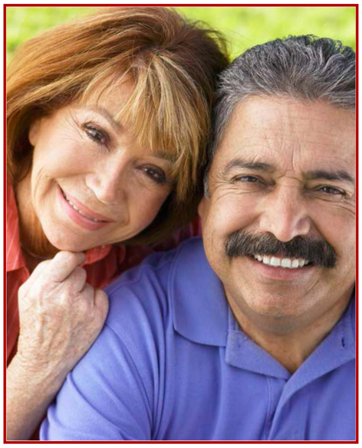
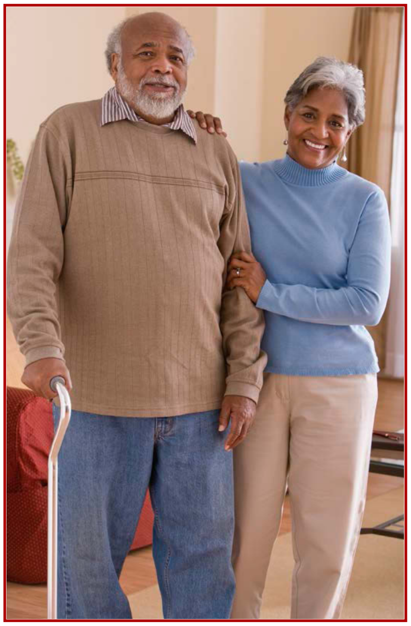
Other Information





The *Other Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.

In accordance with the *Reports Consolidation Act of 2000*, the *IG Statement on SSA's Major Management and Performance Challenges* provides a summary and assessment of the most serious management and performance challenges we face as determined by the Office of the Inspector General (OIG). The OIG also describes the steps we have taken to address each of the challenges.

Next, in *Other Reporting Requirements*, we provide a summary of our financial statement audit and management assurances. We also provide information on our entitlement reviews, the OIG's anti-fraud activities, our biennial review of user fee charges, and our debt management activities.

Finally, the *Other Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.

IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

December 6, 2013

The Honorable Carolyn W. Colvin
Acting Commissioner

Dear Ms. Colvin:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General summarize and assess the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* also requires that the Social Security Administration (SSA) place the final version of this Statement in its annual *Agency Financial Report*.

In Fiscal Year (FY) 2013, we continued our focus on the management and performance challenges from the previous year. The challenges are listed below.

- Reduce the Hearings Backlog and Prevent its Recurrence
- Improve the Timeliness and Quality of the Disability Process
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Strengthen the Integrity and Protection of the Social Security Number
- Improve Transparency and Accountability
- Strengthen Strategic and Tactical Planning

We used multiple sources to determine the status of each of the identified challenges. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2013 independent auditor's report, which contained the results of SSA's financial statement audit. The report concluded that SSA had two significant deficiencies in internal control. These issues are discussed in detail in the enclosure.

My office will continue focusing on these issues in FY 2014. We will also continue assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Patrick P. O'Carroll, Jr.
Inspector General

Fiscal Year 2013
Inspector General Statement
on the
Social Security Administration's
Major Management and Performance Challenges

December 2013

Reduce the Hearings Backlog and Prevent its Recurrence

Challenge

While the Social Security Administration (SSA) had a plan to eliminate the hearings backlog by 2013, the number of pending cases has increased, and the average processing time remains above the goal of 270 days.

Hearing Backlog: The Agency's first goal in its *Fiscal Year (FY) 2008-2013 Agency Strategic Plan* (ASP) is to eliminate the hearings backlog and prevent its recurrence. Its long-term outcome is to reduce the number of pending hearings to 466,000 cases and reduce the average processing time to 270 days by the end of FY 2013. However, SSA will not achieve the backlog goal since there were about 848,000 pending claims, and average processing time was 382 days at the end of FY 2013. In a FY 2011 report, we stated that the Agency would meet its hearings backlog goal if it accurately predicted administrative law judge (ALJ) productivity and availability, the number of hearing receipts, and senior attorney adjudicator (SAA) decisions. While ALJ productivity and availability were within a few percentage points of Agency projections, hearing receipts exceeded Agency projections by 15 percent or more each year, and there were fewer SAA decisions than anticipated in FYs 2012 and 2013.

The Agency dropped the 466,000 pending claims backlog goal from its FY 2013-2016 ASP and focused instead on reducing the average wait time for a hearing decision to 270 days by the end of FY 2013. While the Agency will not meet the 270-day goal, it has reduced the average wait times. For example, average processing time in FY 2008 was 514 days; by the end of FY 2013, it was 382 days.

Adjudicatory Capacity: In FY 2007, the Agency issued an interim final rule allowing SAAs to issue fully favorable on-the-record decisions, thereby conserving ALJ resources for the more complex cases that require a hearing. In our June 2013 report on the *Effects of the Senior Attorney Adjudicator Program on Hearing Workloads*, we stated that while the SAA Program contributed to an increase in adjudicative capacity and improved average processing time over the years, the number of SAA on-the-record decisions had been declining, and the quality of these decisions had dropped. We recommended the Agency evaluate the benefits of conducting focused quality reviews on ALJ and SAA on-the-record decisions. In this way, common on-the-record issues can be identified and appropriate training developed.

Management Oversight: Our January 2013 audit, *Identifying and Monitoring Risk Factors at Hearing Offices*, highlighted the Agency's efforts to identify problematic workload trends among ALJs. We recommended that this new monitoring approach be made a permanent part of management oversight and the Agency create additional monitoring of hearing office trends that may identify potential processing and management problems. In addition, we identified case rotation problems at hearing offices in a March 2013 audit, *Hearing Office Case Rotation among Administrative Law Judges*. We recommended that the Agency continue monitoring hearing offices that had rotation issues and remind hearing office managers that ALJ coverage of remote sites should be consistent with its rotation policy.

Agency Actions

In the Agency's FY 2013-2016 ASP, SSA identified four strategies to achieve its hearings timeliness goal:

- eliminate the oldest cases first;
- expedite cases that do not require a hearing;
- enhance electronic tools that improve productivity and quality; and
- target national resources to meet workload demands.

In FY 2007, the Agency implemented an Aged Claim initiative that emphasized processing the oldest claims in the backlog. In FY 2008, there were over 135,000 claims 900 days or older in the backlog. With a sustained emphasis to process cases on a first-in, first-out basis, the Agency eliminated the oldest cases in its backlog, and by the end of

FY 2013, it had about 1,270 cases that were 700 days or older. Since implementing the initiative, the Agency has processed nearly 900,000 aged cases that were 700 days or older.

The Agency hired 27 ALJs in FY 2013. However, in FY 2013, the Agency lost 86 ALJs through attrition. In addition, Office of Disability Adjudication and Review staffing levels were down about 4 percent from the start of the FY. As a result, the Agency will need to continue using technology to increase adjudicatory capacity, including expanded use of video hearings and video-only National Hearing Centers that process cases from some of the most heavily backlogged hearing offices. In FY 2013, the Agency held over 179,000 video hearings, which is over 25,700 more than the number of video hearings held in FY 2012.

The Agency has implemented a new "How MI Doing?" tool that provides each ALJ a list of favorable cases reviewed by the Appeals Council under its own motion authority. This new capability builds on the information already available through "How MI Doing?" It further improves the feedback to ALJs, which should help them ensure their decisions comply with policy.

Improve the Timeliness and Quality of the Disability Process

Challenge

SSA needs to address millions of initial disability and reconsideration claims, as it continues to have backlogs of initial disability claims and continuing disability reviews (CDR).

Disability Claims Backlog: Over the past 2 years, SSA has received a large influx of initial and reconsideration claims. It received about 3.2 million initial and 832,000 reconsideration claims in FY 2012 and approximately 3 million initial and 784,000 reconsideration claims in FY 2013. As a result, SSA had a large number of initial claims pending completion. As of September 2013, SSA had over 698,000 initial disability claims pending.

DDS Personnel Issues: Some disability determination services (DDS) are facing high attrition rates, hiring freezes, and employee furloughs, which affect SSA's ability to process its disability workload. Because of hiring freezes, DDSs are not allowed to replace lost staff. At the end of FY 2013, Nevada was still furloughing DDS employees.

CDR Backlog: In our March 2010 report on *Full Medical Continuing Disability Reviews,* we stated that SSA estimated a backlog of over 1.5 million medical CDRs at the end of FY 2010. As a result, we estimated that from Calendar Years (CY) 2005 through 2010, SSA made benefit payments of between $1.3 and $2.6 billion that it could have avoided had State DDSs conducted the medical CDRs when they were due. SSA had a backlog of 1.2 million medical CDRs at the end of FY 2012. As of the end of FY 2013, SSA had a backlog of 1.3 million medical CDRs.

Agency Actions

SSA's Strategy: In November 2010, SSA released its *Strategy to Address Increasing Initial Disability Claim Receipts* to reduce the initial claims backlog to a pre-recession level of 525,000 by FY 2014. The multi-year Strategy included

- increasing staffing in the DDS and Federal disability processing components;
- improving efficiency through automation;
- expanding the use of screening tools to assist in identifying claims likely to be allowed; and
- refining policies and business processes to expedite case completion.

As part of the Strategy, SSA created Extended Service Teams, in Arkansas, Mississippi, Oklahoma, and Virginia to assist States by taking claims from those with the highest pending levels. In FY 2010, SSA hired 237 additional employees in the Federal disability processing components that support the DDSs.

SSA also provided funding for States to hire additional DDS employees. In total, SSA gained more than 2,600 DDS employees in FYs 2009 and 2010. However, SSA did only limited critical hiring from FYs 2011 to 2013. As a result, SSA lost over 2,800 DDS employees from FYs 2011 to 2013.

With the loss of DDS employees and a high level of initial disability claims receipts in FY 2013, SSA no longer expects to achieve an initial claims pending level of 525,000 by FY 2014. In fact, pending initial disability claims rose to over 698,000 in FY 2013, and SSA expects it to exceed 900,000 by the end of FY 2014. We are reviewing the actions SSA is taking to address the initial disability claims backlog.

Disability Case Processing System: The Agency is developing a Disability Case Processing System (DCPS), which is 1 system that will replace the existing 54 systems that support the DDSs. DCPS will integrate case analysis tools and health information technology (IT). A common case processing system will help SSA timely distribute policy changes. Per SSA, it will provide consistent case processing abilities between the DDSs, which should have a positive effect on processing times and the consistency of disability decisions. SSA began testing the initial version of DCPS in the Idaho DDS in September 2012. In FY 2013, SSA tested, trained, and implemented the second software release to the Idaho and Illinois DDSs. SSA expects to test additional software releases in two other DDSs in FY 2014 with expanded implementation through FY 2016.

Cooperative Disability Investigations: We have continued working with SSA to address the integrity of the disability programs through Cooperative Disability Investigations (CDI). The mission of the 25 CDI units is to obtain evidence that can resolve questions of fraud in SSA's disability claims. The program is managed jointly by SSA's Office of Operations and the Office of the Inspector General. Since the program's inception in FY 1998 through the end of FY 2013, its efforts have resulted in $2.5 billion in projected savings to the title II Disability Insurance and title XVI Supplemental Security Income (SSI) programs, as well as over $1.6 billion in projected savings to non-SSA programs.

Reduce Improper Payments and Increase Overpayment Recoveries

Challenge

SSA is responsible for issuing over $800 billion in benefit payments annually to about 60 million people. Given the large overall dollars involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

SSA is one of the Federal agencies with a high amount of improper payments. In FY 2012, the last FY for which data were available, SSA reported about $6.8 billion in over- or underpayments, and the Agency incurred an administrative cost of $0.07 for every overpayment dollar it collected. Further, SSA needs to adhere to requirements in Executive Order 13520 – *Reducing Improper Payments* – and the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Pub. L. No. 111-204) to address improper payments. Additionally, the Office of Management and Budget (OMB) recently issued guidance on implementing the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Publ. L. No. 112-248), so SSA will need to take additional actions related to reducing improper payments.

