

# IMPROPER PAYMENTS INFORMATION DETAILED REPORT

## BACKGROUND

We take our responsibility to reduce improper payments seriously; curbing improper payments is one objective in our strategic goal to preserve the public's trust in our programs. Each year, we report improper payment findings (both overpayments and underpayments) from our stewardship reviews of the non-medical aspects of the Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs. In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), we report as improper those payments that result from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

We accumulate much of our debt recovery data based on an operating month rather than a true calendar month. An operating month cuts off on the last Friday of the calendar month. Each quarter of a normal operating year contains 13 weeks and the fiscal year contains 52 weeks. Every 5 or 6 years, the fiscal year contains 53 weeks rather than the normal 52 weeks because the year is not evenly divisible by 7 days. FY 2011 is a 53-week fiscal year. Our program overpayment collection totals in the Agency Efforts to Collect Overpayments in the OASI, DI, and SSI Programs section and the administrative overpayment collection totals in Table 23 show our fiscal year performance through the end of the 53<sup>rd</sup> week.

## IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT

On July 22, 2010, President Obama signed IPERA into law. IPERA amends IPIA and expands our accountability, transparency, and reporting responsibilities for improper payments. Although IPERA amends IPIA, IPIA remains the authorizing legislation for this report.

## ACCOUNTABILITY FOR IMPROPER PAYMENTS

As our Accountable Official for improper payments, Deputy Commissioner Carolyn W. Colvin is responsible for overseeing agency efforts to prevent, reduce, and recover improper payments. Due to the strategic importance of this effort, we have taken steps to strengthen management focus on, and accountability for, initiatives aimed at better detection and prevention of improper payments.

Our Deputy Commissioner for Quality Performance, Ron Raborg, has lead responsibility for improper payments. The Deputy Commissioner for Quality Performance, in collaboration with other agency executives, provides oversight of improper payment activities, develops improvement plans, and sets achievement milestones. We review our progress in monthly meetings and hold agency executives accountable for achieving plan milestones.

Effective FY 2012, as required by IPERA, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent improper payments, detect and recover improper payments, and meet targets to reduce improper payments.

### **TRANSPARENCY OF IMPROPER PAYMENTS**

In addition to the information contained in this report on our improper payment efforts, we [established a public website www.socialsecurity.gov/improperpayments](http://www.socialsecurity.gov/improperpayments), which provides further information on our efforts to curb improper payments for the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs as well as meeting the requirements of Executive Order 13520, *Reducing Improper Payments*.

### **RISK ASSESSMENT: BENEFIT PAYMENTS**

IPERA guidance requires agencies to examine the risk of improper payments in their program activities if they have not recently performed one. Our annual stewardship review is a proven, cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs, and OMB has approved it as a means to assess the risk of improper payments in our programs. (See the Statistical Sampling section below for further information about our stewardship reviews.)

### **PAYMENT RECAPTURE AUDIT PROGRAM: BENEFIT PAYMENTS**

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. For example, our stewardship reviews are similar to payment recapture audits for benefit payments. (See the Statistical Sampling section below for further information.) In addition, we have program integrity measures such as continuing disability reviews (CDR) and SSI redeterminations. We also have improper payment prevention and detection initiatives in place, such as Access to Financial Institutions (AFI) and SSI Telephone Wage Reporting (SSITWR).

We are working with OMB on implementing the payment recapture audit program reporting requirements in OMB Circular No. A-136, *Financial Reporting Requirements* and determining payment recapture audits methodology.

### **RISK SUSCEPTIBLE PROGRAM**

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed \$100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1 for details of our OASI and DI improper payments, and Table 9 for details of our SSI improper payments.

OMB's IPERA guidance requires us to evaluate all of our payment outlays, i.e., payments from the OASI, DI, and SSI programs and other outlays such as administrative payments. For the eighth consecutive year, we performed a review of our administrative payments, including payroll disbursements, vendor payments, etc. We found these payments were not susceptible to significant improper payments. Further information on this risk assessment of our administrative payments is available in the Improper Administrative Payments section.

### **STATISTICAL SAMPLING**

We use stewardship reviews to measure the accuracy of payments to beneficiaries in current payment status. Each month, we review a sample of OASI cases, DI cases, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility as of the sample month. We then input the findings into a national database for analysis and report preparation.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refer to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay either more or less than what we should have. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of

error. Because we project findings from samples, we use a five-year average for each type of deficiency to rank and identify trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to current OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for the current and previous reporting periods.

## **AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS**

Our employees are focused on achieving our goals to reduce improper payments. We have the human capital, internal controls, information systems, and other infrastructure necessary to assist them.

### **Human Capital to Support Improper Payment Workloads**

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2007 and FY 2010. Even with our reduced FY 2011 funding, our CDR and SSI redetermination goals remained the same as the goals in FY 2010. This year, we completed 2,456,830 SSI redeterminations and 345,492 full medical CDRs. We estimate that every dollar spent on full medical CDRs yields at least \$10 in lifetime program savings; every dollar spent on SSI redeterminations yields better than \$7 in program savings over 10 years, including savings accruing to Medicaid. We completed 323,748 work CDRs in FY 2011.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits. We cannot continue to improve our processes without adequate resources to complete all the work for which we are responsible. Sustained, adequate funding is crucial to providing us with the necessary staff to balance our service and stewardship work and continue to reduce improper payments.

The *Budget Control Act* (Public Law 112-25) includes program integrity initiatives to reduce improper benefit payments under (among other Federal programs) the DI and SSI programs. It allows adjustments to the Governmentwide discretionary caps in order to permit additional appropriations for purposes of conducting CDRs and SSI redeterminations to the extent that such appropriations for program integrity purposes exceed \$273 million a year. For FY 2012, the funding adjustment authorized is \$623 million. If appropriated, the total amount of \$896 million would enable us to complete approximately 240,000 more periodic medical CDRs and 200,000 more SSI redeterminations compared to FY 2011, resulting in significant savings of taxpayer dollars.

### **Internal Controls**

We have a well-established, agency-wide management control and financial management systems review program as required by the *Federal Managers' Financial Integrity Act*. We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

The effective internal controls we incorporate into our business processes and financial management systems, as well as program integrity efforts mentioned throughout this report, support the Commissioner's annual statement to the President and Congress on whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;

## **Other Accompanying Information**

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- Financial management systems are in conformance with Governmentwide requirements; and
- Internal controls over financial reporting are operating effectively.

As part of our FY 2011 financial statement audit, Grant Thornton, LLP, found that we fairly stated that our internal controls over financial reporting were operating effectively.

We include the Commissioner's annual statement of assurance and additional information on our review program and our financial statement audit in the *Systems and Controls* section of this *Performance and Accountability Report*.

Our strong overall internal control program contributes significantly to the agency's efforts to reduce improper payments.

### **Information Systems**

The Comprehensive Integrity Review Process supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, which requires that we establish and maintain effective internal controls. The Comprehensive Integrity Review Process automatically selects, based on predefined criteria, potentially fraudulent transactions for management investigation. The selection criteria focus on potentially fraudulent activity rather than improper payments. However, if the transaction involves an issued payment, we do ask the reviewer to look at the accuracy of the payment to ensure that we complied with proper procedures.

### **Other Infrastructure**

As required by law, we conduct preeffectuation reviews (PER) on at least 50 percent of initial and reconsideration allowance disability determinations made by the State Disability Determination Services (DDS). In FY 2009, we initiated PERs of all DDS allowances for OASDI benefits and initial and reconsideration allowances for the SSI program. We returned deficient cases to the DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2009 cases will result in lifetime savings (after all appeals) of:

- \$300 million in OASDI benefit payments;
- \$58 million in Federal SSI payments;
- \$151 million in Medicare benefits; and
- \$48 million in the Federal share of Medicaid payments.

(See the Medical Aspects of the DI and SSI Programs section for further information on PER.)

