any issues raised in their first draft.

This response indicates a lack of understanding of the August 29 comments which were that the focus or "question" was inappropriate and, hence, the "determination" must also be inappropriate. Conclusions based on inaccurate premises are, logically, also wrong. For GAO to focus on this matter makes it obvious that they have little understanding of the Department's budget formulation process.

(See GAO Note 1)

Basing Budgeting on Accounting Data

The second main question of the GAO study is as follows (again, from page 5):

"Are the Department's budget requests and systems (1) based on the actual financial results of the prior year's administrative and program operations and (2) tied into the Department's accounting systems?"

That GAO posits this as a norm to be adhered to is clear in its "determination" on page 2 which states that:

"The Department's organizational component budget requests - except for the Social Security Administration - are not based on the actual financial results of the immediately preceding year's program and administrative operations." Furthermore... "The Department's organizational component budget systems are not tied to the Department's accounting-general ledger/administrative control of funds systems. The Social Security Administration is the only exception." Finally... "HHS has not applied the accounting and ADP system techniques used by the Social Security Administration to integrate its budget development systems at other HHS components." (Underscoring added).

The August 29 comments stated that the GAO question, hence, this "determination" is wrong.

GAO responds with a page and a half of citations (see yellow Tab B) from various sources designed to prove that their normative question and resulting "determination" are firmly based in fact. However, I believe that none of the citations support a norm of a necessary and close link between the accounting and budgeting. The various citations provided by GAO:

- o Are "objectives";
- o Seek to "satisfy the requirements of the budget process, internal management needs, and the control accounting and reporting of Treasury";
- o Are to be done "to the extent possible"; and
- o Are to be used in "budgeting and in the management of operations."

All of these indicate to me that the intent of these legal and other citations is that managers should integrate budget and accounting system to the extent possible but within the context of what is possible and not as a fixed norm. To this end, we should make the point that:

- o the Operating Divisions of the Department do use past years' accounting data as one of the bases for budget formulation, although current year data (i.e., FY 1983 at this time) is not available when the budget is first submitted to the Office of the Secretary because what will be the "actual" year is still in progress;
- o by the time the President's budget is submitted in January, the actual year column accurately portrays final obligations, outlays, etc. for that year.

While not dropping their normative "question" and "determination" on this subject, they have added to page 3 the statement that "agency officials commented that...a close link between accounting and budget formulation processes is not necessary and that most of the Department's requests for spending authority and staff levels are based on factors such as Presidential policy of budget reduction, likely Congressional actions, and likely interest group reaction on (illegible)." Again, the GAO team should reread the August 29 comments on this subject, and I ask why they continue to pose this "question" and draw such a broad and negative conclusion when accounting data and systems are used to the extent feasible.

(See GAO Note 2)

Uncontrollable Funding

GAO's "observation" on this subject is stated on page 2:

"A large amount of spending authority is developed by organizations outside of HHS. For example, States estimate the level of expenditure for MEDICAID."

"The majority of funds expended by HHS during any fiscal year cannot be controlled through the budgetary process. For example, HHS's budget requests for the MEDICARE, MEDICAID, and SSA benefit programs are simply estimates of anticipated obligations and expenditures under these programs rather than proposed spending levels that the Congress can approve, modify or disapprove." (Underscoring added).

I believe that most common sense readers of this statement would conclude that there must be some problem. First of all, why would GAO enter its observation if there is no problem? Second, it seems to be saying that Congress has relinquished control of things or that Executive Branch spending is not being controlled by the Congress. As we both know, this is not the case. Entitlement spending levels are estimated as the result of an excruciating and painstaking process based on the best information available at that time. They are subject to change because the economy is unpredictable; the number of people retiring is unpredictable; the number of deaths is unpredictable, etc. The only way I know of to bring better "control" to these estimates is for a fundamental change in the nature of these programs, which can only be accomplished through legislation. (For example, we could better control Social Security and Medicare benefits if the Congress limited the number of new beneficiaries each year.)

My original concern remains: why bother saying anything at all and raising any doubts if there are no problems?

GAO's response (see yellow Tab C) seems to prove that there is a reasonable basis to believe that there is no problem and that they stated this in their original comments. To wit: "The staff study clearly states...that expenditures for entitlement programs...are based on the number of people who apply for and receive benefits based...in laws. The staff study also points out that...Congress...is kept advised of estimated expenditures...."

I again ask: If there are no problems, why don't they come right out and say so as a proper context for the "observation." Or, why don't they drop the whole topic.

(See GAO Note 3)

Conclusion

I conclude that the original August 29 comments were on target and that the Department should seek to have this report rewritten or dropped. If there are no informal means to do this, I suggest that we more formally register our concerns through written communication by the Assistant Secretary for Management and Budget.

cc: Guy Linza
John Hopkins

GAO FOOTNOTES

1/Our technical summary states that the Budget Information System generally seems to include the controls necessary to ensure that budget requests developed at the major organizational component levels are completely and accurately entered into the Department-wide Budget Information System. The staff study does not mention or discuss the issue whether agency personnel would intentionally enter erroneous information into the Budget Information System. The agency's comments on this point does not address any issues raised in the staff study.