Improper Payment Rates: Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

For example, according to SSA, in FY 2012,

- the Old-Age, Survivors and Disability Insurance (OASDI) overpayment error was $1.7 billion or 0.2 percent of program outlays, and the underpayment error was $740 million or 0.1 percent of program outlays and
- the SSI overpayment error was $3.4 billion or 6.3 percent of program outlays, and the underpayment error was $948 million or 1.8 percent of program outlays.

For FYs 2012 through 2014, SSA's goal is to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and for SSI, the Agency's goal is to achieve over- and underpayment accuracy rates of 95 and 98.8 percent, respectively.

Executive Order 13520, IPERA, and IPERIA: In November 2009, the President issued Executive Order 13520 on reducing improper payments; and in March 2010, OMB issued guidance for implementing it. Also, in July 2010, IPERA was enacted. In April 2011, OMB issued guidance on implementing IPERA. As a result, all agencies with high-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. OMB designated SSA's programs as high-risk. In January 2013, IPERIA was enacted; and it requires, among other things, that such agencies as SSA use available databases with relevant information on eligibility to prevent improper payments.

Overpayment Recoveries: Once SSA determines an individual has been overpaid, it attempts to recover the overpayment. According to SSA, in FY 2013, the Agency recovered $3.46 billion in overpayments at an administrative cost of $0.07 for every dollar collected and ended the FY with an uncollected overpayment balance of $16.4 billion.

Agency Actions

Improper Payment Causes: One of the major causes of improper payments in the OASDI program is benefit computation error. SSA has developed automated tools to address the more troublesome computation issues. Another major cause of improper payments in the SSI program is recipients' failure to provide accurate and timely reports of new or increased wages. In response, SSA developed a monthly wage reporting system incorporating touch-tone and voice-recognition telephone technology. SSA also implemented its Access to Financial Institutions project to reduce SSI payment errors by identifying undisclosed financial accounts with balances that placed recipients over the SSI resource limit.

Debt Collection Tools: SSA uses a variety of methods to collect the debt related to overpayments. Collection techniques include internal methods, such as benefit withholding and billing with follow up. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal Salary Offset.

CDRs: The CDR is a powerful tool for reducing improper payments. Through completion of CDRs, SSA periodically verifies that individuals are still disabled and eligible for disability payments. Available data indicate that SSA saves about $9 for every $1 spent on CDRs, including Medicare and Medicaid program effects.

Improve Customer Service

Challenge

The Agency faces several challenges as it pursues its mission to deliver Social Security services that meet the changing needs and demographics of the American public.

Increased Workload with Reduced Staff: Each day, almost 182,000 people visit SSA field offices, and more than 445,000 people call SSA for a variety of services, such as filing a claim, updating information, and asking questions. In FY 2013, SSA completed over 5 million retirement, survivor, and Medicare claims; over 3.1 million Social Security and SSI initial disability claims; and 231,000 SSI aged claims.

In the last 3 years, SSA has lost over 10,000 employees. The Acting Commissioner reports these losses have occurred unevenly nationwide, threatening some offices' viability. SSA's diminished workforce, coupled with hiring restrictions, comes at a time when demands for its services are as high as they have ever been.

The projected retirement of its employees continues to present a challenge to SSA's customer service capability. SSA estimates that about 45 percent of its employees, including 60 percent of its supervisors, will be eligible to retire by FY 2022. SSA also projects it will lose more than 2,000 employees, annually, over the next 10 years, because of retirement. This loss of institutional knowledge may adversely affect SSA's ability to deliver the quality service the public expects. In its May 2013 report on management challenges SSA faces in meeting its mission-related objectives, GAO noted that despite the ongoing retirement wave and hiring freeze, SSA has not updated its succession plan since 2006.

Changing Customer Expectations: Technology is rapidly changing, and the public expects to complete more business with SSA online. Internet services and the use of mobile devices and social media continue to increase. At the same time, the nation is becoming more diverse. The Census Bureau projects the U.S. Hispanic population will nearly triple, from 46.7 to 132.8 million, between 2008 and 2050. As SSA enhances its service delivery strategies, it must consider the increasing multilingual and multicultural population it serves.

Budget: The Acting Commissioner has acknowledged that SSA is facing its toughest fiscal challenge in nearly 30 years. SSA has stated that the current level of funding will lead to a loss of employees. Consequently, SSA expects its national 800-number service to deteriorate because it does not have a sufficient number of employees to answer calls. For example, the national 800-number average telephone wait time exceeded 10 minutes in FY 2013, an increase of over 5 minutes from FY 2012.

With additional budget cuts, SSA believes its public service will decline, and improper payments will rise. To reduce costs, SSA reported it consolidated 44 field offices, closed 503 contact stations, and put on hold its plans to open 8 hearing offices and 1 teleservice center. Further, SSA has reduced the hours that field offices are open to the public, restricted hiring, and reduced overtime.

Direct Deposit: SSA uses direct deposit for about 98 percent of Social Security benefits and 94 percent of SSI payments. In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had directed benefit payments away from the beneficiaries' bank accounts. As of September 30, 2013, we had received over 42,000 reports concerning inappropriate changes to beneficiaries' direct deposit accounts.

Representative Payment Program: Providing oversight to ensure representative payees properly manage the Social Security benefits and SSI payments of vulnerable beneficiaries and recipients is a critical customer service performed by SSA. SSA appoints representative payees to receive and manage the benefits of beneficiaries and recipients who are incapable of managing or directing the management of their finances because of their age or mental or physical impairment. SSA reported approximately 5.9 million representative payees serve approximately 8.4 million beneficiaries and recipients and manage about $72 billion in payments. Our audits and investigations continue identifying problematic representative payees.

Agency Actions

SSA has implemented the following initiatives to improve customer service: establishing the Office of the Chief Strategic Officer, developing a service delivery plan, clarifying correspondence, expanding the use of online services, improving telephone services, expanding video services, strengthening controls over direct deposit, and improving the Representative Payment Program. The Office of the Chief Strategic Officer should help SSA plan for the future, taking into account customer expectations and available resources. We discuss this further in the *Strengthen Strategic and Tactical Planning* section of this report, which begins on page 16.

Service Delivery Plan: In February 2013, SSA published its *Service Delivery Plan*, which identified 22 key initiatives for providing the American public with quality service over the next 10 years. The Plan highlights SSA's commitment to improving (1) services readily used by the public, (2) the systems it uses to serve the public, and (3) operations' payment accuracy and efficiency.

More recently, SSA decided not to move forward with the *Service Delivery Plan*. It is working with the National Academy of Public Administration to develop a new long-term plan. SSA intends to publish the long-range plan in late 2014.

Correspondence: SSA mails approximately 250 million notices to the public each year, making correspondence one of SSA's most common forms of service delivery. SSA intends to improve its notices to ensure they are clear and concise. SSA planned improvements for the readability, clarity, and tone of SSI notices. Additionally, SSA reported it is improving language for its highest volume notices, such as the letter acknowledging receipt of a hearing request.

Online Services: One of SSA's priorities is to provide the public more service options through a wide range of online services. In FY 2013, SSA reported it would explore ways of expanding the use of the Spanish iClaim to international users by including features to collect information related to foreign work, international direct deposit, and U.S. residency.

SSA continues expanding its nation-wide marketing campaign for its Internet services through public service announcements. SSA also uses social media and targeted keyword searches on Google and Bing to direct the public to its online service options. In May 2013, SSA launched a mobile-friendly Website for smartphone users. In August 2013, SSA launched a new tablet-friendly public Social Security Website.

In January 2013, SSA expanded its services with a MySocialSecurity account—a personalized online account through which more than 60 million Social Security beneficiaries and SSI recipients can instantly access their benefit verification letter, payment history, and earnings records. Beneficiaries can also change their address and start or change direct deposit information online.

Telephone Services: SSA serves about 60 million people per year over the telephone. SSA is replacing its national 800-number infrastructure with a new system, the Citizen Access Routing Enterprise 2020. SSA reports the new technology will help eliminate lengthy navigation menus, better forecast call volumes, anticipate staffing needs, and distribute incoming calls across the network so callers can reach an agent more quickly.

Video Services: SSA is expanding its video services for individuals living in rural areas or places that do not have public transportation. Video services enable SSA to provide service to people at such sites as hospitals, libraries, community centers, American Indian Tribal centers, and homeless shelters. Video services also reduce travel costs and lost work hours. As of December 2012, SSA had expanded its video services to 262 additional field offices, for a total of 299 locations. Additionally, SSA provided 20 video units for DDSs.

Direct Deposit: In response to fraudulent activity in the direct deposit area, SSA has taken steps to strengthen the controls over the processes used to change beneficiaries' direct deposit account information. In FY 2013, SSA revised its policy for verifying the identities of callers who request to establish, change, or cancel direct deposit payments. Additionally, SSA allowed beneficiaries to block direct deposit changes.

Representative Payment Program: SSA continues a pilot program to ensure individuals convicted of committing or attempting to commit certain crimes do not serve as a representative payee. By the end of FY 2013, SSA's Philadelphia Region had barred over 170 individuals from serving as a representative payee because they had committed 1 or more crimes. To support the pilot program, in FY 2013, SSA implemented an electronic system to obtain third-party criminal information.

Invest in Information Technology Infrastructure to Support Current and Future Workloads

Challenge

SSA faces major challenges to ensure it has sufficient IT controls, provide secure electronic services to meet the growing needs of its customers, and strategically plan to modernize its systems for future service delivery.

SSA faces the challenge of how best to use technology to meet its increasing workloads with limited budgetary and human resources. Further, SSA will not be able to manage its current and future workloads without the proper IT infrastructure. The Agency uses a variety of technologies, including telephone service, the Internet, and videoconferencing, to deliver service to its customers. We have concerns regarding the Agency's IT physical infrastructure; development and implementation of secure electronic services; and logical access controls and security of sensitive information.

IT Physical Infrastructure: SSA's National Computer Center (NCC), built in 1979, houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. SSA's primary IT investment over the next few years is replacing the NCC. However, the Agency has projected that its new facility will not be operational until 2016.

Development and Implementation of Secure Electronic Services: SSA must provide additional electronic services to meet its customers' growing needs. For FY 2012, SSA had a goal to have 42 percent of its fourth quarter claims filed online. For FY 2013, the fourth quarter goal for online claims was 48 percent. During the fourth quarter of FY 2012, Agency customers filed 44 percent of claims online. During the fourth quarter of FY 2013, Agency customers filed 51 percent of claims online.

While expanding its inventory of electronic services, the Agency needs to ensure its existing and future electronic services are secure. In January 2013, SSA expanded its MySocialSecurity online portal; however, fraudulent accounts were established to redirect Social Security benefits to unauthorized bank accounts. As of the end of FY 2013, we had received—from SSA and other sources—more than 22,000 fraud allegations related to MySocialSecurity accounts.

Logical Access Controls and Security of Sensitive Information: SSA's FY 2009, 2010, and 2011 Financial Statement Audits identified a significant deficiency in the Agency's controls over access to its sensitive information. For example, SSA did not consistently comply with policies and procedures to periodically reassess the content of security access given to its employees and contractors. Moreover, some employees and contractors had greater access to systems than they needed to perform their jobs. Additionally, certain configurations increased the risk of unauthorized access to key financial data and programs. The FY 2012 Financial Statement Audit identified additional concerns and raised the significant deficiency to a material weakness.

While SSA made significant efforts to strengthen controls over its systems and address weaknesses, the auditor's FY 2013 testing continued to identify control issues in both design and operation of key controls. In its audit, the auditor identified four deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of Information Systems Controls.

Agency Actions

IT Physical Infrastructure: SSA has taken steps to address its IT infrastructure challenge and the NCC's sustainability through 2016. For example, SSA conducts regular tours of the buildings with technical experts to identify needed repairs or future replacement projects.

In February 2009, SSA received $500 million in *American Recovery and Reinvestment Act* (Pub. L. No. 111-5) funding to replace its NCC. In August 2011, the General Services Administration (GSA) purchased a site for SSA's new data center. In January 2012, GSA and SSA awarded a contract for the design and construction of a new data center. The planned completion of construction is December 2014. After completion of construction and commissioning, IT migration to the new data center will take an additional 22 months. The new data center is expected to be operational in 2016.