### **Statutory and Regulatory Barriers**

Our processes, policies, and regulatory and statutory requirements are complicated, which make them difficult to administer and explain. To meet the challenges of our growing workloads and provide the best service possible, we will simplify and streamline our policies and procedures and move more of our business processes to an electronic environment. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The President's FY 2012 Budget includes several proposals that would simplify and streamline how we do our work. We discuss some of these proposals in the following paragraphs.

#### **DI Demonstration Authority/Work Incentives Simplification Pilot**

This proposal would reauthorize, for five years, our demonstration authority, which allows us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects, including alternative methods of treating work activity of disabled OASDI beneficiaries

(including recipients of childhood disability benefits and disabled widow(er) benefits). Subject to rigorous evaluation protocols, the Work Incentives Simplification Pilot (WISP) would test important improvements in our return-to-work rules. WISP would eliminate current barriers to employment by simplifying the treatment of beneficiaries' earnings, potentially reducing improper payments.

### **Windfall Elimination Provision and Government Pension Offset**

Under this proposal, we would develop automated data exchanges for States and local governments to submit timely information on pensions based on work not covered by Social Security. The proposal includes funding for developing and implementing the data exchanges. Receiving this pension information timely would help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) applicable.

### **Workers' Compensation**

Under this proposal, we would develop and implement a system to collect information on Workers' Compensation (WC) recipients from States and private insurers. We would use the information to offset DI benefits and reduce SSI payments as necessary. This proposal includes funding for developing and implementing the system. Receiving this information timely would help us avoid improper payments that occur when we do not have information about receipt/amount of WC payments.

**IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS**

Table 1 features the improper payment rates for the OASI and DI programs for FYs 2008, 2009, and 2010. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

<b>Table 1: OASDI Improper Payments Experience</b>						
<b>FY 2008 – FY 2010</b>						
<b>(dollars in millions)</b>						
	<b>FY 2008</b>		<b>FY 2009</b>		<b>FY 2010</b>	
	<b>Dollars</b>	<b>Rate</b>	<b>Dollars</b>	<b>Rate</b>	<b>Dollars</b>	<b>Rate</b>
<b>OASI</b>						
Total Benefit Payments	\$502,692		\$544,478		\$572,569	
Underpayment Error	\$334	0.07%	\$428	0.08%	\$527	0.09%
Overpayment Error	\$841	0.17%	\$841	0.15%	\$1,878	0.33%
<b>DI</b>						
Total Benefit Payments	\$104,517		\$115,087		\$122,899	
Underpayment Error	\$160	0.15%	\$191	0.17%	\$1,261	1.03%
Overpayment Error	\$1,200	1.12%	\$1,706	1.48%	\$844	0.69%
<b>OASDI</b>						
Total Benefit Payments	\$607,210		\$659,565		\$695,469	
Underpayment Error	\$495	0.08%	\$619	0.09%	\$1,788	0.25%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	\$2,041	0.34%	\$2,547	0.37%	\$2,722	0.39%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%
Notes:						
1. Total benefit payments represent actual cash outlays for the fiscal year to the nearest million dollars. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.						
2. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.						
3. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, +0.06 percent and -0.04 percent for underpayments and +0.16 percent and -0.12 percent for overpayments; for FY 2009, ±0.05 percent for underpayments and +0.15 percent and -0.17 percent for overpayments; and for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments.						
4. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, +0.14 percent and -0.12 percent for underpayments and ±0.91 percent for overpayments; for FY 2009, +0.16 percent and -0.17 percent for underpayments and ±1.33 percent for overpayments; and for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments.						
5. The changes in the DI error rates from FY 2009 to FY 2010 are not statistically significant. The change in the overall OASDI underpayment error rates from FY 2009 to FY 2010 is a statistically significant increase. While significant, the overall underpayment rate changed by only 0.16 percentage points.						

Over the last five years (FYs 2006-2010), we paid approximately \$2.6 trillion to OASI beneficiaries. Of that total, we project \$4.9 billion are overpayments, representing 0.19 percent of outlays. We project that underpayments during this same period were \$2.1 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we project that we paid \$530.5 billion to DI beneficiaries over the last five years (FYs 2006-2010). Of that total, we project \$5.5 billion are overpayments, representing 1.0 percent of outlays. We project underpayments during this same period totaled \$2.3 billion, the equivalent of 0.4 percent of outlays.

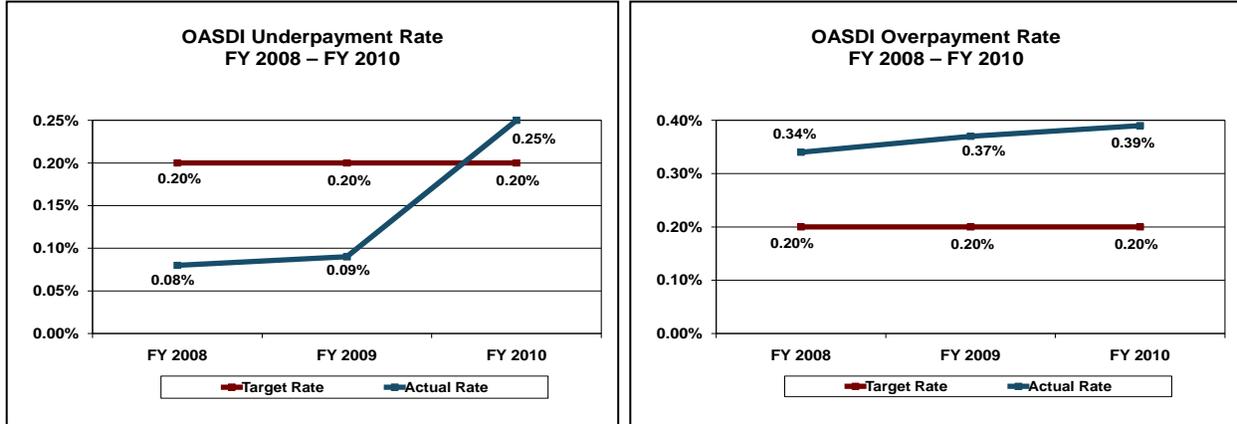


Table 2 presents our target accuracy goals for FYs 2011, 2012, and 2013 for the OASDI programs. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2011 – FY 2013 (dollars in millions)						
	2011 Target		2012 Target		2013 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>OASDI</b>						
Total Benefit Payments	\$722,190		\$755,180		\$796,168	
Underpayments	\$1,444	0.20%	\$1,510	0.20%	\$1,592	0.20%
Overpayments	\$1,444	0.20%	\$1,510	0.20%	\$1,592	0.20%
Notes:						
1. We do not have separate OASI and DI targets (goals); therefore, we present a combined OASI and DI target.						
2. FY 2011 data will not be available until April 2012; therefore, the rates shown are targets (goals).						
3. Total benefit payments for FYs 2011-2013 are estimates consistent with projections for the President's FY 2012 Budget.						

**Major Causes of OASDI Improper Payments**

Over the last five years, the major causes of overpayments in the OASDI program have been:

- Substantial Gainful Activity (SGA)
- Computations
- GPO
- Earnings History

Over the last five years, the major causes of underpayments in the OASDI program have been:

- Computations
- Earnings History
- WC

Table 3 lists these major causes of improper payments (overpayments and underpayments) in the OASDI program using OMB’s three categories of error.

<b>Table 3: Major Causes of OASDI Improper Payments in FY 2010</b>		
	<b>% of Improper Payments</b>	<b>Major Types of Errors</b>
<b>Administrative and Documentation Errors</b>	28%	Incorrect computations, onset dates, and earnings history
<b>Authentication and Medical Necessity Errors</b>	13%	Relationship/dependency errors and failure to report cessation of full-time attendance for students
<b>Verification and Local Administration Errors</b>	59%	Non-verification of earnings, income, or work status (e.g., in relation to SGA and GPO); inputting, classifying, or processing applications or payments incorrectly

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

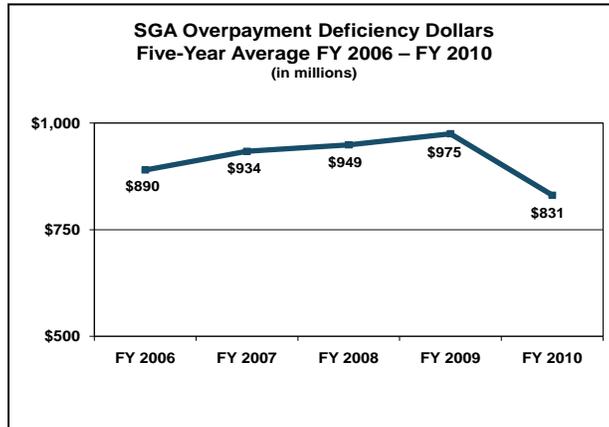
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources, or incorrectly assessing the necessity of a medical procedure.
- **Verification and Local Administration Errors** are errors due to not verifying recipient information including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.

