

IMPROPER PAYMENTS INFORMATION DETAILED REPORT

BACKGROUND

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring effective programs and accurate payments. As good stewards of the programs entrusted to us, it is our duty to pay people the correct amount. 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 OASI, DI, and 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:

- Errors when computing the payment;
- Not obtaining or taking action on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

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

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. The report provides general information demonstrating our commitment to reducing improper payments. It also contains descriptions of our efforts in reducing improper payments for our OASDI and SSI benefit programs and administrative payments.

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 ninth consecutive year, we reviewed our administrative payments, including payroll disbursements and vendor payments. 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.

RISK ASSESSMENT: BENEFIT PAYMENTS

To comply with IPERA risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. 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.

STATISTICAL SAMPLING

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, 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.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refers to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay 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 OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI.

IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

EXPERIENCE AND OUTLOOK

Table 1 features the improper payment rates for the OASI and DI programs for fiscal years (FY) 2009, 2010, and 2011. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

**Table 1: OASDI Improper Payments Experience
FY 2009 – FY 2011
(dollars in millions)**

	FY 2009		FY 2010		FY 2011	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	\$544,478		\$572,569		\$588,865	
Underpayment Error	\$428	0.08%	\$527	0.09%	\$468	0.08%
Overpayment Error	\$841	0.15%	\$1,878	0.33%	\$653	0.11%
DI						
Total Benefit Payments	\$115,087		\$122,899		\$128,086	
Underpayment Error	\$191	0.17%	\$1,261	1.03%	\$479	0.37%
Overpayment Error	\$1,706	1.48%	\$844	0.69%	\$1,624	1.27%
OASDI						
Total Benefit Payments	\$659,565		\$695,469		\$716,951	
Underpayment Error	\$619	0.09%	\$1,788	0.25%	\$946	0.13%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	\$2,547	0.37%	\$2,722	0.39%	\$2,277	0.32%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments for FY 2009 and FY 2010 are actual cash outlays. Total benefit payments for FY 2011 represent estimated cash outlays while conducting the payment accuracy reviews and may vary from actual cash outlays. 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 2009, ±0.05 percent for underpayments and +0.15 percent and -0.17 percent for overpayments; for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments; and for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments.
4. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, +0.16 percent and -0.17 percent for underpayments and ±1.33 percent for overpayments; for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments; and for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments.
5. Changes in the OASDI error rates from FY 2010 to FY 2011 are not statistically significant. For FY 2009 to FY 2010, the changes in the DI error rates 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 2007-2011), we paid approximately \$2.7 trillion to OASI beneficiaries. Of that total, we project \$4.6 billion are overpayments, representing 0.17 percent of outlays. We project that underpayments during this same period were \$2.3 billion, the equivalent of 0.09 percent of outlays.

Applying the same analysis to the DI program, we project that we paid \$567.9 billion to DI beneficiaries over the last five years (FYs 2007-2011). Of that total, we project \$6.2 billion are overpayments, representing 1.1 percent of outlays. We project underpayments during this same period totaled \$2.3 billion, the equivalent of 0.4 percent of outlays.

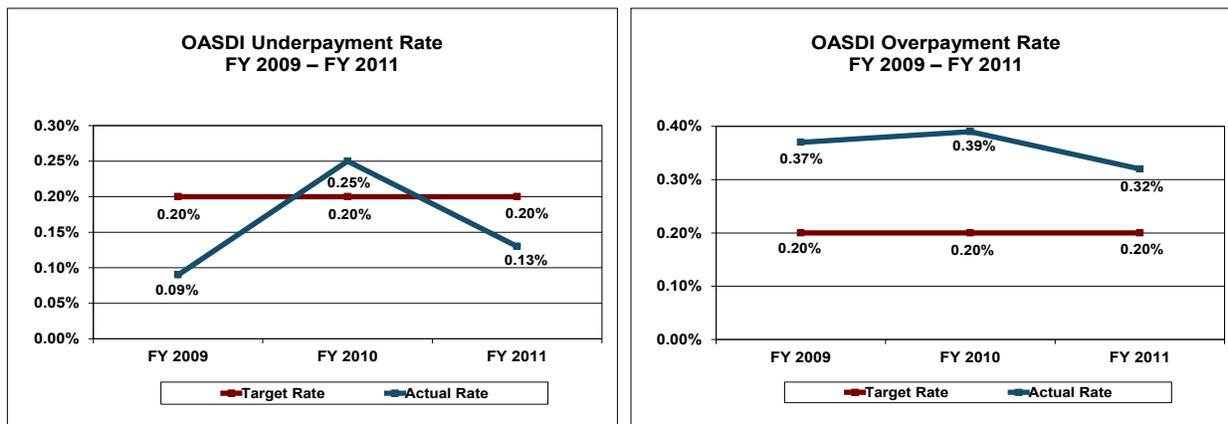


Table 2 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the OASDI programs. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)						
	2012 Target		2013 Target		2014 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	\$767,542		\$814,846		\$861,650	
Underpayments	\$1,535	0.20%	\$1,630	0.20%	\$1,723	0.20%
Overpayments	\$1,535	0.20%	\$1,630	0.20%	\$1,723	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 2012 data will not be available until April 2013; therefore, the rates shown are targets (goals).						
3. Total benefit payments for FYs 2012-2014 are estimates consistent with projections for the President's FY 2013 Budget.						

MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

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

Table 3: Major Causes of OASDI Improper Payments in FY 2011		
	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	64%	Non-verification of earnings, income, or work status (e.g., in relation to Substantial Gainful Activity (SGA) and Government Pension Offset (GPO)); inputting, classifying, or processing applications or payments incorrectly
Administrative and Documentation Errors	35%	Incorrect computations, onset dates, and earnings history
Authentication and Medical Necessity Errors	1%	Relationship/dependency errors and failure to report cessation of full-time attendance for students
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> • 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. • 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. 		

From our stewardship findings over the last five years, the major causes of overpayments in the OASDI program have been errors or omissions in the following:

- SGA;
- Computations;
- Earnings History; and
- GPO.

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

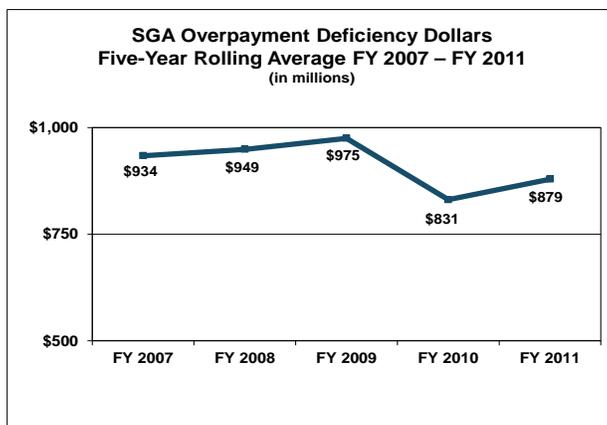
- Computations;
- Earnings History; and
- Workers' Compensation (WC).