Development and Implementation of Secure Electronic Services: At present, SSA offers the public 28 electronic services. Further, SSA has researched Internet authentication solutions to secure online initiatives, such as Ready Retirement, replacement Social Security number (SSN) cards, and other automated services.

In June 2013, SSA established a dedicated MySocialSecurity help desk through the national 800-number to assist the public with MySocialSecurity-related issues. The Agency will also assist with MySocialSecurity at a designated link called MySocialSecurity Contact Us.

Logical Access Controls and Security of Sensitive Information: SSA developed the Profile Quality Program, a group of projects to limit access to the Agency's electronic resources, including sensitive data. As part of this Program, SSA implemented several procedures related to logical access controls and the security of sensitive information. Moreover, SSA implemented Web-based tools for automating SSA's review process of access to sensitive information.

Finally, SSA developed teams to address the other areas that comprise the material weakness in information security. SSA implemented additional policies and procedures and conducted security tests to help resolve the material weakness. This included, but was not limited to, policies and procedures over software change control, configuration management, authorization of hardware and software, and penetration testing.

Strengthen the Integrity and Protection of the Social Security Number

Challenge

Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.

In FY 2013, SSA completed approximately 5.8 million original and 10.3 million replacement SSN cards. In addition, the Agency received and processed about 250 million wage items, totaling approximately $5.7 trillion in earnings. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring SSN integrity and eligible individuals receive the full benefits due them.

SSN Use: The SSN is heavily relied on as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates future benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

SSN Misuse: To its credit, SSA has implemented numerous improvements in its enumeration process. However, given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA. Unfortunately, once SSA assigns an SSN, it has no authority to control the collection, use, and protection of the number by other public and private entities. Our audit and investigative work have shown that the more SSNs are unnecessarily used, the higher the probability that they could be used to commit crimes throughout society. The Federal Trade Commission has estimated that as many as 10 million Americans have their identities stolen each year.

We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States as well as the misuse of SSNs for identity theft purposes. The SSNs of deceased individuals are also vulnerable to misuse. As such, the public release of the Death Master File (DMF) raises concerns. To the extent possible, we believe SSA should limit public access to the DMF to only what is required by law and take steps to ensure its accuracy.

Earnings: SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated over $1.1 trillion in wages and 326 million wage items for Tax Years 1937 through 2011. In Tax Year 2011 alone, 7.1 million wage items representing $70 billion were posted to the ESF. From Tax Years 2001 to 2011, the ESF grew by approximately $734.5 billion in wages and 91.9 million wage items, representing about 65 percent of the total wages and 28.1 percent of the total wage items.

We are concerned about the size and growth of the ESF as it reached over $1 trillion in wages. Therefore, in 2014, we plan to review the steps SSA has taken to reduce the ESF's size and growth.

Agency Actions

SSA continues improving its enumeration process. For example, SSA has established enumeration centers in some cities—most recently Social Security Card Centers in San Diego and El Cajon, California—that focus exclusively on assigning SSNs and issuing SSN cards. Additionally, SSA routinely enhances its software program for SSN card issuance. This allows SSA to enforce more enumeration policies and decreases the risk of improper issuance of SSNs and SSN cards, and also reduces SSN fraud. SSA has also strengthened its policy for processing requests for the SSN printout. SSA's new policy requires that requesters provide the same evidentiary documents as required for processing a request for a replacement SSN card.

SSN Verification Service: SSA has taken steps to reduce the size and growth of the ESF. The Agency offers employers the ability to verify the names and SSNs of their employees using the Agency's SSN Verification Service, which is an online verification program, before reporting wages to SSA. In FY 2013, approximately 38,500 registered employers submitted over 111 million verifications.

E-Verify: SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. According to DHS, over 470,000 employers have enrolled to use E-Verify, and these employers submitted over 20 million queries in FY 2013.

While SSA cannot control all the factors associated with erroneous wage reports, it may be able to improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's employee verification programs, and enhancing employee verification feedback to provide employers with sufficient information on potential employee issues. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

Improve Transparency and Accountability

Challenge

SSA faces a number of challenges ensuring accountability, including concerns over its internal controls, systems security, and administrative cost allocations.

***Federal Managers' Financial Integrity Act of 1982*:** OMB Circular A-123, Revised, *Management's Responsibility for Internal Control,* defines internal control as "…tools to help program and financial managers achieve results and safeguard the integrity of their programs." The Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) (Pub. L. No. 97-255). FMFIA encompasses accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management.

The FY 2013 *Independent Auditor's Report* contained two significant deficiencies in internal control. The full text of the report can be found in SSA's FY 2013 *Agency Financial Report*. We summarize the two control weaknesses below.

Calculation, Recording, and Preventing Overpayments: In FY 2012, the auditor reported a significant deficiency related to Benefit Payment Oversight. In FY 2013, the auditor did not identify this significant deficiency. However, it identified three deficiencies in internal control that, when aggregated, were considered to be a significant deficiency in internal controls related to calculation, recording and prevention of overpayments. Specifically, the auditor noted calculations errors in 38 percent of the overpayment items selected in a statistical sample. Although the impact of these errors was not deemed material, these errors evidence further control weaknesses in the overpayment process. In addition, SSA has a system limitation where overpayment installments extending past year 2049 are not tracked and reported systematically. Finally, SSA was not reconciling data between systems to detect discrepancies, which could lead to payment errors.

Information System Controls: In FYs 2010 and 2011, the auditor reported a significant deficiency in SSA's internal control over information security in its *Opinion on Management's Assertion about the Effectiveness of Internal Control*. In FY 2012, the auditor escalated the deficiency and determined there was a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls. It is the auditor's opinion that SSA made significant progress in strengthening controls over its information systems to address the material weakness reported in FY 2012.

While SSA made these significant efforts to strengthen controls over its systems and address weaknesses, the auditor's FY 2013 testing continued to identify control issues in both design and operation of key controls. In its audit, the auditor identified four deficiencies that, when aggregated, are considered to be a significant deficiency in the areas of information systems controls. The deficiencies noted were in the following areas.

- Threat Identification and Vulnerability Management
- Change Management
- Mainframe Security
- Access Controls/Segregation of Duties.

Administrative Cost Allocation: We also believe SSA can bring greater accountability to its administrative cost allocation. The *Social Security Act* (Pub. L. No. 74-271) authorizes SSA to allocate administrative costs to the four trust funds for which it provides administrative support: Retirement and Survivors, Disability, Hospital, and Supplementary Medical Insurance. SSA uses its Cost Analysis System (CAS) to allocate administrative costs to these four trust and general fund programs administered by SSA, such as the SSI program.

In FY 2012, our contractor completed a series of audits that examined SSA's CAS. Our contractor found CAS had certain risks that SSA needed to address to ensure it provided viable calculations of SSA's administrative costs. For example, SSA had not updated the CAS cost allocation methodology in over 30 years to account for changes in business processes, system technology, or Federal accounting standards. The failure to periodically revisit and update the cost allocation methodology could result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of SSA's administrative costs to the trust funds could be at risk.

Agency Actions

The Acting Commissioner has made addressing both the material weakness and significant deficiency reported in SSA's FY 2012 *Performance and Accountability Report* a priority. Specifically, SSA has established a protocol to control and follow up on discrepancies or inaccuracies in benefit payments to ensure they are corrected. Effective FY 2013, SSA closely tracks all high-risk error cases identified by the Office of Quality Review to ensure the payment errors are corrected accurately and timely.

Most recently, SSA hired a Deputy Chief Information Officer, a position that had been vacant at SSA. The role of the new Deputy Chief Information Officer is the Agency's IT strategic planning, alignment of IT investments to the Agency's strategic goals and objectives, and management of technology spending and capital planning.

SSA reported it achieved a number of accuracy and process improvements to CAS this year, which include the following.

- A process that more exactly determines costs by workload and more precisely allocates these workloads' costs among the programs that each workload supports.
- Automating calculations that were manual.
- Implementing a more detailed annual process to reconcile cost accounting data (budgetary accounting basis) to accrual-based expenses to ensure there are no material differences.
- Forming a standing executive governance committee to evaluate current methods, instructions, and workloads for component and Agency-level cost accountability processes to account for changes in business processes, system technology, and Federal accounting standards. The workgroup's activities include examining workload counts, work time, and payroll cost assignment by workload and function, and assignment of other costs by workload and function.

Strengthen Strategic and Tactical Planning

Challenge

While near-term planning is important, SSA needs long-range plans that address its long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.

Rising Workload: The number of individuals filing for benefits has increased, and SSA predicts it will continue increasing by the millions. Over the next 20 years, nearly 75 million people aged 62 and older will start receiving retirement benefits. The population applying for benefits will expect SSA to provide a greater number of services electronically. SSA realizes it needs to rely more on technology to meet customer expectations and keep up with a rising workload.

Fewer Experienced Staff: As workloads rise, a greater proportion of SSA's workforce will become eligible to retire. Of the 63,947 full- and part-time permanent employees on duty as of October 1, 2012, 22.2 percent was eligible to retire under the regular retirement option in FY 2013. In FY 2017, 32.7 percent of those employees will be eligible to retire, and, by FY 2022, this number will increase to 44.9 percent.

Given the expectation of leaner future budgets, SSA needs to plan to meet its mission with fewer resources. SSA's ASP for FY 2013 – FY 2016 and its *Information Resources Management Strategic Plan for FY 2012 – FY-2016* are near-term planning documents that do not provide plans on how SSA will address its challenges over the next 10 to 20 years and beyond. Both the OIG and Social Security Advisory Board have called for increased long-term planning to address SSA's future challenges.

Customer Service Delivery Planning: In our FY 2011 report on *The Social Security Administration's Customer Service Delivery Plan*, we concluded SSA did not have a long-term customer service delivery plan. We noted that SSA must develop a plan that serves as a roadmap for ensuring the Agency is technologically and structurally prepared with appropriate staff to operate its programs in the future. The plan should also describe how the Agency is preparing to address increased workloads and service delivery in an electronic environment. The plan must identify what the service delivery environment will be in the future, including what services customers will expect and how they will want to receive those services. SSA published a *Service Delivery Plan* in February 2013, but it did not comprehensively describe the service options it will offer in the future or the resources needed to do so.

Social Security Advisory Board Report: At a time when SSA needs to plan to do more with less, the Board believes SSA lacks long-term plans in a number of critical areas. In its March 2011 report, *The Social Security Administration: A Vision of the Future - The First Steps on the Road to 2020*, the Social Security Advisory Board concluded that SSA needed to develop an innovative service delivery plan that reflected the service options currently available and anticipate those that will emerge in the next 10 years. It recommended that SSA take multiple steps to ensure success in 2020, including rethinking its service delivery strategy, performing a comprehensive review of program policy to reduce complexity, establishing a Systems Modernization Plan, and developing a Human Capital Plan.

IT Strategic Planning: In our June 2009 report on *The Social Security Administration's Information Technology Strategic Planning*, we stated that SSA did not have a comprehensive Agency Information Infrastructure Plan to meet potential processing needs for the next 20 years or that would allow the Agency to recover quickly if one or more major component of its processing infrastructure failed or was destroyed. While SSA has an IT planning process, it is decentralized, and SSA officials agreed it needed to be strengthened.

Agency Actions

SSA has produced multiple planning documents, including those required by the *Government Performance and Results Act of 1993* (GPRA) (Pub. L. No. 103-62) and the *GPRA Modernization Act of 2010* (Pub. L. No. 111-352). These laws mandate that Federal agencies draft strategic and annual performance plans to help improve service delivery by requiring that Federal managers plan to meet program objectives. SSA is developing its next ASP for FYs 2014-2018.

SSA has a number of planning documents. Specifically, SSA has the following strategic and tactical plans, which are listed on its Budget and Performance Webpage.

- Agency Conference Reporting
- Agency Strategic Plan
- Annual Performance Plan
- Budget Estimates and Related Information
- Information Resources Management Strategic Plan
- Major IT Investments (Exhibit 300s)
- Performance and Accountability Report
- Program Evaluations
- SSA Federal Program Inventory
- Summary of Performance and Financial Information
- Sustainability Plan and Scorecard

Of the 11 documents, 10 cover 1 through 5 years. The Agency's *Strategic Sustainability Performance Plan* includes FY 2020 goals, as required per an Executive Order. While this plan goes beyond a 5-year span, it does not include long-range plans that address SSA's long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.