**Substantial Gainful Activity**

**Description:**

When a disability beneficiary works, a number of factors determine whether he or she can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely or when we do not withhold monthly benefit payments timely. The following chart displays the five-year average of SGA overpayment deficiency dollars.

**Historical Figures:**



**Corrective Actions:**

The following table shows our actions to ensure accurate reporting of beneficiaries’ earnings:

Table 4: SGA – Corrective Actions		
Description	Target Completion	Results
<b><u>Case Focus</u></b>		
We dedicated staff to target the oldest cases first.	Ongoing	We have allocated additional staff resources to analyze the oldest work-related issues and are targeting the oldest cases, those over 365 days old.
<b><u>Priority Alerts</u></b>		
We prioritized the systems enforcement alerts we use to identify unreported earnings and then worked the cases with highest earnings first to minimize overpayments.	Ongoing	In regions not involved in our predictive model pilot study, we now prioritize the CDR enforcement alerts used to identify unreported earnings, and complete the cases with highest earnings first to minimize overpayments.
We are conducting the Automated Earnings Reappraisal Operation Pilot.	To be determined based on study results	In the pilot, we are working to coordinate two earnings related processes: benefit recomputations and identifying DI beneficiaries with unreported earnings. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.

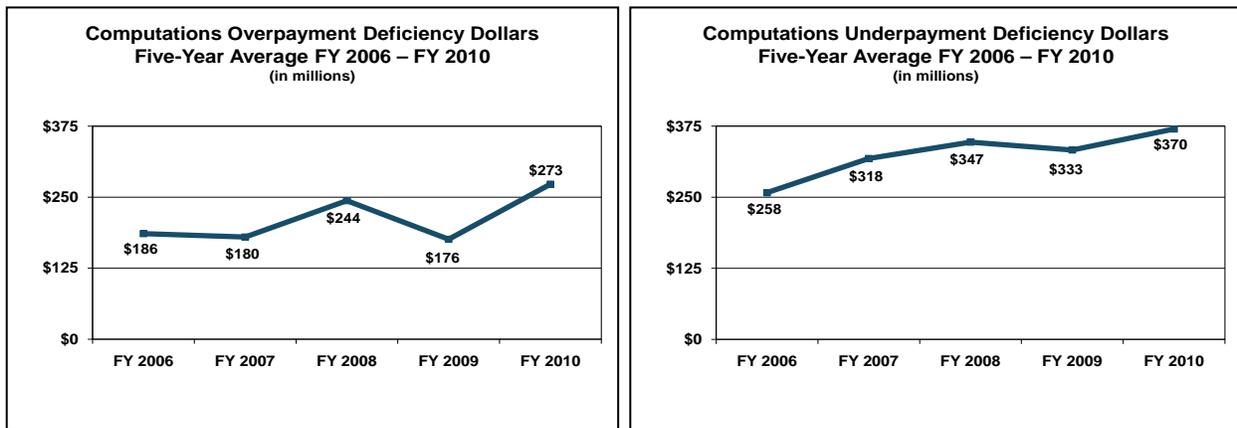
Table 4: SGA – Corrective Actions		
Description	Target Completion	Results
We are conducting the CDR Enforcement Operation Predictive Model Pilot.	To be determined based on study results	We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. We began testing this model in October 2010 in our New York Region, and we have expanded the pilot to include over 50 percent of the CDR workload with the inclusion of the Kansas City Region and the Office of Central Operations. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments.
<b><u>Improved Communication</u></b>		
We improved communication between field offices and processing centers (PC) for cases transferred between components (e.g., field office cases manually processed by the PC).	October 2011	We are working with representatives from each PC to update and streamline our CDR policies and procedures for PC staff. We will make the updated and consolidated instructions available to field offices and PCs to better coordinate field office and PC actions on work issue cases.
<b><u>Wage Reporting</u></b>		
We revised work activity report forms.	February 2012	We recently revised the forms we use to gather information about work activity from applicants and beneficiaries to make the forms easier to understand and complete. For example, we streamlined documentation requirements for work activity that is not SGA, and we eliminated the signature requirement. We received OMB approval for the forms and are currently working with our Office of Systems to incorporate the forms into our computer systems. We will also update our policies to streamline our follow-up procedures when beneficiaries do not respond to our request for information. We plan to release our new procedures and work activity report forms simultaneously.
<b><u>Legislative Proposal</u></b>		
We submitted an FY 2012 President's Budget legislative proposal that would reauthorize our demonstration authority to conduct WISP. WISP would test important improvements in our return-to-work rules and simplify the treatment of beneficiaries' earnings, potentially reducing improper payments. (See the Agency Efforts to Reduce Improper Payments section.)	Pending	The 112 <sup>th</sup> Congress has not taken action yet.

## Computations

### Description:

We base a person's benefit amount on a number of factors including age, earnings history, and the type of benefit awarded. Inaccurate information or administrative mistakes can cause errors in calculating benefits. There are a wide variety of causes for computation errors. For the FY 2006 through FY 2010 period, approximately 57 percent of the computation errors were underpayments, with the leading causes being recomputations, the WEP, primary insurance amount, and adjustment of the reduction factor. (Note: [A definition of WEP](http://www.socialsecurity.gov/pubs/10045.html) is available at: [www.socialsecurity.gov/pubs/10045.html](http://www.socialsecurity.gov/pubs/10045.html).) For FY 2006 through FY 2010, errors involving WEP were the leading cause of computational deficiency dollars. Overpayments often result when we do not receive pension information timely and, therefore, do not apply WEP appropriately. Nearly 50 percent of the overpayment computational deficiency dollars for the FY 2006 through FY 2010 period involved WEP.

### Historical Figures:



### Corrective Actions:

The following table shows our actions to ensure accurate benefit computations:

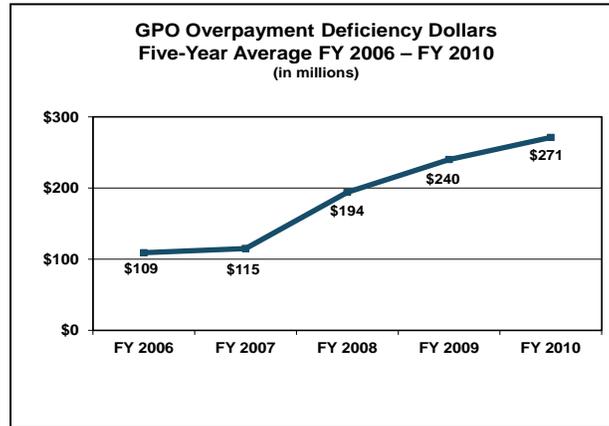
Table 5: Computations – Corrective Actions		
Description	Target Completion	Results
<b><u>Civil Service Retirement System (CSRS) Match</u></b>		
We conduct an ongoing match with the Office of Personnel Management (OPM) to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2011, the OPM match generated 10,272 WEP alerts.
<b><u>Centenarian Project</u></b>		
We conduct an annual national Centenarian Project to ensure that we pay benefits only to eligible, living individuals. Our managers review the records of selected centenarian beneficiaries and attempt contacts.	Ongoing	Of the nearly 9,220 centenarian cases we reviewed from April 2010 to December 2010, we found 19 percent of the beneficiaries were deceased. We identified \$21.7 million in erroneous payments. In 2011, we reviewed 10,700 cases.