Substantial Gainful Activity

Description:

When disability beneficiaries work, a number of factors determine whether they 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 rolling average of SGA overpayment deficiency dollars.

Historical Figures:



Corrective Actions:

The following table shows our actions to ensure timely reporting of beneficiaries' earnings:

Table 4: SGA – Corrective Actions		
Description	Target Completion	Status
Priority Alerts		
We are conducting the Continuing Disability Reviews (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 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.
We prioritized the systems enforcement alerts we use to identify unreported earnings and then work the cases with highest earnings first to minimize overpayments.	Ongoing	In our regional offices not involved in our predictive model pilot study discussed immediately above, we now prioritize the CDR enforcement alerts used to identify unreported earnings, and complete the cases with highest earnings first to minimize overpayments.

Table 4: SGA – Corrective Actions

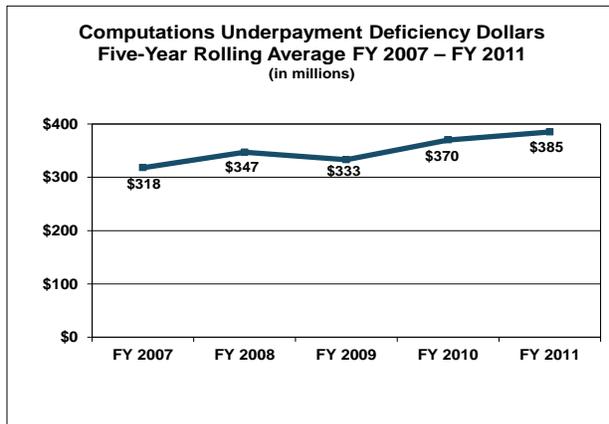
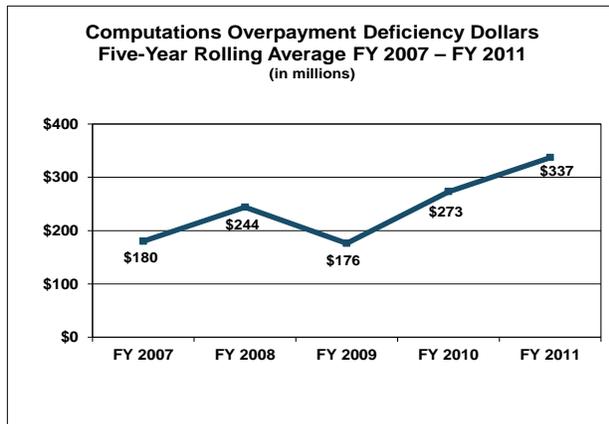
Description	Target Completion	Status
<u>Priority Alerts</u>		
We are conducting the Automated Earnings Reappraisal Operation (AERO) Pilot.	To be determined based on study results	In this pilot, we are coordinating two earnings related processes: benefit recomputations and the identification of DI beneficiaries with unreported earnings. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.
<u>Wage Reporting</u>		
We revised work activity report forms.	February 2012	We 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 need for a signature. OMB approved our forms, and we incorporated them into our systems. We also updated our policies to streamline our follow-up procedures when beneficiaries do not respond to our requests for information.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal that would reauthorize our demonstration authority to conduct a Work Incentives Simplification Pilot (WISP). Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under DI Demonstration Authority/WISP.	Pending	No Congressional action to date.
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Computations

Description:

The law requires 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 many causes for computation errors. For the FY 2007 through FY 2011 period, approximately 53 percent of the computation errors resulted in underpayments, with the leading causes being primary insurance amount, the Windfall Elimination Provision (WEP), and the recalculation of benefits due to updated/new information received after our initial calculation of an individual's benefit amount. (Note: [A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html](http://www.socialsecurity.gov/pubs/10045.html).) For FY 2007 through FY 2011, errors involving WEP were the leading cause of computational deficiency dollars. Overpayments often result when we do not receive timely pension information and, therefore, do not offset benefits appropriately. Over 40 percent of the overpayment computational deficiency dollars for the FY 2007 through FY 2011 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	Status
<u>Civil Service Retirement System (CSRS) Match</u>		
We conduct an ongoing match with the Office of Personnel Management (OPM) to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated almost 11,000 WEP alerts.
<u>Missed Entitlements</u>		
We are correcting payments to mothers who were not properly converted to widows benefits when they attained full retirement age.	September 2012	Of the nearly 6,000 cases identified, we have completed about 99 percent and issued over \$16 million in underpayments.
We are referring veterans receiving SSI to the U.S. Department of Veteran's Affairs (VA) when we determine they may be entitled to veteran's benefits.	September 2012	These cases require manual development before referral to VA. From over 7,200 cases identified for possible referral, we have referred over 5,700 cases.
We are taking claims on SSI individuals who are insured on their own or another individual's record (survivor or living auxiliary) for Social Security or Medicare.	January 2013	We identified over 6,200 cases where the SSI recipient may be eligible for Social Security benefits. We are currently developing a corrective action plan for implementation.
<u>AERO Project</u>		
In FY 2011, we initiated the Automated Correction Expert System (ACES) to automatically address AERO cases that require manual completion. AERO is an annual operation that reexamines records of every individual entitled to OASDI to determine if increased benefits are due based upon earnings. ACES improves accuracy by reducing the number of manual computations, which are more error prone.	Ongoing	In FYs 2011 and 2012, we automated the completion of about 26,000 AERO cases using ACES. We issued about \$14 million in underpayments. We will continue to use ACES for the AERO workload.