Service Delivery Plan: SSA published its *Service Delivery Plan* in February 2013, which identified 22 key initiatives for providing the American public with quality service over the next 10 years. The plan highlighted SSA's commitment to improving (1) services readily used by the public, (2) the systems it uses to serve the public, and (3) payment accuracy and efficiency of operations.

More recently, SSA decided not to move forward with the *Service Delivery Plan*. It is in the process of developing a new long-term plan with the assistance of the National Academy of Public Administration. SSA intends to publish the long-range plan in late 2014.

Planning Officers: The *Service Delivery Plan*, and SSA's efforts to develop a newer long-term plan, are positive steps towards having a vision of SSA's future operations. This, coupled with the establishment in April 2013 of the Office of the Chief Strategic Officer to oversee all strategic planning across SSA, should help SSA plan for the next 10 years and beyond, taking into account customer expectations and available resources.

SSA established the Office of the Chief Strategic Officer to infuse strategic thinking into the culture, promote innovation, and achieve program performance improvements. The Office will lead the development of the long-term plan on how the Agency will modernized its services and operations by 2025, integrating IT, service delivery, and human capital.

SSA also reported that each Deputy Commissioner is developing a multi-year plan to ensure sustainability and improved effectiveness. Further, each component has been tasked with looking for ways to streamline SSA's organizations and operations, maximizing each employee's contribution, assessing the management structure, and cultivating a work environment and culture that fosters innovative approaches.

Most recently, SSA hired a Deputy Chief Information Officer to oversee the Agency's IT strategic planning, alignment of IT investments to the Agency's strategic goals and objectives, and management of technology spending and capital planning.

Other Reporting Requirements

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Systems Controls	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	No noncompliance noted	No noncompliance noted
3. USSGL at Transaction Level	No noncompliance noted	No noncompliance noted

Entitlement Reviews and Office of the Inspector General Anti-Fraud Activities

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We conduct the following major entitlement reviews:

Disability Quality Assurance Reviews

We perform quality assurance reviews of random samples of disability determination services (DDS) determinations to measure the level of accuracy against standards mandated by the regulations. We conduct these reviews prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows the quality assurance accuracy rates for FY 2009 through FY 2013.

Quality Assurance Reviews					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Percent of State DDS decisions to allow or continue not returned to the DDSs for correction	98.3%	98.6%	98.4%	98.5%	98.1%
Number of cases reviewed	34,378	32,451	32,807	32,262	31,672
Number of cases returned to the DDSs due to error or inadequate documentation	601	445	524	476	608

DI Preeffectuation Reviews

We also perform preeffectuation reviews of favorable DI and concurrent DI/SSI initial and reconsideration determinations using a profiling system to select cases for review. This profiling system helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases we review are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The following table shows the DI preeffectuation accuracy rates for FY 2009 through FY 2013.

DI Preeffectuation Reviews					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Percent of State DDS decisions to allow or continue not returned to the DDSs for correction	97.9%	97.8%	97.4%	97.4%	97.1%
Number of cases reviewed	356,956	378,712	390,480	362,250	333,159
Number of cases returned to the DDSs due to error or inadequate documentation	7,481	8,506	10,246	9,414	9,619

SSI Preeffectuation Reviews

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable SSI initial and reconsideration adult determinations. As in DI cases, we also use a profiling system to select cases for review. The following table shows the SSI preeffectuation accuracy rates for FY 2009 through FY 2013.

SSI Preeffectuation Reviews					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Percent of State DDS decisions to allow not returned to the DDSs for correction	98.3%	98.4%	97.9%	97.9%	97.7%
Number of cases reviewed	114,645	124,045	124,401	116,681	109,645
Number of cases returned to the DDSs due to error or inadequate documentation	1,900	2,023	2,612	2,430	2,530

Continuing Disability Reviews

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews (CDR) through which we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. The following table shows the CDR accuracy rates for FY 2009 through FY 2013.

CDR Accuracy					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Overall Accuracy	97.7%	97.8%	97.7%	97.9%	97.2%
Continuance Accuracy	98.6%	98.4%	98.3%	98.6%	98.0%
Cessation Accuracy	94.8%	96.0%	96.0%	95.8%	95.1%

OASDI and SSI Quality Assurance Reviews

Quality assurance reviews assess the accuracy of benefit payments. The following tables show the OASDI and SSI accuracy rates for FY 2009 through FY 2012. Data for FY 2013 is not available at this time. We will report the FY 2013 data in the *FY 2014 Agency Financial Report.*

OASDI Accuracy

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Overpayment Accuracy	99.6%	99.6%	99.7%	99.8%	Data not yet available
Underpayment Accuracy	99.9%	99.8%	99.9%	99.9%	Data not yet available

SSI Accuracy

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Overpayment Accuracy	91.6%	93.3%	92.7%	93.7%	Data not yet available
Underpayment Accuracy	98.4%	97.6%	98.2%	98.2%	Data not yet available

SSI Redeterminations

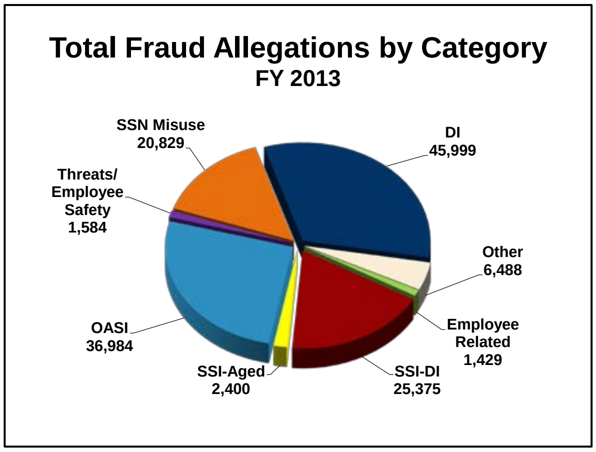
Once an individual becomes entitled to Social Security or SSI disability benefits, any changes in their circumstances may affect the amount or continuation of their benefits; therefore, we must reflect those changes in our records. SSI redeterminations are periodic reviews of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have paid and will continue to pay the recipient the correct amount. The following table shows the number of SSI redeterminations we completed for FY 2009 through FY 2013.

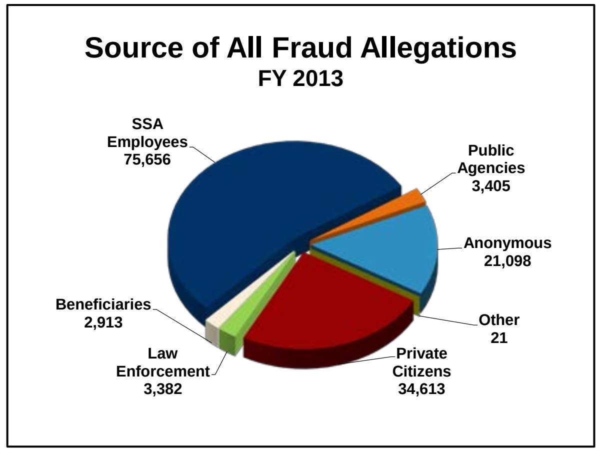
SSI Redeterminations

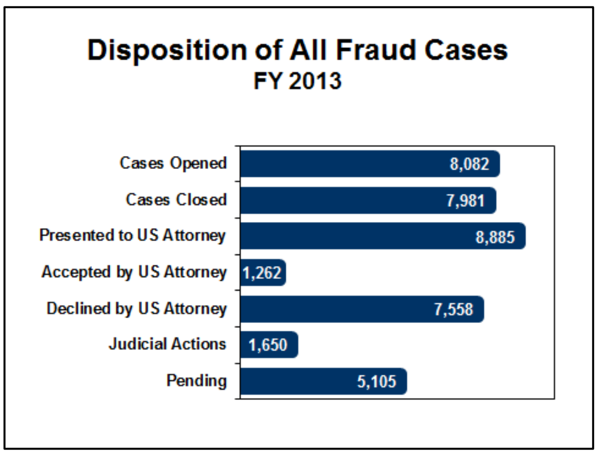
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Number of redeterminations completed	1,730,575	2,465,878	2,456,830	2,624,170	2,634,183

The Office of the Inspector General's Anti-Fraud Activities

In FY 2013, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse as part of our fraud detection and prevention program for safeguarding the agency's assets. The following charts provide information from our OIG concerning fraud.







Biennial Review of User Fee Charges

Summary of Fees

User fee revenues of $373 and $391 million in FY 2012 and FY 2013, respectively, accounted for less than 1 percent of our total financing sources. We derive over 77 percent of user fee revenues from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2013, we charged a fee of $11.12 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $11.32 for FY 2014. We adjust the user fee annually based on the Consumer Price Index, unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity, such as earnings record requests from pension funds and individuals.

Biennial Review

The *Chief Financial Officers Act of 1990* requires Federal agencies to conduct biennial reviews of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our review of fees during FY 2012, we identified changes in costs that affect current fees and agency activities. A review of these changes resulted in a uniform standard fee structure for non-programmatic workloads. We are planning to perform another review of these fees during FY 2014.

Debt Management

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the financial statements. We provide definitions of certain line items immediately following the FY 2013 Quarterly Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of certain overpayments. In July 2011, the Government Accountability Office (GAO) issued an audit report on the DI program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments*." In that audit, GAO identified a Title II system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes. We estimate that approximately 51,000 debts are affected by payment plans extending beyond the year 2049. The total gross value of the post year 2049 receivable amounts is estimated to be approximately $600 million. This amount is not material to the consolidated financial statements.

The following tables do not include the amounts related to post year 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. This system limitation prevents us from tracking what we estimate to be approximately $43 million in accounts receivable in FY 2013. We are working to address the system limitation and have determined that the estimated $43 million in post year 2049 debt is uncollectible and total accounts receivable are correctly reflected in the financial statements and the tables that follow.

Debt Management Activities Programmatic and Administrative Activity					
Dollar Totals (in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total receivables	$15,000	$15,212	$15,854	$16,588	$17,046
New receivables	5,818	5,736	6,102	5,955	5,616
Total collections	(3,561)	(3,650)	(3,633)	(3,663)	(3,817)
Adjustments	(1,093)	(888)	(809)	(536)	(391)
Total write-offs	(1,077)	(986)	(1,018)	(1,022)	(950)
- Waivers	(475)	(497)	(546)	(502)	(421)
- Terminations	(602)	(489)	(472)	(520)	(529)
Non delinquent debt	11,030	11,055	11,190	11,589	11,268
Total delinquent debt	$3,970	$4,157	$4,664	$4,999	$5,778
Percentage Analysis					
% of outstanding debt:					
- Non delinquent	73.5%	72.7%	70.6%	69.9%	66.1%
- Delinquent	26.5%	27.3%	29.4%	30.1%	33.9%
% of debt estimated to be uncollectible[1]	27.5%	27.7%	27.8%	27.3%	26.3%
% of debt collected	23.8%	24.0%	22.9%	22.1%	22.4%
% change in collections from prior fiscal year	5.8%	2.5%	-0.5%	0.8%	4.2%
% change in delinquencies from prior fiscal year	6.3%	4.7%	12.2%	7.2%	15.6%
Clearances as a % of total receivables	30.9%	30.5%	29.3%	28.2%	28.0%
- Collections as a % of clearances	76.8%	78.7%	78.1%	78.2%	80.1%
- Write-offs as a % of clearances	23.2%	21.3%	21.9%	21.8%	19.9%
Other Analysis					
Cost to collect $1	$0.06	$0.07	$0.08	$0.07	$0.07
Average number of months to clear receivables:					
- OASI	18	16	15	15	15
- DI	42	45	38	49	66
- SSI	34	35	35	36	38

1. The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the financial statements.

FY 2013 Quarterly Debt Management Activities Programmatic and Administrative Activity				
Dollar Totals (in millions)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Total receivables	$16,612	$16,659	$17,230	$17,046
New receivables	1,064	2,466	4,367	5,616
Total collections	(939)	(1,872)	(2,759)	(3,817)
Adjustments	114	(72)	(267)	(391)
Total write-offs	(215)	(451)	(699)	(950)
- Waivers	(96)	(205)	(316)	(421)
- Terminations	(119)	(246)	(383)	(529)
Aging schedule of debts:				
- Non delinquent debt	11,236	11,472	12,096	11,268
- Delinquent debt				
- 180 days or less	1,338	1,159	1,208	1,278
- 181 days to 10 years	3,672	3,651	3,526	4,052
- Over 10 years	366	377	400	448
- Total delinquent debt	$5,376	$5,187	$5,134	$5,778

Definitions:

1. Adjustments – Program debt adjustments represent: (1) written-off debts, by way of terminations, that we reinstate for collections; (2) changes in debts when we update debtor accounts with new information; and (3) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person: (1) is without fault in causing the debt; and (2) recovery would either defeat the purpose of the act or be against equity and good conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.
3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because: (1) the debtor will not repay the debt or alleges they cannot pay the debt; (2) the debtor cannot be located after diligent search; or (3) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the Treasury Offset Program and Administrative Wage Garnishment. If the debtor becomes entitled to OASDI benefits or eligible for SSI payments, we reinstate the debt and resume recovery through benefit/payment withholding.
4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (1) the date we establish an OASDI debt; (2) the date of the initial overpayment notice for a SSI debt; (3) the date of the last voluntary payment; (4) the date of an installment or periodic payment arrangement (if we do not receive a payment); and (5) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

Improper Payments Information Detailed Report

Background

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) (referred to as OASDI when discussing them in combination), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring efficient programs and accurate payments. We take our responsibility to reduce improper payments very 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 in 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.