## Government Pension Offset

### Description:

We may offset OASDI benefits for a spouse or surviving spouse if he or she receives a Federal, State, or local government pension based on work on which the spouse did not pay Social Security taxes. Errors occur when beneficiaries do not report receipt of these types of pensions. The following chart displays the five-year average of GPO overpayment deficiency dollars. (Note: [A definition of GPO](http://www.socialsecurity.gov/pubs/10007.html) is available at: [www.socialsecurity.gov/pubs/10007.html](http://www.socialsecurity.gov/pubs/10007.html))

### Historical Figures:



### Corrective Actions:

The following table shows our actions to reduce improper payments caused by the non-reporting of government pensions:

Table 6: GPO – Corrective Actions		
Description	Target Completion	Results
<b><u>CSRS Match</u></b>		
We conduct an ongoing match with OPM to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2011, the OPM match generated 1,723 alerts.
<b><u>Legislative Proposal</u></b>		
We submitted an FY 2012 President's Budget legislative proposal for automated data exchanges.	Pending	The 112 <sup>th</sup> Congress has not taken action yet.

## Earnings History

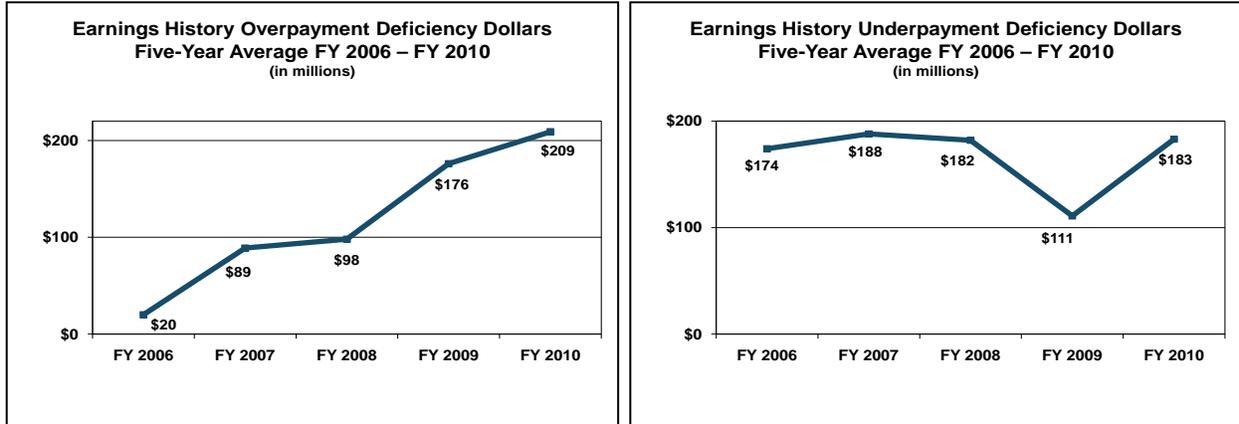
### Description:

A person's earnings history is a factor in determining the amount of monthly benefits that the worker or someone filing on that the worker's account will receive. When our records do not accurately reflect the worker's

earnings, we may calculate benefits incorrectly. For FY 2006 through FY 2010, errors based on earnings history are 47 percent underpayment and 53 percent overpayment dollars.

Wage discrepancies and scrambled earnings (i.e., earnings belonging to one worker posted to another worker’s record) account for the largest percentage of earnings errors. Although earnings-related errors usually involve small dollars in each month of payment, the errors can have a substantial effect over the life of the claim.

**Historical Figures:**



**Corrective Actions:**

The following table shows our actions to reduce errors related to earnings history:

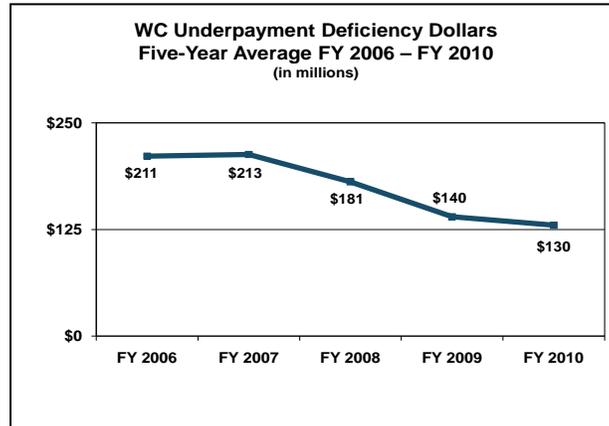
Table 7: Earnings History – Corrective Actions		
Description	Target Completion	Results
<b>Emphasize Corrected Earnings</b>		
In FY 2009, we modified our instructions to clarify evidence needed for correcting earnings and eliminated development that does not affect the accuracy of the earnings record.	Ongoing	We are performing additional studies that would help determine the effect of our modified instructions.
<b>Earnings Alert System</b>		
In FY 2010, we modified the Earnings Alert System to allow adjudicators to identify and develop those irregularities on the earnings record which, when resolved, will most likely affect the worker’s benefit payment.	Ongoing	We have completed the majority of the modifications to the Earnings Alert System and have updated the associated policy instructions.  We are performing additional studies that would will help determine the effect of our modified Earnings Alert System.

## Workers' Compensation

### Description:

If a person receives both WC and Social Security disability benefits, the total amount of these benefits cannot exceed 80 percent of his or her average earnings before becoming disabled. (Note: [A definition of WC](http://www.socialsecurity.gov/pubs/10018.html) is available at: [www.socialsecurity.gov/pubs/10018.html](http://www.socialsecurity.gov/pubs/10018.html).) If the total benefits exceed that amount, we reduce DI benefits to the 80 percent threshold. Underpayments occur when the receipt of WC decreases or ceases and we do not increase the disability benefit. The following chart displays the five-year average of WC underpayment deficiency dollars.

### Historical Figures:



**Corrective Actions:**

The following table shows various actions to reduce improper payments caused by unreported changes in WC:

<b>Table 8: WC – Corrective Actions</b>		
<b>Description</b>	<b>Target Completion</b>	<b>Results</b>
<b><u>WC Policy Forum</u></b>		
In November 2008, we established the WC/Public Disability Benefits (PDB) Policy Forum, which is an intercomponent workgroup that addresses new WC policy issues to advance improvements needed in the WC workload.	Ongoing	The WC/PDB Policy Forum holds quarterly discussions to address issues related to WC/PDB policy and procedures.
<b><u>Instructions Update</u></b>		
We updated all policy instructions with a clear and reorganized format, expanded information and guidance for developing WC evidence, incorporated regional instructions, where appropriate, and added technical guidance on new software to improve the overall accuracy of the WC workload.	Ongoing	In addition to updated national operating instructions, we created the WC Resource Page to provide a centralized resource for analysts and technicians charged with administrating WC/PDB workloads. The website contains links to resources and tools to assist with the adjudication of WC/PDB cases.
<b><u>Automated Processing</u></b>		
We developed and implemented an automated process to ensure the agency systematically and routinely follows up on new pending WC cases.	Ongoing	We generate systems alerts at regular intervals for pending WC/PDB cases. The alert allows us to routinely monitor and control pending cases, and make timely adjustments to OASDI benefit payments.
<b><u>Legislative Proposal</u></b>		
We submitted an FY 2012 President's Budget legislative proposal requiring State and local governments and private insurers to share WC payment information.	Pending	The 112 <sup>th</sup> Congress has not taken action yet.

**IMPROPER PAYMENTS IN THE SSI PROGRAM**

Table 9 features the improper payment rates for the SSI program for FYs 2008, 2009, and 2010. We calculate the overpayment rate by dividing overpayment dollars by dollars paid and the underpayment rate by dividing underpayment dollars by dollars paid.