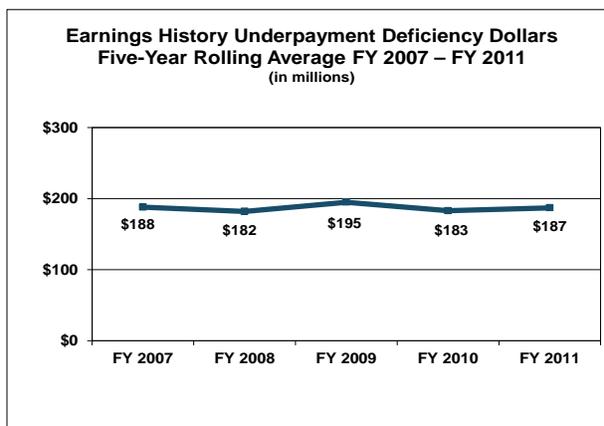
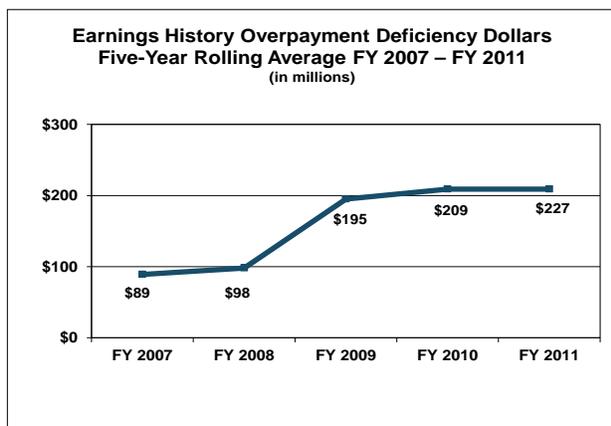
Earnings History

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 2007 through FY 2011, OASDI errors based on earnings history are 45 percent underpayment and 55 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 6: Earnings History – Corrective Actions		
Description	Target Completion	Status
<u>Emphasize Corrected Earnings</u>		
In FY 2009, we modified our instructions to clarify evidence needed for correcting earnings and eliminated development not affecting the accuracy of the earnings record.	June 2013	We are performing additional studies that will help determine the effect of our modified instructions.
<u>Earnings Alert System</u>		
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.	June 2013	We are performing additional studies that will help determine the effect of our modified Earnings Alert System.

Table 6: Earnings History – Corrective Actions

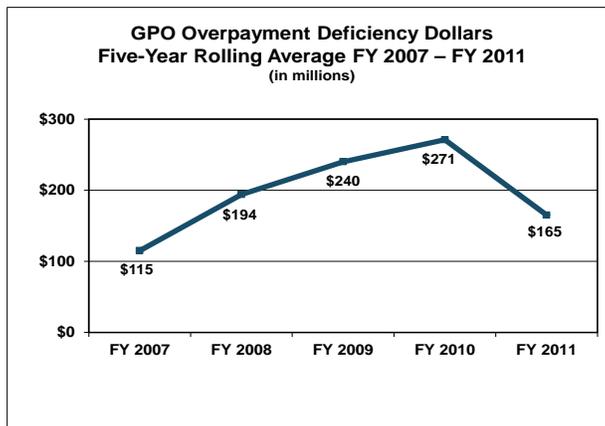
Description	Target Completion	Status
<u>Legislative Proposal</u>		
The President’s FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Government Pension Offset

Description:

We offset OASDI benefits for spouses or surviving spouses if they receive 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 receiving these types of pensions, or we fail to take appropriate action on reported pension information. The following chart displays the five-year rolling average of GPO overpayment deficiency dollars. (Note: [definition of GPO 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 government pensions:

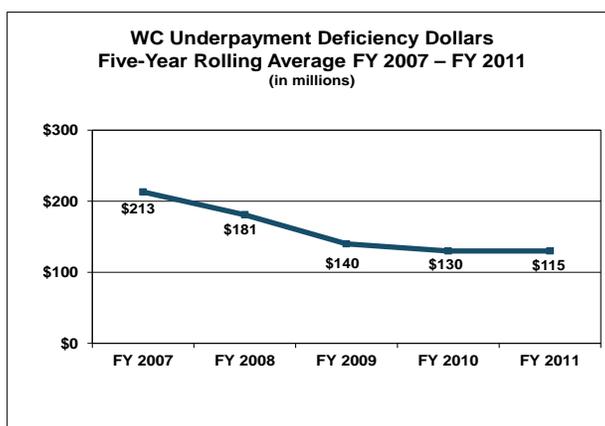
Table 7: GPO – Corrective Actions		
Description	Target Completion	Status
<u>CSRS Match</u>		
We conduct an ongoing match with OPM to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated over 15,000 alerts.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal for automated data exchanges. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under WEP and GPO.	Pending	No Congressional action to date.

Workers' Compensation

Description:

If individuals receive both WC and Social Security DI benefits, the total amount of these benefits cannot exceed 80 percent of their average current earnings before becoming disabled. (Note: [A definition of WC is available at: www.socialsecurity.gov/pubs/10018.html](http://www.socialsecurity.gov/pubs/10018.html).) If the total WC and DI benefits exceed the worker's average earnings before becoming disabled, we reduce DI benefits to the 80 percent threshold. Underpayments occur when WC benefits decrease or cease, and we do not increase the DI benefit. The following chart displays the five-year rolling average of WC underpayment deficiency dollars.

Historical Figures:



Corrective Actions:

Table 8: WC – Corrective Actions		
Description	Target Completion	Status
<u>Instructions Update</u>		
We updated national operating instructions, incorporating regional instructions where appropriate. We also created the WC Resource Page to provide a centralized resource for analysts and technicians that process WC/Public Disability Benefits (PDB) workloads.	Ongoing	Our policy instructions now provide expanded information and guidance for developing WC evidence and technical guidance on new software to improve the overall accuracy of the WC workload. The new website provides links to resources and tools to assist with the adjudication of WC/PDB cases which we continuously update with new resources and tools.
<u>Automated Processing</u>		
In February 2011, we developed and implemented an automated process to ensure the agency systematically and routinely follows up on cases where we have already awarded DI benefits to a claimant, but a claim for WC/PDB is still pending.	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 DI benefit payments.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal requiring State and local governments and private insurers to share WC payment data. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under "Workers' Compensation."	Pending	No Congressional action to date.

IMPROPER PAYMENTS IN THE SSI PROGRAM

EXPERIENCE AND OUTLOOK

Table 9 features the improper payment rates for the SSI program for FYs 2009, 2010, and 2011. We calculate the overpayment rate by dividing overpayment dollars by dollars paid and the underpayment rate by dividing underpayment dollars by dollars paid.

Table 9: SSI Improper Payments Experience FY 2009 – FY 2011 (dollars in millions)			
	FY 2009	FY 2010	FY 2011
Total Federally-Administered Payments			
Dollars	\$48,294	\$50,276	\$51,654
Underpayments			
Dollars	\$787	\$1,227	\$947
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.63%	2.44%	1.83%
Overpayments			
Dollars	\$4,040	\$3,344	\$3,791
Target Rate	≤4.00%	≤8.40%	≤6.70%
Actual Rate	8.36%	6.65%	7.34%
Notes:			
<ol style="list-style-type: none"> Total federally-administered payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays. 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. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, ±0.03 percent for underpayments and ±1.5 percent for overpayments; for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments; and for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments. 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"> The failure of recipients to report a living arrangement change from “household of another” to “own household;” and The failure to report a stoppage of work or a decrease in the amount of wages received. 			