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*. This 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 our administrative payments.

In addition to the information contained in this report, a public improper payments website is available at: www.socialsecurity.gov/improperpayments. The site provides additional information on our efforts to curb improper payments for the OASDI and SSI programs and to meet the requirements of Executive Order 13520, *Reducing Improper 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 6 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 10th 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 of this improper payments report.

Risk Assessment: Benefit Payments

To comply with IPERA's risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. Our 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 statistically valid 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. We based the data in the OASDI and SSI Improper Payments Experience tables on cases sampled in fiscal year (FY) 2012. FY 2013 data will not be available until April 2014. We will report our findings from the FY 2013 stewardship reviews in next year's *Improper Payments Information Detailed Report.*

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 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 rolling average for each type of deficiency to identify and rank error 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 Strategy

For FYs 2013-2014, we refocused our improper payments strategy to align with our Improper Payments Governance strategy. We are working in collaboration with our Federal partners, stakeholders, and beneficiaries to attain our agency Strategic Goal to Preserve the Public's Trust in Our Programs. Proper management of payments is an essential element of our goal.

Under this Strategic Goal, we will:

- Prevent payment errors by getting the payment right the first time through policy and process simplifications and system enhancements;
- Detect and correct overpayments and underpayments;
- Promote program integrity by curbing fraudulent behavior; and
- Recover overpayments by enhancing debt collection practices.

In addition to our on-going efforts to curb improper payments, we identified the following seven key strategic initiatives to achieve our Strategic Goal:

- Increase Access to Financial Institutions (AFI) information;
- Enhance the SSI wage-reporting process;

- Identify non-home real property;
- Increase post-entitlement accuracy;
- Improve death data processing;
- Impose administrative sanctions; and
- Enhance debt collection policy and practices.

We will discuss these initiatives and how they relate to reducing improper payments in our OASDI and SSI programs in the sections of this improper payments report titled Major Causes of OASDI Improper Payments and Major Causes of SSI Improper Payments, respectively. For the initiatives that affect improper payments in both programs, please refer to the section of this improper payments report titled Efforts to Reduce Fraud, Waste, and Abuse in the OASDI and SSI Programs.

Improper Payments in the OASI and DI Programs

Experience and Outlook

Table 1 shows the improper payment rates for the OASI and DI programs for FYs 2010, 2011, and 2012. We calculate the overpayment rate by dividing overpayment dollars by total dollars paid, and the underpayment rate by dividing underpayment dollars by total dollars paid.

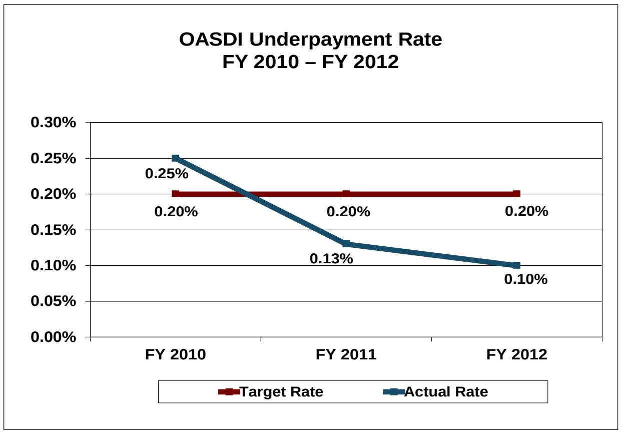
Table 1: OASDI Improper Payments Experience FY 2010 – FY 2012 (dollars in millions)						
	FY 2010		FY 2011		FY 2012	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	$572,569		$588,865		$643,100	
Underpayment Error	$527	0.09%	$468	0.08%	$517	0.08%
Overpayment Error	$1,878	0.33%	$653	0.11%	$469	0.07%
DI						
Total Benefit Payments	$122,899		$128,086		$127,200	
Underpayment Error	$1,261	1.03%	$479	0.37%	$223	0.18%
Overpayment Error	$844	0.69%	$1,624	1.27%	$1,239	0.97%
Combined OASDI						
Total Benefit Payments	$695,469		$716,951		$770,300	
Underpayment Error	$1,788	0.25%	$946	0.13%	$740	0.10%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	$2,722	0.39%	$2,277	0.32%	$1,708	0.22%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments for FY 2010 are actual cash outlays. Total benefit payments for FYs 2011 and 2012 represent estimated cash outlays while conducting the annual stewardship reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
2. FY 2013 data will not be available until April 2014.
3. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
4. OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments; for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments; and for FY 2012, +0.05 percent and -0.06 percent for underpayments and ±0.04 percent for overpayments.
5. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments; for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments; and for FY 2012, +0.17 percent and -0.26 percent for underpayments and +0.86 percent and -0.87 percent for overpayments.
6. Changes in the OASDI error rates from FY 2011 to FY 2012 are not statistically significant.

Over the last 5 years (FYs 2008-2012), our stewardship reviews estimate that we paid approximately $2.9 trillion to OASI beneficiaries. Of that total, we estimate $4.7 billion were overpayments, representing 0.16 percent of outlays. We estimate that underpayments during this same period were $2.3 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we estimated that we paid $597.8 billion to DI beneficiaries over the last 5 years (FYs 2008-2012). Of that total, we estimate $6.6 billion were overpayments, representing 1.1 percent of outlays. We estimate underpayments during this same period totaled $2.3 billion, the equivalent of 0.4 percent of outlays.



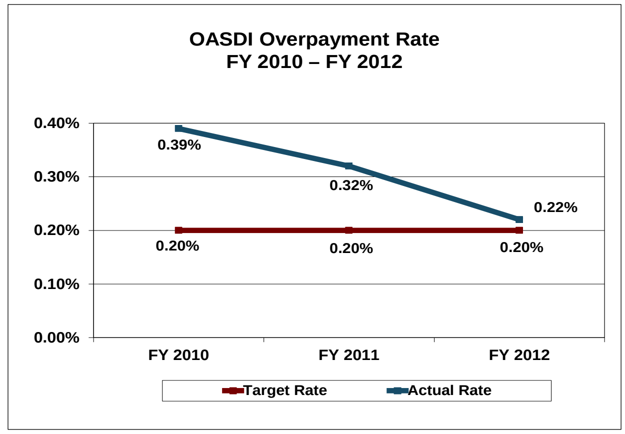


Table 2 presents our accuracy targets for FYs 2013, 2014, and 2015 for the OASDI programs. In the OASDI program, our goal is to maintain a 99.8 percent accuracy rate for program payments.

Table 2: OASDI Improper Payments Reduction Outlook
FY 2013 – FY 2015
(dollars in millions)

	2013 Target		2014 Target		2015 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	$804,137		$845,377		$893,222	
Underpayments	$1,608	0.20%	$1,691	0.20%	$1,786	0.20%
Overpayments	$1,608	0.20%	$1,691	0.20%	$1,786	0.20%

Notes:

1. We do not have separate OASI and DI targets; therefore, we present a combined OASI and DI target.
2. FY 2013 data will not be available until April 2014; therefore, the rates shown are targets.
3. Total benefit payments for FYs 2013-2015 are estimates consistent with projections in the mid-session review for the President's FY 2014 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 2012

	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	67%	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	28%	Incorrect computations, onset dates, and earnings history
Authentication and Medical Necessity Errors	5%	Relationship/dependency errors and failure to report cessation of full-time attendance for students

Notes:

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

- **Verification and Local Administration Errors** are those 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 those 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 those due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.

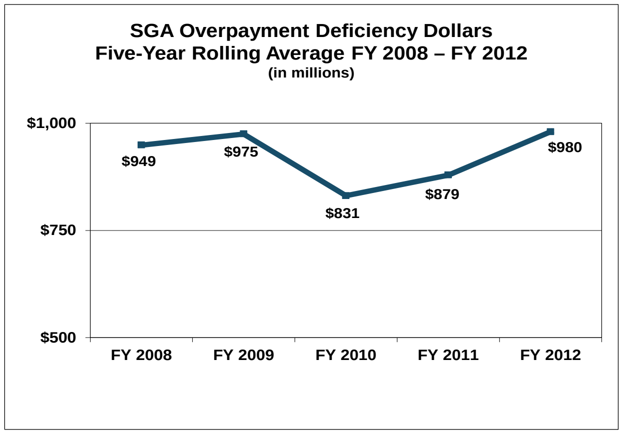
Our stewardship review findings over the last five years show that the major causes of overpayments in the OASDI program are administrative errors or beneficiary reporting failures in SGA and errors in computations. The major cause of underpayments is errors in computations. (Note: A definition of SGA is available at: www.socialsecurity.gov/oact/cola/sga.html.)

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 we do not take the proper actions to process work reports. The following chart shows the five-year rolling average of SGA overpayment deficiency dollars.

Historical Figures:



Corrective Actions:

Table 4 shows our actions to ensure timely processing of beneficiaries' earnings:

Table 4: SGA – Corrective Actions		
Description	**Target Completion**	**Status**
Audit Recommendation		
To minimize improper payments, we agreed with an audit recommendation to make it a priority to identify cases where the disability payments have not been terminated following medical cessation determinations.	Ongoing	We are currently reviewing cases to determine the scope of the issue and the feasibility of the recommendation.
Predictive Model		
We conducted the Continuing Disability Reviews (CDR) Enforcement Operation Predictive Model Pilot.	Completed May 2013	We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. The pilot operated October 2010 through May 2013. The predictive model helped us prioritize staff resources and reduced the amount of work-related overpayments.
We nationally implemented the CDR Enforcement Operation Predictive Model.	December 2013	After successful completion of the pilot (above), we nationally implemented the model to prioritize review of earnings for beneficiaries who are at risk of receiving an overpayment due to work activity. We will monitor the first 120 days of processing, and we expect the initial evaluation results in December 2013.

Table 4: SGA – Corrective Actions		
Description	**Target Completion**	**Status**
We are conducting a pilot to delay the Automated Earnings Reappraisal Operation (AERO) for cases with a pending work CDR. We are testing a new process to delay the benefit increase, which we may later determine to be an overpayment, resulting from an AERO, for a sample of disability beneficiaries with a pending work CDR. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.	Ongoing	We used our predictive model to identify nearly 11,000 cases eligible for a benefit increase and delayed the AERO increase for 6 months. The first test of the pilot in October 2012 was a success. We continued the pilot by drawing a new sample in October 2013, and we will analyze the data in April 2014.
Legislative Proposal		
The President's FY 2014 Budget includes a proposal that will establish and broaden the DI demonstration authority that expired for projects initiated on or after December 18, 2005. This authority will allow us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects. In addition to new authority to test early interventions, we will be able to test improvements in our return-to-work rules subject to rigorous evaluation protocols. Simplifying the treatment of beneficiaries' earnings has the potential to eliminate current barriers to employment and reduce improper payments.	Pending	No Congressional action to date.