<b>Table 9: SSI Improper Payments Experience FY 2008 – FY 2010 (dollars in millions)</b>			
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Federally-Administered Payments</b>			
Dollars	\$45,045	\$48,294	\$50,276
<b>Underpayments</b>			
Dollars	\$789	\$787	\$1,227
Target Rate	≤1.2%	≤1.2%	≤1.2%
Actual Rate	1.7%	1.6%	2.4%
<b>Overpayments</b>			
Dollars	\$4,648	\$4,040	\$3,344
Target Rate	≤4.0%	≤4.0%	≤8.4%
Actual Rate	10.3%	8.4%	6.7%
<p>Notes:</p> <ol style="list-style-type: none"> <li>Total federally-administered payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.</li> <li>The percentages and dollar amounts presented in Table 9 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.</li> <li>SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, ±0.53 percent for underpayments and ±1.46 percent for overpayments; for FY 2009, ±0.03 percent for underpayments and ±1.5 percent for overpayments; and for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments.</li> <li>The increase in the underpayment rate from FY 2009 to FY 2010 is statistically significant. It was mainly due to the following factors: <ul style="list-style-type: none"> <li>The failure of recipients to report a living arrangement change from “household of another” to “own household”; and</li> <li>The failure to report a stoppage of work or a decrease in the amount of wages received.</li> </ul> </li> </ol>			

Over the last five years (FYs 2006-2010), we paid over \$226.5 billion to SSI recipients. Of that total, we project \$19.1 billion were overpayments, representing 8.4 percent of outlays. We project that underpayments during this same period were \$4.3 billion, the equivalent of 1.9 percent of outlays.

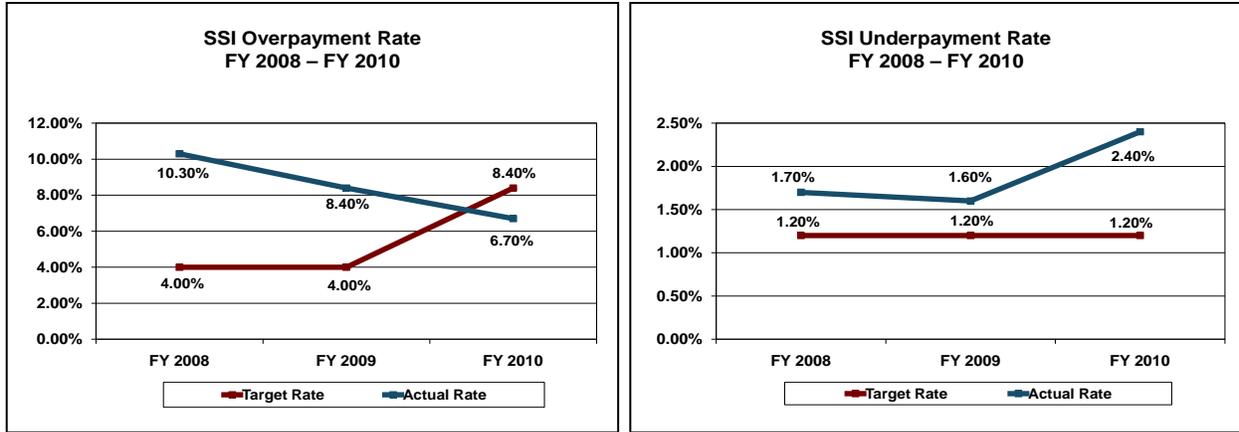


Table 10 presents our target accuracy goals for FYs 2011, 2012, and 2013 for the SSI program.

Table 10: SSI Improper Payments Reduction Outlook FY 2011 – FY 2013 (dollars in millions)						
	2011 Target		2012 Target		2013 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
<b>Total Federally-Administered Payments</b>	\$52,520		\$54,876		\$57,375	
<b>Underpayments</b>	\$630	1.2%	\$659	1.2%	\$689	1.2%
<b>Overpayments</b>	\$3,519	6.7%	\$2,744	5.0%	\$2,869	5.0%

Notes:

- Our Annual Performance Plan and Congressional Justification, issued in February 2011, reflect an FY 2011 SSI overpayment target rate of 8.0 percent. Because of the lag in producing actual performance data, we did not receive FY 2010 SSI overpayment accuracy data until June 2011. The increase in our FY 2010 accuracy rate prompted us to revise the FY 2011 SSI overpayment target to 6.7 percent.
- Total federally-administered SSI payments are estimates consistent with projections for the President's FY 2012 Budget, adjusted to be presented on a constant 12-month per year payment basis.

**Major Causes of SSI Improper Payments**

Over the last five years, the major causes of overpayments in the SSI program have been:

- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.)
- Wages

Over the last five years, the major causes of underpayments in the SSI program have been:

- Wages
- Living Arrangement
- In-kind Support and Maintenance (ISM)

Table 11 lists these major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

**Table 11: Major Causes of SSI Improper Payments in FY 2010**

	<b>% of Improper Payments</b>	<b>Major Types of Errors</b>
<b>Administrative and Documentation Errors</b>	12%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change
<b>Authentication and Medical Necessity Errors</b>	33%	Existence or changes to living arrangements and ISM
<b>Verification and Local Administration Errors</b>	55%	Detection of unreported financial accounts and wages

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

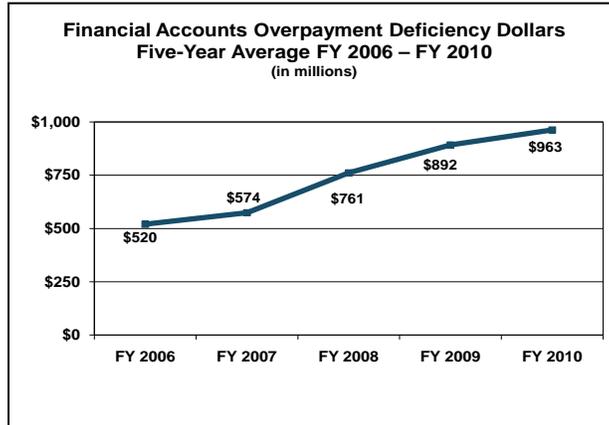
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources, or incorrectly assessing the necessity of a medical procedure.
- **Verification and Local Administration Errors** are errors due to not verifying recipient information including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.

**Financial Accounts**

**Description:**

The applicant or recipient (or his or her parent or spouse) has financial accounts that exceed the allowable resource limits (\$2,000 individual/\$3,000 couple) that may result in periods of SSI program ineligibility.

**Historical Figures:**



**Corrective Actions:**

The following table shows our actions to reduce errors related to financial accounts:

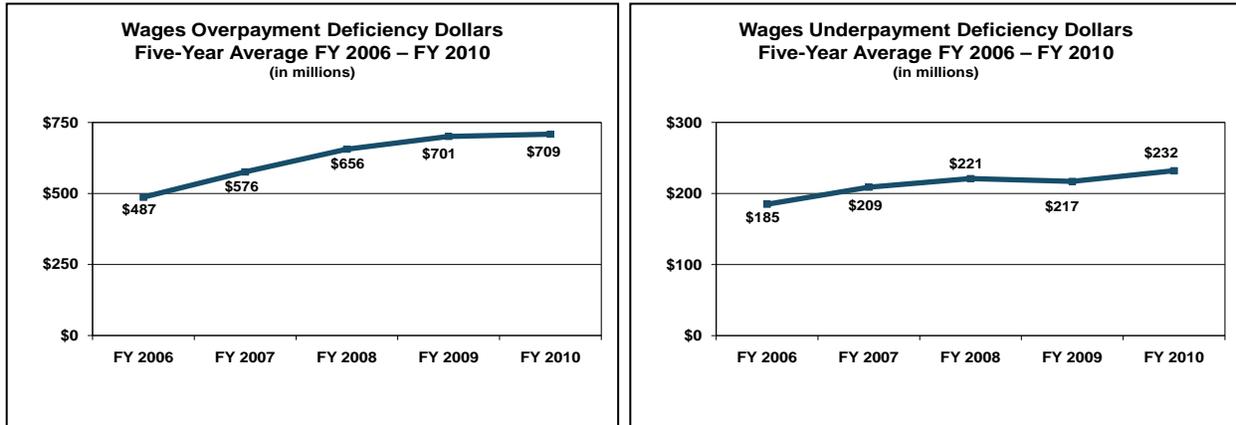
Table 12: Financial Accounts – Corrective Actions		
Description	Target Completion	Results
<b>AFI</b>		
We currently use AFI in 50 States, the District of Columbia, and the Northern Mariana Islands. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources in financial accounts.	September 2011	In June 2011, three months earlier than our target date of September 2011, we completed expansion of AFI nationwide. As a result, we can apply AFI procedures to all of our SSI applicants and recipients. In addition, we perform five negative searches for each applicant/recipient.
We will increase the number of transactions received to 500,000.	September 2011	In March 2011, six months ahead of schedule, we completed 552,304 cumulative bank transactions, thus surpassing our FY 2011 goal of 500,000. We completed 2,048,678 cumulative transactions through September 30, 2011.
In FY 2013, we plan to fully implement AFI which will include the following: <ul style="list-style-type: none"> <li>• Use a \$0 tolerance for all SSI initial claims and redeterminations.</li> <li>• Conduct at least five negative searches per applicant/recipient.</li> <li>• Fully integrate AFI with our claims system.</li> </ul>	FY 2013	Beginning in FY 2013, when we fully implement AFI, we project roughly \$900 million in lifetime program savings for each year we use the fully implemented process. After full implementation, we also estimate we should achieve roughly \$20 in total lifetime SSI program savings for every \$1 spent on the program.