Over the last five years (FYs 2007-2011), we paid over \$237.8 billion to SSI recipients. Of that total, we project \$19.7 billion were overpayments, representing 8.4 percent of outlays. We project that underpayments during this same period were \$4.4 billion, the equivalent of 1.9 percent of outlays.

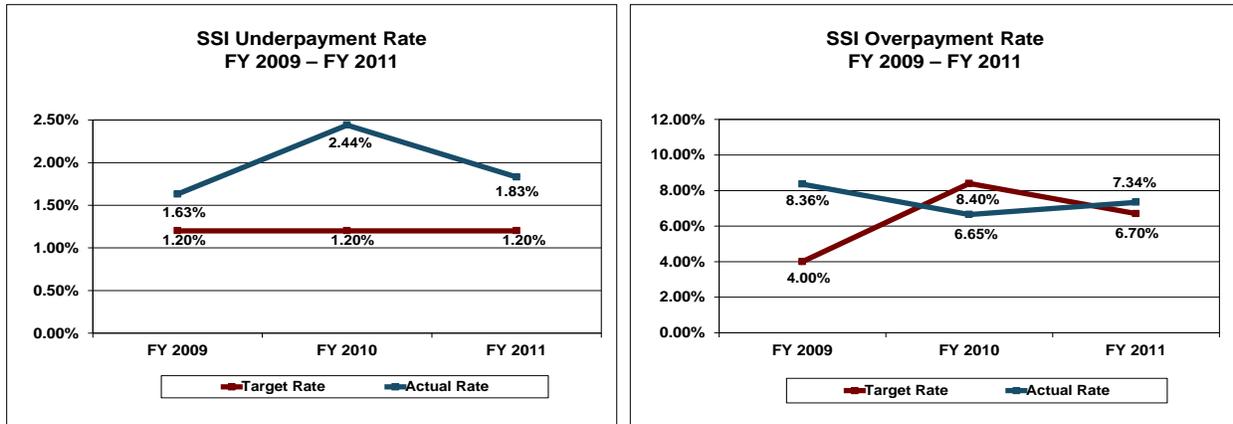


Table 10 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the SSI program.

Table 10: SSI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)						
	2012 Target		2013 Target		2014 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Federally-Administered Payments	\$55,254		\$57,875		\$60,351	
Underpayments	\$663	1.20%	\$695	1.20%	\$724	1.20%
Overpayments	\$2,763	5.00%	\$2,894	5.00%	\$3,018	5.00%

Note:

- Total federally-administered SSI payments are estimates consistent with projections for the President's FY 2013 Budget, adjusted to be presented on a constant 12-month per year payment basis.

MAJOR CAUSES OF SSI IMPROPER PAYMENTS

Table 11 lists 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 2011		
	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	56%	Detection of unreported financial accounts and wages
Authentication and Medical Necessity Errors	29%	Existence or changes to living arrangements and In-Kind Support and Maintenance (ISM)
Administrative and Documentation Errors	15%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. 		

From our stewardship findings over the last five years, the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.);
- Wages; and
- Other Real Property (i.e., ownership of non-home real property).

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

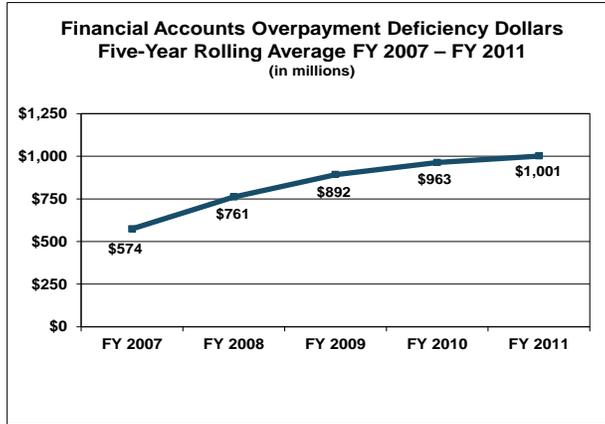
- ISM;
- Living Arrangements; and
- Wages.

Financial Accounts

Description:

Financial accounts, in excess of the allowable resource limits, are the leading cause of SSI overpayment errors. When an applicant or recipient (or his or her parent or spouse) has financial accounts that exceed the allowable resource limits, it may result in periods of SSI program ineligibility. The total value of the individuals’ resources may include money held in accounts owned by their ineligible parent or spouse.

Historical Figures:



Corrective Actions:

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

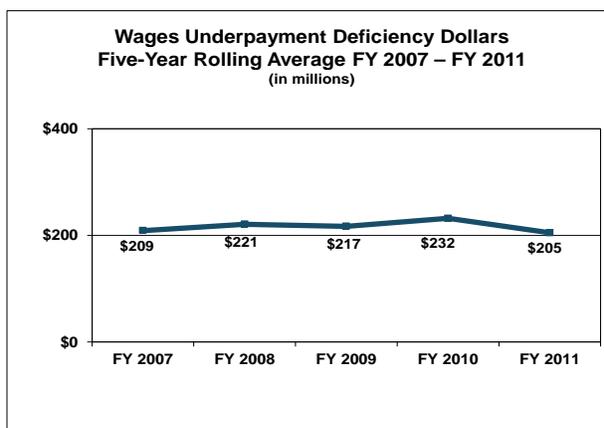
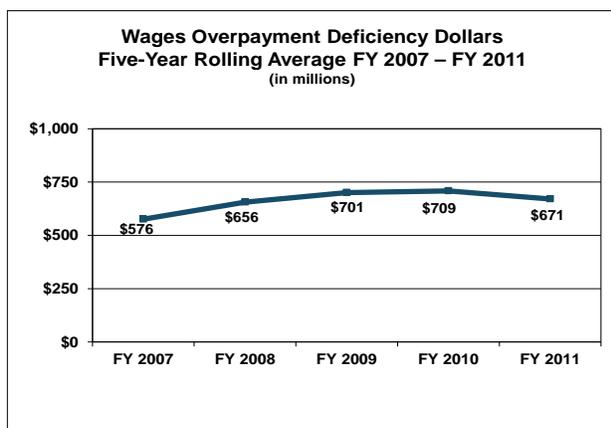
Table 12: Financial Accounts – Corrective Actions		
Description	Target Completion	Status
Access to Financial Institutions (AFI)		
We currently use AFI in 50 States, the District of Columbia, and the Northern Mariana Islands. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants and recipients.	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.
In FY 2012, we integrated the AFI process into our SSI claims process.	March 2012	For most SSI initial claims and redeterminations, we integrated electronic requests for financial information into our Modernized SSI Claims System.
In FY 2013, we anticipate performing more rigorous checks of alleged assets.	September 2013	Because of limited resources, and the necessity to carefully balance our claims applications and program integrity workloads, we delayed full implementation of our AFI project. We plan to further improve AFI depending on resource availability.