Table 4: SGA – Corrective Actions		
Description	**Target Completion**	**Status**
The President's FY 2014 Budget includes a proposal that will restructure the wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal will not affect reporting on self-employment. Increasing the timeliness of wage reporting can enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Computations

Description:

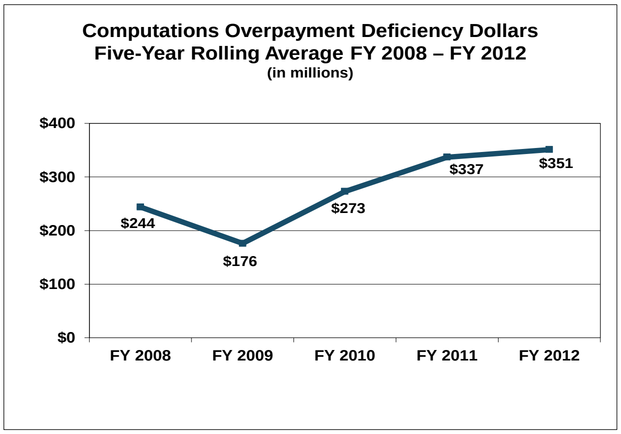
Errors in computations are a major cause of both overpayments and underpayments.

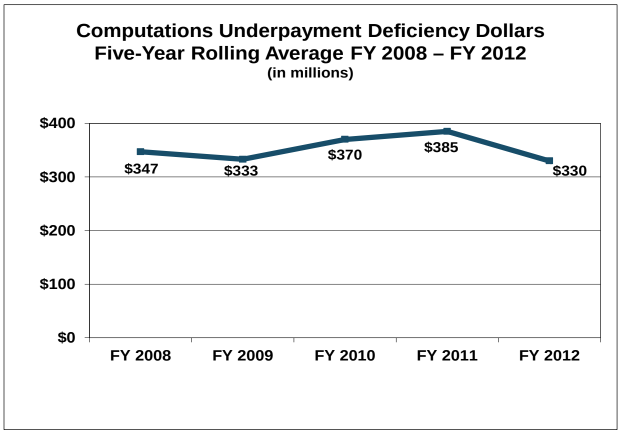
The law requires us to base a person's benefit amount on a number of factors, including age, earnings history, and the type of benefit awarded.

Inaccurate information or administrative mistakes can cause errors in calculating benefits. For FYs 2008-2012, approximately 52 percent of the computation errors resulted in overpayments, with the leading causes being the Windfall Elimination Provision (WEP) and the failure to apply the Retirement Insurance Benefit Limitation (RIB-LIM), when applicable. (Note: A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html. RIB-LIM applies when a deceased beneficiary received a reduced retirement benefit. Under RIB-LIM, the maximum surviving spouse or surviving divorced spouse's benefit is limited to what the deceased beneficiary would receive if he or she were still alive.)

Approximately 48 percent of computation errors from FYs 2008-2012 resulted in underpayments. The leading causes of underpayments are the miscalculation of the initial benefit amount and errors in recalculating benefits due to updated or new information received after our initial calculation of an individual's benefit amount.

Historical Figures:





Corrective Actions

Increase Post-Entitlement Accuracy

Recent studies indicate that accuracy can be improved in the areas of processing OASDI work CDRs and other changes to a beneficiary's record after they are already entitled to benefits. An internal workgroup is identifying workflow adjustments, policy changes, training, and automation solutions to improve post-entitlement accuracy.

Our studies also show that we sometimes overlook potential entitlements (i.e., entitlement to benefits other than the one an individual is applying for or receiving). In FY 2013, we began to address four potential entitlement workloads. By addressing post-entitlement accuracy and identifying potential entitlements, we will reduce improper overpayments and underpayments.

Table 5 shows our actions to increase our post-entitlement accuracy:

<table>
<tr><th colspan="3">Table 5: Increase Post-Entitlement Accuracy</th></tr>
<tr><th>Description</th><th>Target Completion</th><th>Status</th></tr>
<tr><td>Better define the OASDI systems alert, exception, and processing limitation codes to give technicians more precise information on actions needed.</td><td>To be determined by results of planning.</td><td>Planning will begin in FY 2014.</td></tr>
<tr><td>Introduce an inline quality review in our processing centers.</td><td>March 2014</td><td>We began implementing the inline quality review process in our processing centers in June 2013, and we should complete implementation in March 2014.</td></tr>
<tr><td rowspan="2">Pursue potential entitlement workloads.</td><td>Completed September 2013</td><td>We evaluated results of the following initiative:
• Veteran Pension Case Referrals: We screen and refer to the U.S. Department of Veterans Affairs those SSI recipients who may be eligible for veteran pension benefits.
o Of 4,216 cases identified for possible referral, we referred 3,263 (77%).</td></tr>
<tr><td>FY 2014</td><td>In FY 2014, we will evaluate the following initiatives:
• Outstanding Potential Entitlement Referral Account Cases: These are cases involving SSI recipients who are potentially entitled to DI benefits.
• Military Service AERO Fall Out Cases: This workload represents priority cases that could not process through the automated AERO process.
• Widows with potential entitlement from another marriage.</td></tr>
</table>

Improper Payments in the SSI Program

Experience and Outlook

Table 6 shows the improper payment rates for the SSI program for FYs 2010, 2011, and 2012. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

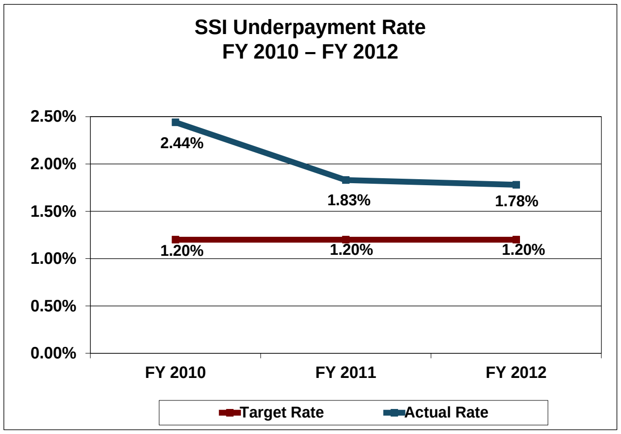
Table 6: SSI Improper Payments Experience FY 2010 – FY 2012 (dollars in millions)

	FY 2010	FY 2011	FY 2012
Total Federally Administered Payments			
Dollars	$50,276	$51,654	$53,411
Underpayments			
Dollars	$1,227	$947	$948
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	2.44%	1.83%	1.78%
Overpayments			
Dollars	$3,344	$3,791	$3,387
Target Rate	≤8.40%	≤6.70%	≤5.00%
Actual Rate	6.65%	7.34%	6.34%

Notes:

1. Total federally administered payments represent estimated program outlays while conducting the annual stewardship reviews and may vary from actual outlays.
2. FY 2013 data will not be available until April 2014.
3. The percentages and dollar amounts presented in Table 6 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.
4. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments; for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments; and for FY 2012, ±0.53 percent for underpayments and ±1.78 percent for overpayments.

Over the last 5 years (FYs 2008-2012), our stewardship reviews estimate that we paid approximately $248.7 billion to SSI recipients. Of that total, we estimate $19.2 billion were overpayments, representing 7.7 percent of outlays. We estimate that underpayments during this same period were $4.7 billion, the equivalent of 1.9 percent of outlays.



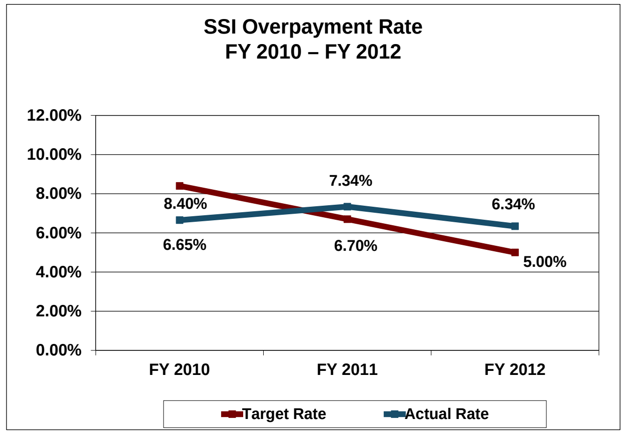


Table 7 shows our target accuracy goals for FYs 2013, 2014, and 2015 for the SSI program.

Table 7: SSI Improper Payments Reduction Outlook
FY 2013 – FY 2015
(dollars in millions)

	2013 Target		2014 Target		2015 Target	
	Dollars	**Rate**	**Dollars**	**Rate**	**Dollars**	**Rate**
Total Federally Administered Payments	$56,156		$57,908		$59,654	
Underpayments	$674	1.20%	$695	1.20%	$716	1.20%
Overpayments	$2,808	5.00%	$2,895	5.00%	$2,983	5.00%

Note:

1. Total federally administered SSI payments are estimates consistent with projections in the mid-session review for the President's FY 2014 Budget, adjusted to be presented on a constant 12-month per year payment basis.

Major Causes of SSI Improper Payments

Table 8 shows major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

Table 8: Major Causes of SSI Improper Payments in FY 2012		
	% of Improper Payments	**Major Types of Errors**
Verification and Local Administration Errors	59%	Detection of unreported financial accounts and wages
Authentication and Medical Necessity Errors	27%	Existence or changes to living arrangements and In-Kind Support and Maintenance (ISM)
Administrative and Documentation Errors	14%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change

Notes:

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

- **Verification and Local Administration Errors** are those 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 those due to being unable to authenticate criteria such as living arrangements or incorrectly assessing the necessity of a medical procedure.
- **Administrative and Documentation Errors** are those 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.

SSI is a means-tested program for individuals with limited income and resources who are blind, disabled, or aged. This program is complex because fluctuations in monthly income, resources, and living arrangements may affect eligibility and monthly payment amounts. Improper payments often occur if recipients (or their representative payees on their behalf) or deemors (i.e., an individual such as a parent or spouse whose income and resources are considered in determining an applicant's or recipient's eligibility and payment) fail to timely report changes in any of these factors (e.g., an increase of their resources or a change in their wages). Failure to report payment changes is the primary cause of both overpayment and underpayment errors.

Our stewardship findings over the last five years show that the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial accounts (e.g., bank savings or checking accounts, or credit union accounts);
- Wages; and
- Other real property (i.e., ownership of non-home real property).

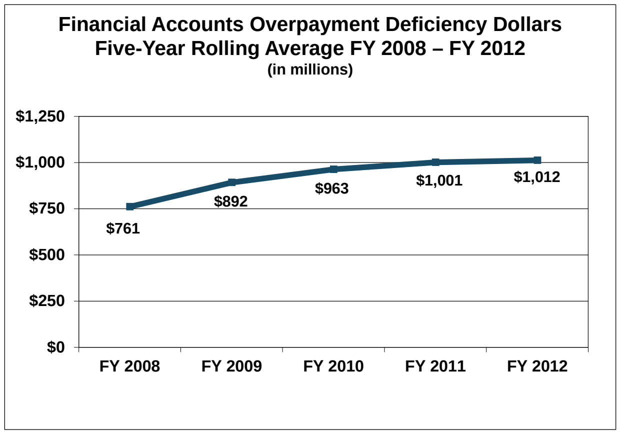
Over the last five years, the major causes of underpayments in the SSI program have been errors or omissions in living arrangements, ISM, and wages. Information for the corrective action for living arrangements may be found in the SSI Corrective Actions section for Wages.

Financial Accounts

Description:

Financial accounts with countable resources 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 exceeding the allowable resource limits, these accounts may result in periods of SSI ineligibility.