**Wages**

**Description:**

The recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate payment.

**Historical Figures:**



**Corrective Actions:**

The following table shows our actions to reduce errors related to wages:

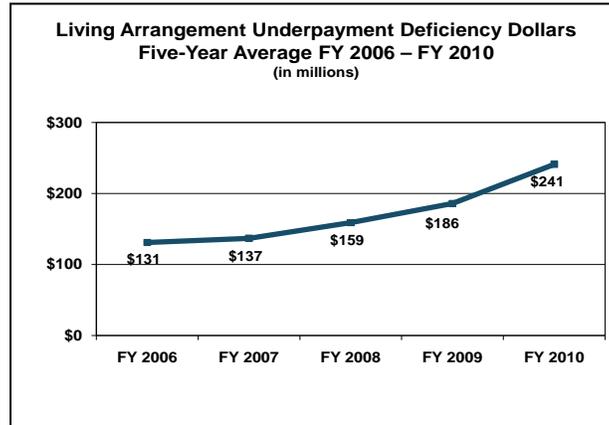
Table 13: Wages – Corrective Actions		
Description	Target Completion	Results
<b><u>SSITWR</u></b>		
In FY 2008, we implemented SSITWR. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via an automated system that ensures the wage amounts post timely.	Ongoing	There were 28,650 successful SSITWR reports in May 2011, thus surpassing our FY 2011 goal of 28,000 monthly reporters. As of September 2011, we had 28,624 monthly reporters.
<b><u>SSITWR Representative Payee Outreach</u></b>		
In the first quarter of FY 2011, we mailed notices to a sample of individuals serving as representative payees for working SSI recipients. The notice asked the payee to start using SSITWR to report the individual's wages to us.	Ongoing	Overall, the pilot demonstrates that notice-based outreach can enlist a significant number of individuals (about 14,000) to SSITWR-based reporting. In the future, we plan to conduct a mailing to the entire SSI population.

## Living Arrangement

### Description:

We paid the recipient as if he or she were living with someone else when the recipient actually qualified for a higher payment level, such as for those who live alone.

### Historical Figures:



### Corrective Actions:

The following table shows our actions to reduce errors stemming from living arrangement information:

Table 14: Living Arrangement – Corrective Actions		
Description	Target Completion	Results
<b>Redetermination Funding</b>		
In the FY 2012 President's Budget proposal, we requested funding to perform 200,000 more redeterminations than our FY 2011 target of 2.422 million. This increase, consistent with the <i>Budget Control Act</i> , will reduce the number of underpayments owed to recipients by identifying living arrangement changes earlier.	Pending	The 112 <sup>th</sup> Congress has not taken action yet.

## In-Kind Support and Maintenance

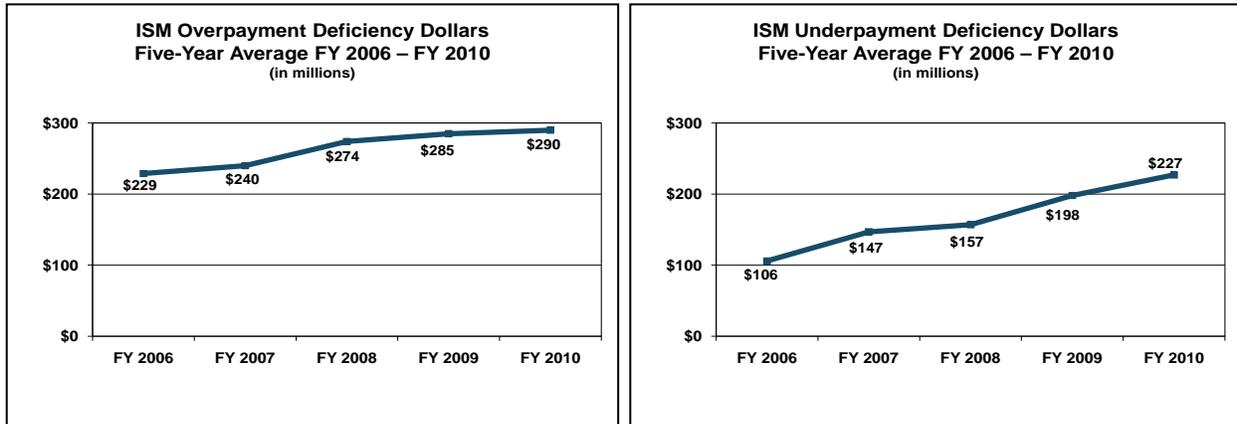
### Description:

ISM is unearned income in the form of food or shelter received, with underpayments occurring when the recipient's amount of ISM is less than the amount used to calculate payment. Overpayments can also occur when the recipient fails to report ISM. Studies show that many of the errors attributed to ISM are due to the complexity of the statutory policies for the program. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes to us in a timely manner. This complexity also means that seemingly small changes in a

## Other Accompanying Information

recipient's household can result in an overpayment or an underpayment. The following charts display the five-year average of ISM overpayment and underpayment deficiency dollars.

### Historical Figures:



### Corrective Actions:

The following table shows our actions to reduce errors stemming from ISM information:

Table 15: ISM – Corrective Actions		
Description	Target Completion	Results
<b><u>Statutory, Regulatory, Policy and Procedure Review</u></b>		
We review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	We issue reminders and policy clarifications on a regular basis, and will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

### Other Initiative to Reduce SSI Improper Payments

In FYs 2011 and 2012, we are piloting a program to investigate non-home real property informational leads via several web-based commercial sources. The purpose of this pilot is to determine the accuracy and reliability of property information available on the leading commercial websites and assess the cost-effectiveness of using this information to identify undisclosed property for SSI beneficiaries and applicants. We will use the study results to develop a methodology to reduce improper SSI payments caused by undisclosed property ownership.

## MEDICAL ASPECTS OF THE DI AND SSI PROGRAMS

DDSs are responsible for completing the medical determinations at the initial, reconsideration, and CDR stages of the disability process. Table 16 highlights the initial allowance, denial, and overall accuracy rates for FYs 2009 and 2010. We determine these rates by our quality assurance review of a sample of pre-effectuated initial claims. We base accuracy rates not only on the number of deficient cases but also on whether the cited deficiency resulted in a change in the original DDS determination on the case. For FY 2010, the combined allowance and denial goal for net accuracy was 98.1 percent.

**Table 16: DDS Initial Claim Net Accuracy**

Initial Claim Net Accuracy	FY 2009	FY 2010
Allowance	99.1%	99.2%
Denial	95.5%	97.4%
Combined	96.8%	98.1%

Note: The overall change from FY 2009 to FY 2010 is not statistically significant.