Wages

Description:

For more than a decade, wages have been one of the leading causes of overpayment and underpayment errors. These discrepancies occur when the recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate the SSI 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	Status
Supplemental Security Income Telephone Wage Reporting System (SSITWR)		
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 to the individual's record. We have several outreach initiatives to recruit new SSITWR reporters.	Ongoing	There were over 36,000 successful SSITWR reports in September 2012, surpassing our FY 2012 goal of 31,486 monthly reports.
SSITWR Representative Payee Outreach		
In FY 2011, we piloted a process and mailed notices to about 1,000 individuals serving as representative payees for working SSI recipients. The notice asked the representative payee to start using SSITWR to report the SSI recipient's wages to us.	September 2012	Overall, the first pilot demonstrated that notice-based outreach is an effective way of recruiting representative payees to report an SSI recipient's wages using SSITWR. On September 21, 2012, we conducted the second pilot of this process and mailed over 32,000 recruitment notices to the representative payees of working SSI recipients.

Table 13: Wages – Corrective Actions

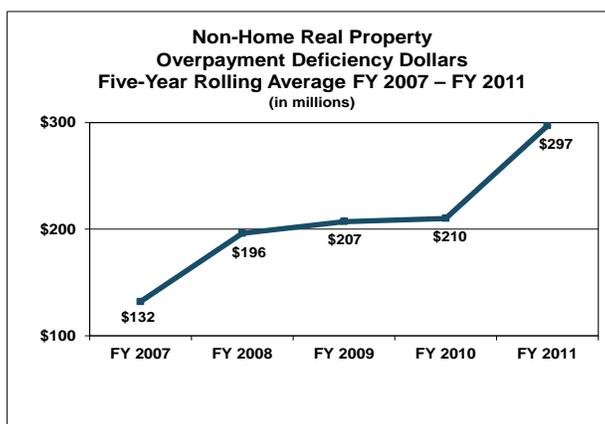
Description	Target Completion	Status
<u>Payroll Provider</u>		
Award a contract with a national payroll provider for individual wage verifications.	June 2012	We awarded a contract in June 2012 with The Work Number, a national payroll provider. Beginning July 2012, our field offices have instant access to wage information through The Work Number.
<u>Smartphone</u>		
Beginning in December 2012, SSI recipients (or their parent, spouse, or representative payee) can use their Android or iPhone to report their monthly wage amounts. This application is an extension of the SSITWR automated system that ensures the wage amounts post timely to the individual's record. This initiative will serve as a research and development project as we work towards using mobile devices to interact with our customers.	Beginning December 2012	Application development began in May 2012, and we are currently on track to implement our gradual rollout in December 2012. During the rollout, we will evaluate the user feedback to determine our rate of expansion towards national implementation.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Other Real Property

Description:

Undisclosed non-home real property is a growing cause of improper overpayments in the SSI program. SSI ineligibility may result if the recipient is the owner of real property other than his or her principal place of residence. The objective of our corrective actions discussed below is to identify undisclosed property owned by the recipient.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors related to non-home real property:

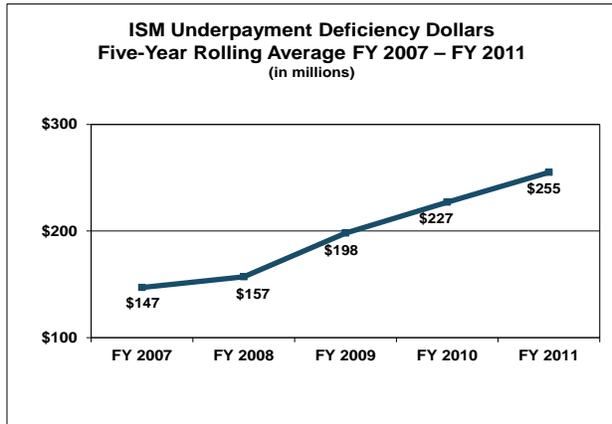
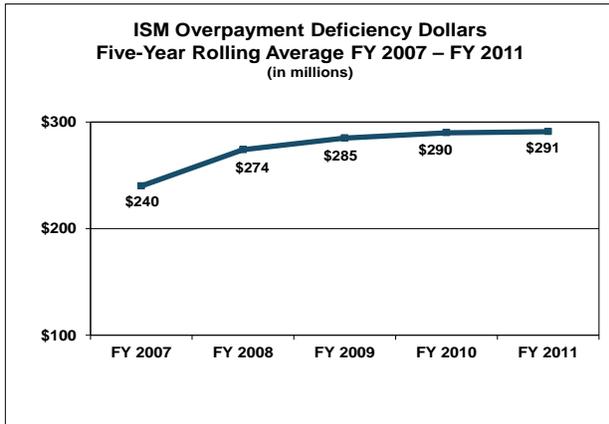
Table 14: Other Real Property – Corrective Actions		
Description	Target Completion	Status
We conducted a study to investigate non-home real property informational leads via a web-based commercial database source. The purpose of the study was to determine the accuracy and reliability of property information available and assess the cost-effectiveness of using this information to identify undisclosed property for SSI applicants and recipients.	February 2012	The study concluded in February 2012 and verified that a web-based tool is reliable.
We are developing a method to determine if a predictive model is feasible for limited issue SSI redeterminations that are focused on real property owned by SSI recipients.	December 2012	If we determine the predictive model is effective by December 2012, we will implement the automated process at a future date.
We are developing a pilot in our field offices to identify undisclosed real property owned by SSI recipients.	March 2013	If the pilot is successful and cost effective in identifying undisclosed real property, we will consider expanding the pilot to additional field offices.

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 ISM amount 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 recipient’s household can result in an overpayment or an underpayment. The following charts display the five-year rolling 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:

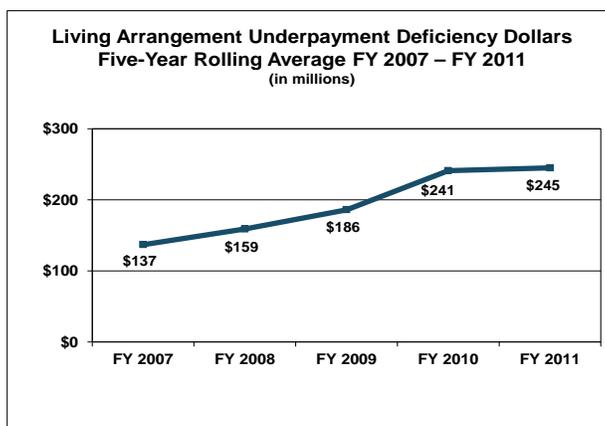
Table 15: ISM – Corrective Actions		
Description	Target Completion	Status
<u>Statutory, Regulatory, Policy and Procedure Review</u>		
We review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	We issue reminders and policy clarifications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

Living Arrangement

Description:

Over the past five years, living arrangement deficiencies have been the second leading cause of SSI underpayment error. These deficiencies occur when we pay the recipient based on a living arrangement with a lower payment rate when the recipient should have been paid based on a living arrangement with a higher payment rate.