2/The Budget and Accounting Procedures Act of 1950, as amended in 1956 by Public Law 84-863, provides for use of accrual accounting, cost-based budgeting for internal operations and appropriation requests, and consistent classifications. This legislation established the Federal Government's Joint Financial Management Improvement Program which has as some of its objectives:

- Integration of programming, budgeting, and reporting practices with the accounts to provide adequate support for budget formulation and review of annual cost-based appropriation requests.
- Use of consistent classifications to bring about effective coordination of agency programming, budgeting, accounting, and reporting practices.
- Effective integration of agency accounting and reporting in management information and control systems that will satisfy the requirements of the budget process, internal management needs, and the control accounting and reporting of the Treasury Department.

The accounting principles and standards for Federal agencies promulgated by the Comptroller General provides:

"To the extent possible, programming, budgeting and accounting classifications should be consistent, with each other and should be synchronized with the agency's organizational structure. Such consistency is necessary so that data produced by an accounting system will be of maximum use in support of internal operating budgets and budgets that are presented to the Congress."

Congressional policy, as expressed in law calls for the use of cost information in budgeting and in the management of operations. Public Law 84-863 (31 U.S.C. 24) specifically provides for the use of cost based budgets in developing requests to the Office of Management and Budget for

GAO FOOTNOTES

appropriations. This law also provides that, for purposes of administration and operations, such cost-based budgets shall be used by all departments and establishments and their subordinate units and that administrative sub-divisions of appropriations or funds shall be made on the basis of such cost-based budgets.

3/The technical summary clearly states on pages 12, 13, and 20 that expenditures for entitlement programs run by the Department are based on the number of people who apply for and receive benefits based on eligibility and payment criteria set in laws that established the entitlement programs. The staff study also states that Congress cannot limit the actual amount of expenditures under these programs through the passage of appropriation acts. The study also points out, as does this agency's comment, that Congress through the Department's budget request is kept advised of estimated expenditures under entitlement programs.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Memorandum

Date

DEC 29 1977

From Deputy Assistant Secretary, Finance

Subject Comments--GAO Updated Chapter 4 on the Office of the Secretary
Budget Development Timeframes, Processes and SystemsTo Guy Linza, Chief
Operating Division's Systems & Procedures Branch

The comments written by John Scully (August 29), Robert Sermier (draft), and PHS (September 1) reflect my concerns about the GAO product. The manner and tone of the GAO discussion implies that there are problems that result from the processes and mannerisms used throughout the Department in preparing and executing the budget -- rather than simple, unbiased statements of fact. For example, on page 2 (next to last observation), GAO states that programs "cannot be controlled" and that budget requests are "simply estimates... rather than proposed spending levels that Congress can approve, modify, or disapprove." These programs operate in this manner because they are entitlements and are available to those who are eligible. GAO's statements like this in its discussion of SSA and HCFA programs imply that those budget processes are "bad" whereas others (which are not defined or described) are "good." Further, there are numerous instances where GAO described various processes as being either "manual" preparation or "automated," while implying that manual preparation was not good and that automated preparation is desirable. While this may be the case, GAO did not provide a foundation for such implications. The alternative is to state its assumptions for such implications or to eliminate the biased discussion. Inasmuch as GAO may use the survey as a basis for future audits or surveys, it would seem preferable that GAO should do more work to develop a solid foundation of factual material and present it in a broader survey report rather than in what appears to be a superficial study of the processes.

(See GAO Notes 2 and 3 in Appendix II)

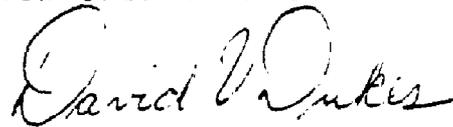
All of GAO's discussion regarding the A-11 Budget System appears to reflect misinformation about the process in general. GAO seems to have overemphasized this process, devoting several pages to the discussion of preparation of but one of the numerous supporting schedules of the budget, providing the implication that the A-11 Budget System is as nearly important as the main budget process.

(See GAO Note 1)

The comments about the survey which were made previously by HHS officials in Appendix III, IV, and V reflect identical concerns in some cases. GAO's subsequent footnotes to those concerns do not eliminate the concerns. For example, footnote 3 in Appendix V worsens the situation by supporting the survey's connotation that SSA's mechanized system is "good" versus PHS' "bad" manual process. It states that if "...the PHS studied the techniques used by SSA, it may find that some of these techniquescould be applied by PHS." Instead, if GAO had perhaps reviewed the processes in more detail, it may have found no need to imply the good/bad situation. However, without laying a proper foundation, GAO should not make such an implied accusation.

(See GAO Note 2)

John Scully has prepared comments which show his displeasure with GAO's "off-base" Chapter IV. He suggests that a meeting be arranged between GAO and HHS principals to seek correction of GAO's misimpressions of the budget development process. I request that you arrange such a meeting and prepare a listing of the areas in Chapter IV which trouble HHS officials.



David V. Dukes

GAO FOOTNOTES

- 1/The technical summary states on page 5 that the Office of the Secretary uses two budget development systems and goes on to describe its operations of the two systems. We disagree with the contention that we have over emphasized the A-11 Budget System.
- 2/The technical summary has been revised to eliminate the comment that the mechanized techniques used by SSA could be applied by PHS.

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