The *Social Security Act* also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations, i.e., PER. We use a logistic regression methodology to profile initial and reconsideration allowances. Cases falling within the established cutoff score constitute the PER sample. We review all sampled determinations and return deficient cases to the adjudicating DDS for correction. For FY 2009, PER in the OASDI program saved an estimated \$488 million in lifetime OASDI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of \$11 saved for every dollar spent.

The *Social Security Act* also includes an extension of the PER review of favorable adult disability decisions to the SSI program. We are required to review 50 percent of adult allowances in the SSI program. For FY 2009, SSI PER saved an estimated \$69 million in lifetime SSI and Medicaid payments, with a benefit/cost ratio of \$8 saved for every dollar spent. Combined, the two PER reviews result in an estimated \$558 million in lifetime savings.

### **USE OF PREDICTIVE MODELING IN THE OASDI PROCESS**

We developed a predictive model that more effectively identifies DI beneficiaries at risk of the highest overpayments due to earnings. We designed this model to identify those cases with the highest potential for overpayment based on work activity.

In FY 2011, we completed the following:

- Implemented a pilot study to test the predictive model. We are currently evaluating its performance; and
- Expanded the pilot to two additional sites.

In FY 2012, we plan to complete the following:

- Complete a performance evaluation of the pilot study including all three piloted sites; and
- Based on the results of the pilot, consider national implementation of the model.

### **USE OF PREDICTIVE MODELING IN THE SSI REDETERMINATION PROCESS**

We do not have the resources to conduct an annual redetermination on every SSI recipient each year; therefore, we use a statistical scoring model to target annual SSI redeterminations. This statistical model, which has been in place for nearly two decades, uses various income, resource, and living arrangement variables obtained from our SSI payment and claim processing systems to predict likely SSI overpayments and underpayments. Each year we identify claims for review based on the likelihood of error and prioritize the reviews based on allocated funds. The SSI redetermination scoring model is a highly effective tool for ensuring that the selection of SSI redeterminations is efficient and cost effective. In FY 2010 alone, our SSI redeterminations resulted in prevention and recovery of about \$3.8 billion in SSI overpayments. The agency would have prevented and recovered only \$2.4 billion if we used random selection instead of the model.

## AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI, AND SSI PROGRAMS

We collected \$3.20 billion in OASDI and SSI benefit overpayments in FY 2011. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

<b>Table 17: Programmatic Debt Overpayments – Detections and Recoveries</b> (dollars in millions)						
<b>Recovery Method</b>	<b>Amount Identified FY 2011</b>	<b>Amount Recovered FY 2011</b>	<b>Amount Identified FY 2010</b>	<b>Amount Recovered FY 2010</b>	<b>Cumulative Amount Identified FY 11 + 10</b>	<b>Cumulative Amount Recovered FY 11 + 10</b>
<b>Detections</b>	\$5,666.8		\$5,238.7		\$10,905.5	
<b>Reestablished</b>	\$229.7		\$233.0		\$462.7	
<b>Remittances</b>		\$719.3		\$712.1		\$1,431.4
<b>Offsets Intra-Program</b>		\$2,333.1		\$2,286.8		\$4,619.9
<b>Offsets Cross-Program</b>		\$149.4		\$141.9		\$291.3
<b>Total</b>	\$5,896.5	\$3,201.8	\$5,471.7	\$3,140.8	\$11,368.2	\$6,342.6
Notes:						
1. We use multiple methods to detect overpayments; for example, data sharing, self-reporting by our beneficiaries, and systems computations. However, we are unable to identify all the debt detection sources by activity. In addition, detected overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.						
2. This chart contains identified and recovered program overpayments. However, we do not consider every overpayment improper according to the definition contained in IPIA.						

From their inception through September 2011, our external collection techniques have yielded \$3.832 billion in benefits recovered through a combination of overpayment recovery and prevention improvements. Table 18 provides a description of each of our key debt management initiatives and a summary of the results since their inception.

We developed a system to handle the Treasury Offset Program (TOP), credit bureau reporting, and Administrative Wage Garnishment (AWG). Because the system covers more than TOP, and will be the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation system.

To further improve our debt collection program, we will continue with the implementation of the External Collection Operation Enhancements project by implementing Phase II, which will allow us to collect delinquent debts by offsetting Federal payments through TOP beyond the current 10-year statute of limitations, as authorized by Public Law 110-246 and 31 United States Code 3716. Phase I, implemented in July 2010, enabled us to collect delinquent SSI debts from a population of debtors previously excluded from the automated External Collection Operation selection process. As resources permit, we will also pursue implementation of Phase III to collect delinquent debts by offsetting applicable State payments through TOP.

We will also continue to seek the resources to expand the Non-Entitled Debtor (NED) program and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, the use of private collection agencies, and interest charging or indexing a debt to reflect its current value.

**Table 18: Cumulative Programmatic Debt Recovery Methods Through FY 2011**  
(dollars in billions)

Recovery Method	Inception	Description	OASDI	SSI	TOTAL
<b>TOP</b>	1992	TOP is a debt collection program sponsored by the Department of the Treasury (Treasury) that allows us to collect delinquent debt by Tax Refund Offset, Administrative Offset, and Federal Salary Offset. We collected \$165.8 million in FY 2011 through these initiatives.	\$1.193	\$0.788	\$1.981
<b>Credit Bureau Reporting</b>	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of \$60.1 million in FY 2011.	\$0.372	\$0.275	\$0.647 *
<b>Cross Program Recovery</b>	2002	Cross Program Recovery recovers OASDI overpayments from SSI underpayments, and SSI overpayments from monthly OASDI benefit payments and OASDI underpayments.	\$0.116	\$0.648	\$0.764
<b>NED</b>	2005	NED is an automated system used to control recovery activity for debts owed by debtors who are not entitled to benefits, such as representative payees who receive overpayments after the death of a beneficiary. We used the NED system to recover \$3.5 million in FY 2011.	\$0.022	N/A	\$0.022 **
<b>AWG</b>	2005	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private sector disposable pay. We collected \$19.0 million through this process during FY 2011.	\$0.076	\$0.017	\$0.093
<b>Automatic Netting – SSI</b>	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we “netted” \$129.2 million in FY 2011.	N/A	\$0.994	\$0.994
<b>Total</b>			\$1.385	\$2.447	\$3.832

Notes:

\*Credit bureau reporting is a subset of TOP collections, and, therefore, is not included in the overall total at the bottom of the chart.

\*\*NED is a subset of TOP and AWG collections, and therefore, is not included in the overall total at the bottom of the chart.

**Program Recovery Targets**

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). We are currently exploring, with OMB, methodologies to identify appropriate recovery targets for SSI and OASDI.

**IMPROPER ADMINISTRATIVE PAYMENTS**

We evaluated our FY 2010 administrative expenses, and determined that they were not susceptible to significant improper payments as defined by IPIA.

**Risk Assessment: Administrative Payments**

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that payments are susceptible to significant improper payments, then agencies are required to establish an annual improper payment measurement related to administrative payments.

We segment administrative payments into several categories to analyze and determine the vulnerability of these outlays to improper payments.

<b>Table 19: FY 2010 Administrative Expenses (dollars in millions)</b>	
<b>Payroll and Benefits</b>	\$6,037
<b>State DDS</b>	\$2,114
<b>American Recovery and Reinvestment Act*</b>	\$471
<b>Other Administrative Expenses**</b>	\$2,964
<b>Total Administrative Expenses</b>	\$11,586
Notes: *Includes mostly Payroll Expenses. **Other Administrative Expenses includes Vendor, Travel, Transportation, Rents, Communications and Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land and Structure, Grants, Subsidies and Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest and Dividends, and Insurance Claims and Indemnities.	

As part of the risk assessment, we considered the following factors:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive controls inherent in our administrative payment systems; and
- The strong internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We demonstrate that our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

## **PAYMENT RECAPTURE AUDIT PROGRAM: ADMINISTRATIVE PAYMENTS**

To further strengthen our internal controls, we issued a Request for Quote, soliciting 52 contractors from the General Services Administration schedule to perform payment recapture audit services of our administrative payments. Offerors submitted proposals, and we are currently negotiating final acceptable terms with the offerors. Final award is contingent upon agreement to the contract terms. If an agreement is reached, we anticipate awarding a contract in early FY 2012.