Historical Figures:



Corrective Actions:

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

Table 16: Living Arrangement – Corrective Actions		
Description	Target Completion	Status
Redetermination Funding		
We enhanced our SSI redeterminations statistical predictive model to better capture the effect of living arrangement changes on SSI payments.	December 2011	This enhancement will help reduce underpayments caused by incorrect living arrangement information.

USE OF PREDICTIVE MODELING IN THE SSI REDETERMINATION PROCESS

We conduct periodic, non-disability evaluations of SSI recipient’s income and resources, also known as redeterminations, to ensure that they are still eligible for monthly payments. Redeterminations are one of our most powerful program integrity tools. We estimate that every dollar spent on SSI redeterminations yields about \$6 in lifetime program savings, including Medicaid program effects. We have steadily increased the number of redeterminations we conduct each year since FY 2007. In FY 2012, we completed over 2.624 million redeterminations. Generally, the number of redeterminations we complete positively affects the accuracy of the SSI program.

We do not have the resources to conduct an annual redetermination on every SSI recipient, 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 cases 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 2011 alone, our SSI redeterminations resulted in prevention and recovery of about \$3.2 billion in SSI overpayments. The agency would have prevented and recovered only \$1.8 billion if we had used random selection instead of the statistical scoring model.

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

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected \$3.26 billion in OASDI and SSI benefit overpayments in FY 2012 at an administrative cost of \$0.07 for every dollar collected, and \$15.49 billion over a five-year period (FYs 2008-2012). 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.

Since 2004, our cumulative recoveries are \$24.20 billion for OASDI and SSI benefit overpayments. We suspend or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards. Generally, when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered, we terminate or suspend collection action. Even though we terminate collection action by stopping our internal efforts, we continue to use our external collection techniques. Termination of collection action is a temporary or conditional write-off in that the debt remains on the person's record. If the debtor becomes reentitled to benefits, we will collect the debt by appropriate and available methods in the future.

From inception through September 2012, our external collection techniques have yielded \$4.264 billion in benefits recovered through a combination of overpayment recovery and prevention improvements. Table 17 provides a description of each of our key debt management initiatives and a summary of the results.

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

In May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the current 10-year statute of limitations, as authorized by Public Law 110-246. Continued improvement in our debt collection program is also underway. As resources permit, we will implement additional changes to our systems that will enable us to collect our delinquent debts by offsetting applicable State payments through TOP, expand the Non-Entitled Debtors (NED) program, and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies in debt collection.

Table 17: Cumulative Programmatic Debt Recovery Methods Through FY 2012
(dollars in billions)

Recovery Method	Inception	Description	OASDI	SSI	TOTAL
TOP	1992	TOP is a debt collection program sponsored by the Department of the Treasury that allows us to collect delinquent debt by Tax Refund Offset, Administrative Offset, and Federal Salary Offset. We collected \$176.6 million in FY 2012 through these initiatives.	\$1.303	\$0.855	\$2.158
Credit Bureau Reporting	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of \$68.7 million in FY 2012.	\$0.414	\$0.301	\$0.715*
Cross Program Recovery	2002	Cross Program Recovery collects OASDI overpayments from monthly SSI payments and SSI underpayments, and SSI overpayments from monthly OASDI benefit payments and OASDI underpayments.	\$0.148	\$0.732	\$0.880
NED	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 2012.	\$0.026	N/A	\$0.026**
AWG	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 \$20.3 million through this process during FY 2012.	\$0.093	\$0.020	\$0.113
Automatic Netting SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" \$119.0 million in FY 2012.	N/A	\$1.113	\$1.113
Total			\$1.544	\$2.720	\$4.264

Notes:

*Credit bureau reporting is a subset of TOP collections.

**NED is a subset of TOP and AWG collections.

Refer to the *Debt Management* section for information on our programmatic and administrative debt activity.

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. We have a multi-pronged approach to conduct payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, we review a sample of OASDI 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 and payment amount for the review period that affects the sample month. We use these data to identify payment accuracy strengths and weaknesses, from which we target our resources to take corrective actions that yield the highest return on investment. We conduct stewardship reviews by specialists with extensive expertise in our benefit programs and business processes; design and operations of evaluations; applied statistics and statistical models; and surveys and business analytics.

In our field offices, processing centers, and Disability Determination Services (DDS) operational areas, employees conduct reviews for ongoing eligibility. Medical CDRs are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform SGA in a job. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first address those CDRs and redeterminations that will likely result in the greatest savings.

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue benefit payments. To support this activity, we specifically request funding through the normal budget process. The number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency.

PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report on their payment recapture audit activities. For our OASDI and SSI benefit payments, we are unable to segregate our improper payments from our total overpayment universe. Not all overpayments are improper. Certain overpayments are unavoidable, and not improper, if the payment is required by statute, regulation, or court order, such as continued payments required by due process procedures. Tables 18-20 contain OASDI and SSI overpayment experience, inclusive of improper payments.

Type of Payment	OASDI	SSI
Amount Subject to Review for Current Year (CY) Reporting ²	\$10,943.8	\$9,382.0
Actual Amount Reviewed and Reported CY ²	\$10,943.8	\$9,382.0
Amount Identified for Recovery CY ²	\$10,943.8	\$9,382.0
Amount Recovered CY ³	\$2,059.8	\$1,202.2
Percent of Amount Recovered out of Amount Identified CY	19%	13%
Amount Outstanding CY ⁴	\$8,884.0	\$8,179.8
Percent of Amount Outstanding out of Amount Identified CY	81%	87%

**Table 18: FY 2012 Payment Recapture Audit Reporting
Benefit Payments
(dollars in millions)**

Type of Payment	OASDI	SSI
Amount Determined Not to be Collectable CY ⁵	\$611.8	\$407.2
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	6%	4%
Amounts Identified for Recovery Prior Years (PY) ⁶	\$7,934.3	\$7,333.2
Amounts Recovered PYs ³	\$2,059.8	\$1,202.2
Cumulative Amounts Identified for Recovery (CY + PYs) ²	\$10,943.8	\$9,382.0
Cumulative Amounts Recovered (CY + PYs) ³	\$2,059.8	\$1,202.2
Cumulative Amounts Outstanding (CY + PYs) ⁷	\$8,884.0	\$8,179.8
Cumulative Amounts Determined Not to be Collectable (CY + PYs) ⁵	\$611.8	\$407.2

Notes:

1. This table comprises all identified and recovered benefit program overpayments for the specified fiscal year. Overpayments identified or recovered in a specified year include debt that was established in prior years.
2. The amounts reported are debt available for recovery in the specified fiscal year. These include debts identified in previous fiscal years that have not been recovered or determined to be uncollectible. Debts identified in FY 2012 were \$3,009.5 million for OASDI and \$2,048.8 million for SSI.
3. The amounts reported are FY 2012 recoveries from debt we had available for recovery in FY 2012, which include debts identified in PYs.
4. The amounts reported equal the "Amount Identified for Recovery CY" minus the "Amount Recovered CY."
5. The amounts reported are uncollectible debt in the CY and include debts identified in PYs.
6. The amounts reported are outstanding debt we had available for recovery prior to the CY, which include debts identified in PYs.
7. The amounts reported equal the "Cumulative Amounts Identified for Recovery (CY+PYs)" minus the "Cumulative Amounts Recovered (CY+PYs)."