Historical Figures:



Corrective Actions:

To address overpayment errors related to financial accounts, we developed the AFI program. AFI is an electronic process that verifies alleged bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants, recipients, and deemors. In addition to verifying alleged accounts, AFI detects undisclosed accounts by searching for accounts in financial institutions located near the SSI applicant, recipient, or deemor.

We will reduce SSI improper payments resulting from excess financial resources by using the AFI process on all initial claims and redeterminations (i.e., review a recipient's non-medical eligibility factors such as income and resources to determine continued eligibility and payment amount) and conducting up to 10 searches per individual for undisclosed accounts.

Table 9 shows our actions to reduce errors related to financial accounts:

Table 9: Financial Accounts – Corrective Actions

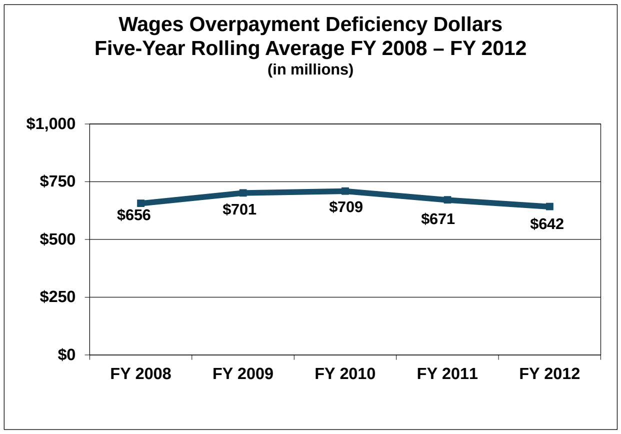
Description	Target Completion	Status
Expand use of AFI and increase the number of undisclosed bank account searches.	Completed October 2013	Based upon a return-on-investment analysis, we committed resources to use AFI in more SSI applications and redeterminations to verify financial accounts. We further lowered the AFI threshold to verify liquid financial resources and increase undisclosed bank account searches.
Begin the next five-year AFI vendor contract.	June 2015	The current five-year AFI vendor contract expires June 2015. We will develop the statement of work and award for the next contract.

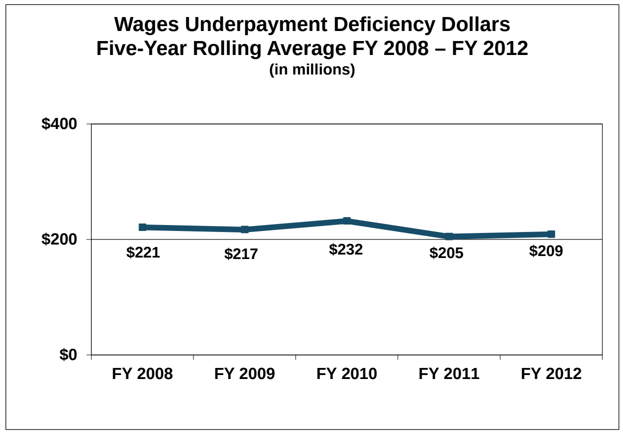
Wages

Description:

For more than a decade, wage discrepancies have been one of the leading causes of overpayment and underpayment errors. Wage 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:

We rely on individuals to timely self-report wages to us, but from experience, we know that they may fail to report, or fail to report soon enough to prevent an improper payment. Instead of relying solely on self-reporting, we are exploring using wage information we receive from other sources for timely and accurate wage reports. As part of the SSI application process, we will request that applicants for SSI provide their consent for us to obtain information from other sources. We will modify our policy and supporting operating process to allow the use of wage information we obtain from those sources. We will automate the process of obtaining wage information and adding wage information to our systems, thereby conserving administrative resources and reducing improper payments.

We are also developing several new communication initiatives to help encourage recipients not only to remember to report events that can affect eligibility or payment amounts, such as changes in living arrangements, but also to make it easier for them to comply with reporting requirements. For example, we created two new educational resources to be given out in field offices during claims and redeterminations:

- A two-pocket folder – The folder includes panels that list the SSI reporting requirements and pockets to store key documents such as wage stubs or other materials to help people report accurately.
- A business card – This small card contains information on the reporting requirements and can be kept in a wallet or with other important papers.

Other examples of our corrective actions to address the root causes of wage-related errors include options for recipients (or representative payees on their behalf) or their deemors to self-report wages via telephone or a smartphone application. Beginning October 2013, recipients, representative payees, and deemors were able to report prior monthly wage amounts anytime during the current month.

- SSI Telephone Wage Reporting System (SSITWR)

  In FY 2008, we implemented SSITWR, which allows recipients, representative payees, and deemors to report prior monthly gross wages via an automated telephone system. SSITWR ensures the wage amounts are timely recorded to the individual's record. Over 44,000 SSITWR reports were processed successfully in September 2013, surpassing our FY 2013 goal of 38,510 monthly reports.

- SSI Mobile Wage Reporting Smartphone Application

  Beginning in December 2012, 50 field offices across all 10 regions began a pilot project for mobile wage reporting. This initiative allows SSI recipients, representative payees, and deemors to use their smartphones to report prior monthly gross wages, using an application they can download at no cost from the Google Play and Apple App stores. The initial pilot was successful, and we expanded it to 263 participating field offices in March 2013. The expanded phase of the pilot has also been successful, with more than 9,000 wage reports submitted using the smartphone application during the entire pilot.

  We rolled out the initiative nationally on August 1, 2013, following the release of some minor system improvements made as the result of feedback received during the pilot. We received over 5,100 successful wage reports made through the smartphone application in September 2013.

Table 10 shows our actions to reduce errors related to wages:

Table 10: Wages – Corrective Actions

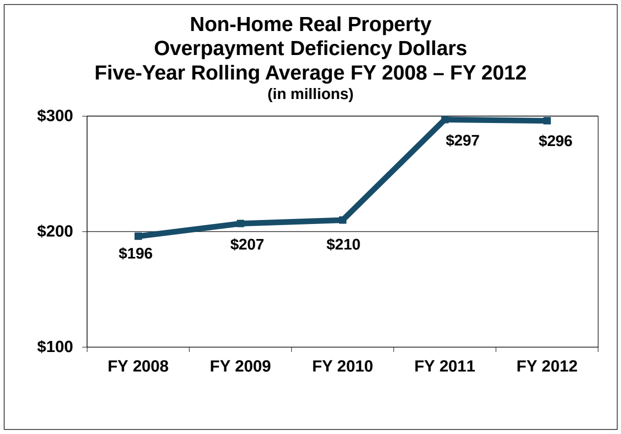
Description	Target Completion	Status
Implement automated reporting of wage information from a national payroll provider(s).	To be determined by results of planning.	We will begin planning in FY 2014.

Other Real Property

Description:

Undisclosed non-home real property is a leading 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, and the value exceeds the resource limit. We intend our corrective actions discussed on the following page to identify undisclosed property owned by the recipient.

Historical Figures:



Corrective Actions:

FY 2012 stewardship review findings indicate non-home real property remains the third leading cause of SSI overpayments. We currently rely on the applicant or recipient to report ownership of non-residential property. However, property information for all 50 states is available through commercial data providers (e.g., *LexisNexis/Accurint*). We projected about $296 million in SSI overpayments related to the ownership of non-home real property.

Table 11 shows our actions to reduce errors related to non-home real property:

Table 11: Other Real Property – Corrective Actions

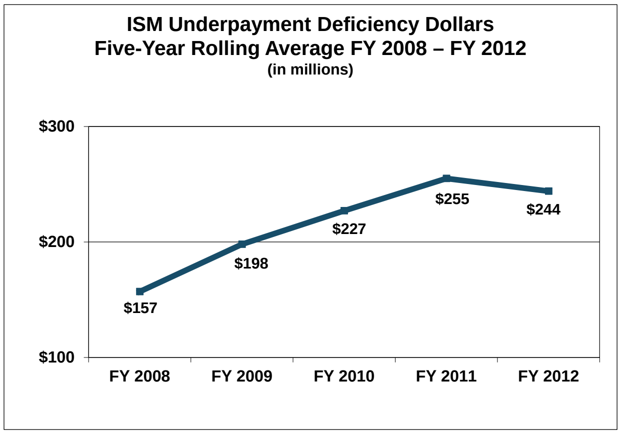
Description	Target Completion	Status
Test in 100 field offices to determine the cost benefit of using *LexisNexis/Accurint* during initial claims interviews to identify real property owned by applicants or deemors that result in ineligibility for SSI.	FY 2014	We screened over 20,000 initial SSI claims against *LexisNexis/Accurint*. We are currently analyzing the data to determine the cost benefit of using *LexisNexis/Accurint*, including the number of improper payments prevented and the task times.
Test in the same 100 field offices to determine the potential for an automated non-home real property identification process for redeterminations. If successful, develop a tool to streamline the search process and pursue systems integration.	FY 2014	We expect to begin phase two of the study, which will target redeterminations, in December 2013.

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 his or her monthly payment. 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 in a timely manner.

Historical Figures:



Corrective Actions:

Table 12 shows our actions to reduce errors stemming from ISM:

Table 12: ISM – Corrective Actions		
Description	**Target Completion**	**Status**
Statutory, Regulatory, Policy and Procedure Review		
We frequently review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	As a result of our reviews, we issue periodic reminders and policy clarifications, as needed. We will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

Efforts to Reduce Fraud, Waste, and Abuse in the OASDI and SSI Programs

The following key initiatives enhance our program integrity efforts. By improving our death data processing, we will ensure that our death information is in agreement, thereby preventing erroneous payments. We are revising our administrative sanctions policy to ensure that we consistently apply sanctions throughout our programs, which will enable us to better address fraud.

Death Reports

Description

Current systems limitations prevent some death data from processing effectively and sharing information between our Numident database and programmatic systems. The Numident is our electronic database of our records of Social Security numbers assigned since 1936. We have three projects to address these problems:

- Establish a unique termination code for beneficiaries age 115 and over who have been in long-term payment suspense;
- Conduct an ongoing monthly comparison to ensure deaths recorded on the Numident are also recorded in our programmatic systems; and
- Perform a large-scale redesign of our death processing system to eliminate the causes of incorrect death reporting and share information between our programmatic systems.

Corrective Actions:

Table 13 shows our actions to reduce errors related to death reporting:

Table 13: Death Reports – Corrective Actions

Description	Target Completion	Status
Terminate records of beneficiaries over 115 years old who are in long-term suspense status.	Completed August 2013	We established a new code in our OASDI programmatic system to terminate records for aged individuals in long-term suspense where we did not receive notification of death.
Conduct Numident death match reviews.	Completed June 2013	We released alerts to our field offices to resolve cases where we have death information for an individual on our Numident but the individual continues to receive benefits or will soon receive a payment.
Death Alert, Control, and Update System redesign.	September 2015	Through FY 2014, we will continue planning and developing new web-based screens. In FY 2015, we will centralize and capture all death information in one location and make changes in all systems that receive and use death information.

Administrative Sanctions

To further target fraud in our programs, we developed a strategic initiative focused on imposing administrative sanctions.

Description

Current OASDI beneficiaries or SSI recipients who intentionally misrepresent facts to receive their benefits are subject to administrative sanctions punishable by suspension of their benefits for 6, 12, or 24 months. We are implementing a new process to ensure that field office staffs consistently apply administrative sanctions in a manner that curbs fraudulent behavior, helps to reduce improper payments, and preserves the public's trust in our programs.

Corrective Actions:

Table 14 shows our actions to reduce errors by imposing administrative sanctions:

Table 14: Administrative Sanctions – Corrective Actions

Description	Target Completion	Status
Implement the new administrative sanctions business process nationally.	Completed September 2013	We published instructions and conducted an interactive video training session for all field office staff.
Evaluate the effectiveness of the new process once we have implemented it nationally.	March 2014	Pending

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 $3.46 billion in OASDI and SSI benefit overpayments in FY 2013 at an administrative cost of $0.07 for every dollar collected. We collected $16.12 billion over a five-year period (FYs 2009-2013). Since 2004, our cumulative recoveries are $27.66 billion for OASDI and SSI benefit overpayments. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and followup), 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.