This contract requires the examination of our administrative payment processes to identify overpayments made during FYs 2008 thru 2010. The contractor will:

- Identify funds lost due to overpayments;
- Define the reason for the overpayment;
- Notify us of any overpayments identified; and
- Develop recommendations for preventing future overpayments.

Because we have not yet awarded this contract, no results or corrective actions have been identified. We expect to report on our corrective actions in next year's *Improper Payments Information Detailed Report*. At that time, we will also report on our disposition of recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and travel payments. In response to OMB Guidance, our in-house recovery audit program employs a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify payments made to the same vendor, with the same invoice date, and for the same amount. This helps identify payments that represent a higher risk of being duplicate payments.
- A report to identify duplicate payments made through the third-party draft payment system and the accounts payable system.
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

This program addresses issues related to recovering and limiting improper payments resulting from duplicate payments and overpayments. Results from the audit program and quality review process continue to confirm that administrative payments are well below the threshold established for reporting improper payments. These results further validate our existing controls for the prevention, detection, and collection of improper vendor and travel payments.

According to OMB guidance, reviewing payments to employees to identify improper payments is optional. However, because our payroll and benefits account for a major portion of our administrative costs, we conduct annual payment accuracy reviews.

### **Program Scope**

For FY 2010, the internal recovery audit program included a review of \$1.500 billion in vendor and travel payments out of \$1.674 billion subject to review. We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Incomplete cost-type contracts where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and conditions of the contract.
- Cost-type contracts that were completed, subjected to final contract audit, and prior to payment of the contractor's final invoice.

We identified total improper overpayments of \$1.4 million, which equates to approximately 0.09 percent of total payments subject to review for *FY 2011 Performance and Accountability Report* reporting. Of the overpayments identified, only \$41,000 remains uncollected as of the end of FY 2010. The remaining receivable balance reflects the timing of when we issued the request for overpayment refund; we consider all vendor and travel overpayments 100 percent collectible. Vendor and travel overpayments recovered and reported are for FY 2010 or prior. These overpayments were from discretionary accounts appropriated before enactment of IPERA (i.e. July 22, 2010) and, as such, do not fall under the requirements of Appendix C of OMB Circular No. A-123 Part 1(15) Disposition of Recovered Amounts. Therefore, we return all amounts recovered to the original appropriation from which the overpayment was made. We recognize IPERA allows further disposition of recovered funds and are evaluating how to implement this provision of the law.

Although the number and amount of overpayments are minimal and immaterial, duplicate payments are the primary cause of vendor overpayments. To ensure identification and recovery of these payments, we designed, developed, and deployed a predictive analytics program to detect and recover these improper payments. Additionally, we developed and implemented internal controls to minimize improper payments.

Payroll and benefits account for a majority of total administrative expenses. Using the broadest definition of improper payments, we extracted all 26 prior period adjustment records from the biweekly payroll files and analyzed that data to determine the reasons for and amount of adjustments to payments that were due to or collected from our employees. For FY 2010, we found approximately \$3.0 million in improper payroll overpayments out of \$6,375 million total payroll payments, which yielded a 0.05 percent improper overpayment rate.

These results further validate our existing controls to prevent, detect, and collect administrative improper payments.

<b>Table 20: FY 2010 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)</b>		
<b>Type of Payment</b>	<b>Payroll and Benefits</b>	<b>Vendor and Travel</b>
<b>Amount Subject to Review for Current Year (CY) Reporting</b>	\$6,375	\$1,674
<b>Actual Amount Reviewed and Reported CY</b>	\$6,375	\$1,500
<b>Amount Identified for Recovery CY</b>	\$2.983	\$1.424
<b>Amount Recovered CY</b>	\$1.465	\$1.383
<b>Percent of Amount Recovered out of Amount Identified CY</b>	49.11%	97.14%
<b>Amount Outstanding CY</b>	\$1.518	\$0.041

<b>Table 20: FY 2010 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)</b>		
<b>Type of Payment</b>	<b>Payroll and Benefits</b>	<b>Vendor and Travel</b>
<b>Percent of Amount Outstanding out of Amount Identified CY</b>	50.89%	2.86%
<b>Amount Determined Not to be Collectable CY</b>	\$0.178	\$0.0
<b>Percent of Amount Determined Not to be Collectable out of Amount Identified CY</b>	5.97%	0.0%
<b>Amounts Identified for Recovery Prior Years (PY)</b>	N/A	\$7.366
<b>Amounts Recovered PYs</b>	N/A	\$7.359
<b>Cumulative Amounts Identified for Recovery (CY + PYs)</b>	\$2.983	\$8.790
<b>Cumulative Amounts Recovered (CY + PYs)</b>	\$1.465	\$8.742
<b>Cumulative Amounts Outstanding (CY + PYs)</b>	\$1.518	\$0.048
<b>Cumulative Amounts Determined Not to be Collectable (CY + PYs)</b>	\$0.178	\$0.0
Notes:		
<ol style="list-style-type: none"> <li>1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2010 but could have occurred in a prior year.</li> <li>2. The amount subject to review for current year reporting includes \$338 million in payroll expenses attributable to the <i>American Recovery and Reinvestment Act</i>.</li> <li>3. For Payroll and Benefits we did not include "amounts identified for recovery in prior years" and "amounts recovered in prior years" since this is the first year we are reporting such overpayments. Therefore, all totals requiring current year plus prior year data contain current year data only.</li> </ol>		

### Administrative Payments Recovery Targets

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. We strive to recover all administrative overpayments, and established 100 percent as a target as required by OMB Circular A-123, Part II B (3) Payment Recapture Targets for Audit Programs. We selected this recovery rate based on our in-house recovery rate over the past three fiscal years. We incur a small amount of administrative overpayments; mainly from former agency employees and duplicate payments to vendors. We utilize various tools for collection including offset of subsequent vendor payments and TOP, which includes AWG.

**Table 21: FY 2010 Payment Recapture Audit Targets**  
**Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2010 Amount Identified	FY 2010 Amount Recovered	FY 2010 Recovery Rate (Amount Recovered / Amount Identified)	FY 2011 Recovery Rate Target	FY 2012 Recovery Rate Target	FY 2013 Recovery Rate Target
Payroll and Benefits	\$2.983	\$1.465	49.11%	100%	100%	100%
Vendor and Travel	\$1.424	\$1.383	97.14%	100%	100%	100%

Note:

The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2010 but could have occurred in a prior year.

**Table 22: FY 2010 Aging of Outstanding Overpayments**  
**Administrative Payments**  
(dollars in millions)

Type of Payment	FY 2010 Amount Outstanding (0 – 6 Months)	FY 2010 Amount Outstanding (6 Months to 1 Year)	FY 2010 Amount Outstanding (Over 1 Year)
Payroll and Benefits	\$0.7521	\$0.1765	\$0.0
Vendor and Travel	\$0.0205	\$0.0274	\$0.0

Note:

The payroll and benefits aging amounts do not include amounts for current employees.

<b>Table 23: Administrative Debt Overpayments – Detections and Recoveries</b> (dollars in millions)						
<b>Administrative Debt Overpayments</b>	<b>Amount Identified FY 2011</b>	<b>Amount Recovered FY 2011</b>	<b>Amount Identified FY 2010</b>	<b>Amount Recovered FY 2010</b>	<b>Cumulative Amount Identified FY 11 + 10</b>	<b>Cumulative Amount Recovered FY 11 + 10</b>
<b>Total</b>	\$2.5	\$2.3	\$2.6	\$1.4	\$5.1	\$3.7

Notes:

1. The totals include all detected and recovered overpayments for the given fiscal year.
2. Detected overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. This chart contains identified and recovered program overpayments. However, we do not consider every overpayment improper according to the definition contained in IPIA.