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). Our payment recapture recovery targets for FYs 2013 - 2015 are based on our FY 2012 experience. For several reasons, we do not plan to achieve OMB's annual payment recapture target rate of 85 percent. The current budgetary environment affects our ability to address all of our workloads, including pursuit of benefit overpayments. Budget reductions caused us to impose an agency-wide hiring freeze. At the same time, we are losing subject matter experts due to retirement. Consequently, we must prioritize the use of our resources with the demands of our workloads.

Finally, factors beyond our control influence our payment recapture recovery targets. For example, the state of the economy has an impact on availability of employment. When jobs are plentiful and more former OASDI and SSI recipients are working, we generally experience greater collections from our external debt collection tools.

**Table 19: FY 2012 Payment Recapture Audit Targets
Benefit Payments
(dollars in millions)**

Type of Payment	FY 2012 Amount Identified	FY 2012 Amount Recovered	FY 2012 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2013 Recovery Rate Target	FY 2014 Recovery Rate Target	FY 2015 Recovery Rate Target
OASDI	\$10,943.8	\$2,059.8	19%	19%	19%	19%
SSI	\$9,382.0	\$1,202.2	13%	13%	13%	13%

Note:

- The recovery rate target is based on FY 2012 and prior years experience and the anticipated growth of our benefit payments in FYs 2013 - 2015.

Table 20 contains the aging schedule for outstanding overpayments in the OASDI and SSI programs.

**Table 20: FY 2012 Aging of Outstanding Overpayments
Benefit Payments
(dollars in millions)**

Type of Payment	FY 2012 Amount Outstanding (0 – 6 Months)	FY 2012 Amount Outstanding (6 Months to 1 Year)	FY 2012 Amount Outstanding (Over 1 Year)
OASDI	\$739.2	\$296.3	\$928.1
SSI	\$512.7	\$338.6	\$2,182.0

Note:

- The aging of outstanding overpayments begins when the overpayment is delinquent, generally when no voluntary payment has been made 30 days after the latest of the following dates:
 - The debt was established on our system for OASDI; or
 - The initial overpayment notice for a debt established on the SSI system; or
 - The last voluntary payment; or
 - An installment arrangement; or
 - A decision on an individual's request to reconsider the existence of the overpayment; or
 - A waiver denial.

IMPROPER ADMINISTRATIVE PAYMENTS

We evaluated our FY 2011 administrative expenses and determined that they were not susceptible to significant improper payments as defined by IPIA.

RISK ASSESSMENT

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, 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.

Table 21: FY 2011 Administrative Expenses
(dollars in millions)

Payroll and Benefits	\$6,759
State DDS	\$2,288
American Recovery and Reinvestment Act*	\$54
Other Administrative Expenses**	\$3,008
Total Administrative Expenses	\$12,109
Notes:	
*Includes approximately \$5 million in 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 current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We demonstrate that, other than what is required in our annual *Performance and Accountability Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

STATISTICAL SAMPLING

For FY 2011, the internal recovery audit program included a review of \$1.479 billion in vendor and employee travel payments out of \$1.695 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; and
- 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 \$2.8 million, approximately 0.16 percent of total payments subject to review. As of the end of FY 2011, about \$305,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivable balance reflected the timing of when we issued the request for overpayment refund. We consider all vendor and travel overpayments 100 percent collectible. We return all amounts recovered to the original appropriation from which the overpayment was made.

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. For FY 2011, we found approximately \$2.8 million in improper payroll overpayments out of \$6,764 million total payroll payments, which yielded a 0.04 percent improper overpayment rate.

MAJOR CAUSES

The major causes of improper administrative payments (overpayments and underpayments) include:

- Payment at incorrect unit cost or rate (e.g., a vendor performed a service and billed us at a rate different from specified in the contract, or a vendor billed us for merchandise at a higher price than specified in the contract or purchase order);
- Duplicate payments to vendors; and
- Time and attendance records processed before actual data are available. To ensure that we pay our employees timely, several times a year our business processes (e.g., operational and systems processing schedules) require that we process employees' time and attendance records before actual data are available (i.e., early payroll close-out). Subsequently, this action can result in an improper payment.

Corrective actions include:

- The preventative measure to ensure we pay vendors at the correct unit cost or rate is the incorporation of installment completion notices (ICN). The ICN includes details of the goods or services provided. If the ICN details match the task/subtask orders in our acquisition system, the contracting officer's representative (COR) signs the ICN and gives the vendor authorization to invoice. Once invoiced, the COR compares the invoice details to the ICN and then compares unit costs/rates on the invoice to the task/subtask order in our acquisition system. If the unit cost/rates agree, the COR certifies the invoice for payment;
- The preventive measure for duplicate invoices moving forward is the implementation of the Case Processing and Management System (CPMS) for administrative payments. CPMS will electronically communicate invoice information (e.g., total amount of invoice, invoice number, vendor name, etc.) from field offices directly into the agency's centralized accounting system. This system will allow a service provider to submit only one invoice for a service rendered during a hearing (e.g., testimony from medical

or vocational experts, transcription services, etc.), and will send duplicate invoices back to the service provider. We are currently piloting CPMS in several field offices and one national hearing center. We expect to fully implement CPMS in all field offices and national hearing centers by January 2013; and

- The corrective action for improper payments caused by early processing of our time and attendance records is as follows:
 - Agency personnel, including employees, timekeepers, and certifiers, identify corrective actions the following pay period; and
 - Timekeepers are then responsible for recording the appropriate adjustments in the agency's Time and Attendance System.

PAYMENT RECAPTURE AUDIT PROGRAM: ADMINISTRATIVE PAYMENTS

To further strengthen our internal controls in FY 2012, we awarded a contract to a vendor to perform a payment recapture audit of our administrative payments.

This contract requires the examination of our administrative payment processes to identify overpayments made during FYs 2008 through 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.

The auditors have not completed the payment recapture audit and, therefore, we have identified no results or corrective actions. 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 the status of any recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and employee travel payments, which contains a number of tools to aid in the detection and recovery of improper overpayments, including:

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

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. Results from the audit program and quality review process continue to confirm that administrative payments are well below the OMB threshold for reporting improper payments.

PAYMENT RECAPTURE AUDIT REPORTING

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

Table 22: FY 2011 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)		
Type of Payment	Payroll and Benefits ¹	Vendor and Travel
Amount Subject to Review for CY Reporting	\$6,764	\$1,695
Actual Amount Reviewed and Reported CY	\$6,764	\$1,479
Amount Identified for Recovery CY	\$2,761	\$2,841
Amount Recovered CY	\$1,489	\$2,584
Percent of Amount Recovered out of Amount Identified CY	54%	91%
Amount Outstanding CY	\$1,272	\$0.257
Percent of Amount Outstanding out of Amount Identified CY	46%	9%
Amount Determined Not to be Collectable CY	\$0.250	\$0.0
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	9%	0.00%
Amounts Identified for Recovery PYs	\$2,983	\$9,088
Amounts Recovered PYs	\$1,465	\$9,040
Cumulative Amounts Identified for Recovery (CY + PYs)	\$5,744	\$11,929
Cumulative Amounts Recovered (CY + PYs)	\$2,954	\$11,624
Cumulative Amounts Outstanding (CY + PYs)	\$2,790	\$0.305
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	\$0.428	\$0.0
Notes:		
<ol style="list-style-type: none"> 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 2011 but could have occurred in a prior year. 2. The amount subject to review for current year reporting for payroll and benefits includes about \$5 million in payroll expenses attributable to the <i>American Recovery and Reinvestment Act</i>. 3. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards based on the following criteria: <ul style="list-style-type: none"> • The cost of collection does not justify the enforced collection of the full amount; • The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized; • The debt has been discharged in bankruptcy; or • The debtor has requested a waiver or review of the debt and the agency determines that such request is credible. 		

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 a 100 percent target as required by OMB Circular No. A-123, Part II B (3) *Payment Recapture Targets for Audit Programs*. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former agency employees and duplicate payments to vendors. We use various tools for collection including offset of subsequent vendor payments and TOP, which includes AWG.

**Table 23: FY 2011 Payment Recapture Audit Targets
Administrative Payments**
(dollars in millions)

Type of Payment	FY 2011 Amount Identified	FY 2011 Amount Recovered	FY 2011 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2012 Recovery Rate Target	FY 2013 Recovery Rate Target	FY 2014 Recovery Rate Target
Payroll and Benefits	\$2.761	\$1.489	54%	100%	100%	100%
Vendor and Travel	\$2.841	\$2.584	91%	100%	100%	100%

Note:

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 2011 but could have occurred in a prior year.

**Table 24: FY 2011 Aging of Outstanding Overpayments
Administrative Payments**
(dollars in millions)

Type of Payment	FY 2011 Amount Outstanding (0 – 6 Months)	FY 2011 Amount Outstanding (6 Months to 1 Year)	FY 2011 Amount Outstanding (Over 1 Year)
Payroll and Benefits	\$1.002	\$0.314	\$0.0
Vendor and Travel	\$0.061	\$0.232	\$0.012

Note:

1. The payroll and benefits aging amounts for amounts outstanding over one year do not include amounts for current employees.

Table 25: Administrative Debt Overpayments – Detections and Recoveries
(dollars in millions)

Administrative Debt Overpayments	Amount Identified FY 2012	Amount Recovered FY 2012	Amount Identified FY 2011	Amount Recovered FY 2011	Cumulative Amount Identified FY 2012 and 2011	Cumulative Amount Recovered FY 2012 and 2011
Total	\$2.5	\$1.3	\$2.5	\$2.5	\$5.0	\$3.8

Notes:

1. The totals mainly include identified and recovered overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which are discussed in the Payment Recapture Audit: Administrative Payments section.
2. Identified overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. We do not consider every overpayment improper according to the definition contained in IPIA.

AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS

We focus on achieving our goals to reduce improper payments. Below, we address our efforts to reduce improper payments in the following areas:

- Internal controls;
- Human capital to support improper payment workloads;
- Information systems;
- Other infrastructure; and
- Statutory and regulatory barriers.

INTERNAL CONTROLS

We have a well-established, agency-wide management control 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;

- Financial management systems are in conformance with Governmentwide requirements; and
- Internal controls over financial reporting are 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*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Performance and Accountability Report*.

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

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 2011. Even with our reduced FY 2012 funding, our CDR and SSI redetermination goals increased for FY 2012. In FY 2012, we completed over 2.624 million SSI redeterminations and about 443,233 full medical CDRs. We estimate that every dollar spent on full medical CDRs yields at least \$9 in lifetime program savings; every dollar spent on SSI redeterminations yields about \$6 in program savings over 10 years, including savings accruing to Medicaid. We completed about 287,650 work CDRs in FY 2012.

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 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 2013, the funding adjustment authorized is \$751 million. If appropriated, the total amount of \$1.024 billion would enable us to complete 650,000 periodic medical CDRs, an increase of 215,000 from our FY 2012 target, and to continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars.

Effective FY 2012, as required by IPERA, we are 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.

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, the reviewer looks 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 disability determinations allowances made by the State DDSs. In FY 2010, we initiated PERs of DDS allowances for OASDI benefits and initial and reconsideration allowances for the SSI program. We return deficient cases to the DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2010 cases will result in lifetime savings (after all appeals) of:

- \$366 million in OASDI benefit payments;
- \$60 million in SSI Federal payments;
- \$199 million in Medicare benefits; and
- \$2 million in the Federal share of Medicaid payments.

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 continue to 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 2013 Budget includes several legislative proposals that could help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

DI Demonstration Authority/Work Incentives Simplification Pilot

This proposal would reauthorize our demonstration authority for five years. This authority 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, WISP would test important improvements in our return-to-work rules. We believe that WISP has the potential to 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 the development and implementation of 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 WEP and GPO applicable.

Workers' Compensation

Under this proposal, we would develop and implement a system to collect information on 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 the receipt or amount of WC payments.

Quarterly Federal Wage Reporting

This proposal would restructure the Federal wage reporting process by requiring employers to report wages quarterly instead of annually. The proposal would facilitate the implementation of automating enrollment of employees in existing workplace pensions. It may also improve program integrity because more frequent reporting could provide more timely information and quality control over federally-administered, income-tested programs. Finally, increasing the frequency of wage reporting could enhance tax administration and reduce the amount of items added to the earnings suspense file, because we would discover discrepant employee identifiers more quickly.