We suspend or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards. Generally, we terminate or suspend collection action 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. Terminating collection action is a temporary or conditional write-off in that the debt remains on the debtor's record. If the debtor becomes entitled to benefits in the future, we will collect the debt by appropriate and available methods.

From 1992 through September 2013, our external collection techniques have yielded $4.713 billion in benefit overpayment recovery. Table 16 provides a description of each of our external collection techniques and a summary of the results.

We developed a system to handle the Department of the Treasury's (Treasury) 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 September 2013, we enhanced ECO to collect delinquent debts through Treasury's State Reciprocal Program (SRP). SRP allows States to enter into reciprocal agreements with Treasury to collect unpaid State debt by offset of Federal non-tax payments. In return, the agreements allow the Federal Government to collect delinquent non-tax debt by offset of State payments.

As authorized by Public Law 110-246, in May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the previous 10-year statute of limitations. Through FY 2013, we notified 310,000 former beneficiaries with delinquent debts of 10 years or more of our ability to collect their delinquent debt through TOP.

Continued improvement in other aspects of our debt collection program is underway. As resources permit, we will 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.

Collecting Debt

Our improper payments strategy includes focusing on enhancements to improve our OASDI and SSI debt recovery efforts.

Description

Dependent upon promulgation of regulations, we will increase the OASDI monthly minimum repayment amount from $10.00 to 10 percent of the debtor's monthly benefit payment. This change will increase our recoveries via withholding from benefits, and it will make the minimum recovery rate for OASDI overpayments consistent with the current minimum recovery rate for SSI overpayments. In October 2013, we began notifying debtors of our ability to offset eligible State payments to collect their debt. In addition, to continue to expand our use of TOP, we will:

- Complete notification to all debtors with debts delinquent 10 years or more;
- Implement the required systems enhancements to employ State payment offset through Treasury's SRP; and
- On a monthly basis, continue to notify debtors of our ability to offset eligible State payments to collect their delinquent debt.

These changes also support debt management compliance and performance as required by OMB.

Table 15 shows enhancements to improve our OASDI and SSI debt recovery efforts:

Table 15: Collecting Debt – Corrective Actions

Description	Target Completion	Status
Publish draft regulations to increase the OASDI monthly minimum repayment amount from $10 to 10 percent of the debtor's monthly benefit amount.	June 2014	Our Acting Commissioner approved the notice of proposed rule making.
Collect delinquent OASDI and SSI debts through TOP/SRP.	September 2015	We implemented the required systems enhancements in 2013. We began sending mandatory due process notification to delinquent debtors in October 2013.
Complete notification to debtors for delinquent debts 10 years or older for possible use of TOP to recover the debts.	February 2014	We are on target to complete debtor notifications by February 2014.

Table 16 shows the external collection techniques we use to recover OASDI and SSI overpayments:

Table 16: Cumulative Programmatic Debt Recovery Methods Through FY 2013
(dollars in billions)

Recovery Method	Inception	Description	OASDI	SSI	TOTAL
TOP	1992	TOP allows us to collect delinquent debt by tax refund offset, administrative offset, and Federal Salary Offset. We collected $195.3 million in FY 2013 through this initiative.	$1.427	$0.926	$2.353
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 $70.8 million in FY 2013.	$0.457	$0.329	$0.786*
Cross Program Recovery	2002	Cross program recovery collects OASDI overpayments from monthly SSI payments and underpayments, and SSI overpayments from monthly OASDI benefit payments and underpayments. We collected $144.0 million** though cross program recovery in FY 2013.	$0.177	$0.814	$0.991
NED	2005	NED is an automated system used to control recovery activity for debtors who are not entitled to benefits (e.g., representative payees who receive payments after the death of a beneficiary). We used NED to recover $3.6 million in FY 2013.	$0.029	N/A	$0.029***
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 $19.0 million through this process in FY 2013.	$0.110	$0.022	$0.132
Automatic Netting SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" $124.0 million in FY 2013.	N/A	$1.237	$1.237
Total			$1.714	$2.999	$4.713

Notes:

*Credit bureau reporting is a subset of TOP collections.

**The cross program recovery total for FY 2013 includes all cross program recoveries; however, the cumulative cross program recovery totals include only those totals we can track since inception.

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

Refer to the Debt Management section of this *Agency Financial Report* 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. We have a multi-pronged approach to conducting 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, specialists with extensive expertise in our surveys, benefit programs, business processes, applied statistics and statistical models, and business analytics conduct our stewardship reviews. These employees 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. We use these data to identify payment accuracy as well as our strengths and weaknesses, which allows us to target our resources to take corrective actions that yield the highest return on investment.

In our field offices, processing centers, and State 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. 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 work those CDRs and redeterminations that will likely result in the greatest savings. Please see the section of this improper payments report titled, Agency Efforts to Reduce Improper Payments, Human Capital to Support Improper Payment Workloads, for information on savings.

CDRs and SSI redeterminations are our most effective payment recapture program integrity activities to identify cases where we should discontinue benefit payments. To support CDRs and redeterminations, we specifically request funding through the normal budget process, and 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 17-19 show our OASDI and SSI overpayment experience, inclusive of improper payments.

Table 17: FY 2013 Payment Recapture Audit Reporting Benefit Payments[1] (dollars in millions)		
Type of Payment	**OASDI**	**SSI**
Amount Subject to Review for Current Year (CY) Reporting[2]	$10,991.7	$9,858.6
Actual Amount Reviewed and Reported CY[2]	$10,991.7	$9,858.6
Amount Identified for Recovery CY[2]	$10,991.7	$9,858.6
Amount Recovered CY[3]	$2,283.7	$1,176.1
Percent of Amount Recovered Out of Amount Identified CY	21%	12%
Amount Outstanding CY[4]	$8,708.0	$8,682.5
Percent of Amount Outstanding Out of Amount Identified CY	79%	88%
Amount Determined Not to be Collectable CY[5]	$551.3	$394.4
Percent of Amount Determined Not to be Collectable Out of Amount Identified CY	5%	4%
Amounts Identified for Recovery Prior Years (PY)[6]	$8,272.2	$7,772.6
Amounts Recovered PYs[3]	$2,283.7	$1,176.1
Cumulative Amounts Identified for Recovery (CY + PYs)[2]	$10,991.7	$9,858.6
Cumulative Amounts Recovered (CY + PYs)[3]	$2,283.7	$1,176.1
Cumulative Amounts Outstanding (CY + PYs)[7]	$8,708.0	$8,682.5
Cumulative Amounts Determined Not to be Collectable (CY + PYs)[5]	$551.3	$394.4

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 amounts include debts identified in previous fiscal years that have not been recovered or are determined to be uncollectible. Debts identified in FY 2013 were $2,719.6 million for OASDI and $2,086.0 million for SSI.
3. The amounts reported are FY 2013 recoveries from debt we had available for recovery in FY 2013, 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 2014-2016 are based on our FY 2013 experience. For several reasons, we will not 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. Due to budget reductions, we have imposed 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.

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

Table 18: FY 2013 Payment Recapture Audit Targets
Benefit Payments
(dollars in millions)

Type of Payment	FY 2013 Amount Identified	FY 2013 Amount Recovered	FY 2013 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2014 Recovery Rate Target	FY 2015 Recovery Rate Target	FY 2016 Recovery Rate Target
OASDI	$10,991.7	$2,283.7	21%	21%	21%	21%
SSI	$9,858.6	$1,176.1	12%	12%	12%	12%

Note:

1. The recovery rate target is based on FY 2013 and prior years' experience and the anticipated growth of our benefit payments in FYs 2014-2016.

Table 19: FY 2013 Aging of Outstanding Overpayments
Benefit Payments
(dollars in millions)

Type of Payment	FY 2013 Amount Outstanding (0 to 6 Months)	FY 2013 Amount Outstanding (6 Months to 1 Year)	FY 2013 Amount Outstanding (Over 1 Year)
OASDI	$722.2	$331.8	$1,395.0
SSI	$555.4	$337.2	$2,434.5

Note:

1. 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;
   - The initial overpayment notice for a debt established on the SSI system;
   - The last voluntary payment;
   - An installment arrangement;
   - 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 2012 administrative expenses and determined 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 20: FY 2012 Administrative Expenses (dollars in millions)	
Payroll and Benefits	$6,422
State DDS	$2,076
American Recovery and Reinvestment Act	$29
Other Administrative Expenses*	$3,069
Total Administrative Expenses	$11,596

Note:

*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, 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 *Agency Financial Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

Statistical Sampling

For FY 2012, the internal recovery audit program included a review of $1.468 billion in vendor and employee travel payments out of $1.735 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 subjected to final contract audit and completed prior to payment of the contractor’s final invoice.

We identified total improper overpayments of $1.159 million, approximately 0.07 percent of total payments subject to review. As of the end of FY 2012, almost $304,200 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, incorrect amounts paid (including 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 2012, we found approximately $4.6 million in improper payroll overpayments out of $6,422 million total payroll payments, which yielded a 0.07 percent improper overpayment rate.

Major Causes

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

- Incorrect amounts paid (including duplicate payments); 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:

- To prevent paying incorrect amounts (including duplicate payments), we enhanced the Case Processing and Management System (CPMS) to process administrative payments. CPMS electronically transmits obligations (e.g., call order) and invoice information (e.g., total amount of invoice, invoice number, and vendor information) from hearing offices directly into our centralized accounting system. This system transmits an invoice electronically against each obligation only once for goods and services (e.g., testimony from medical or vocational experts and verbatim hearing reporter services), allowing a vendor to be paid only for services recorded and certified in CPMS. We fully implemented the CPMS enhancement in all hearing offices and National Hearing Centers by December 2012; and
- We addressed improper payments caused by early processing of our time and attendance records as follows:
    - Personnel, including employees, timekeepers, and certifiers, identify corrective actions the following pay period; and
    - Timekeepers are then responsible for recording the appropriate adjustments in our 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 required the examination of our administrative payment processes to identify overpayments made during FYs 2008-2010. The contractor:

- Identified funds lost due to overpayments;

- Defined the reason for the overpayment;
- Notified us of any overpayments identified; and
- Developed recommendations for preventing future overpayments.

The auditors completed the payment recapture audit on August 5, 2013. Out of $23,282 million in payments reviewed, the auditors identified, and we confirmed through October 2013, improper payments totaling almost $28,000. We continue to review the auditors' findings to verify the improper payment amounts, and we expect to complete our review by December 2013. We will report on our corrective actions to verified improper payments 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 that 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 our administrative payments are well below the OMB threshold for reporting improper payments.

Administrative Payment Recapture Audit Reporting

Tables 21-23 show the results from our annual payment accuracy reviews for our administrative payments.

Table 21: FY 2012 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)

Type of Payment	Payroll and Benefits	Vendor and Travel
Amount Subject to Review for CY Reporting	$6,422	$1,735
Actual Amount Reviewed and Reported CY	$6,422	$1,468
Amount Identified for Recovery CY	$4.564	$1.159
Amount Recovered CY	$1.772	$1.071
Percent of Amount Recovered Out of Amount Identified CY	39%	92%
Amount Outstanding CY	$2.792	$0.088
Percent of Amount Outstanding Out of Amount Identified CY	61%	8%
Amount Determined Not to be Collectable CY	$1.322	$0.0
Percent of Amount Determined Not to be Collectable Out of Amount Identified CY	29%	0%
Amounts Identified for Recovery PYs	$5.744	$11.929
Amounts Recovered PYs	$2.954	$11.624
Cumulative Amounts Identified for Recovery (CY + PYs)	$10.308	$13.087
Cumulative Amounts Recovered (CY + PYs)	$4.726	$12.783
Cumulative Amounts Outstanding (CY + PYs)	$5.582	$0.304
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	$1.750	$0.0

Notes:

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 2012 but could have occurred in a prior year.
2. Cumulative Amounts Recovered (CY + PYs) for Vendor and Travel includes $0.088 million of amounts recovered in the current year for amounts identified in prior years.
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:
    - 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 employees and duplicate payments to vendors. We use various tools for collection, including offset of subsequent vendor payments and TOP, which includes AWG.

Table 22: FY 2012 Payment Recapture Audit Targets
Administrative 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
Payroll and Benefits	$4.564	$1.772	39%	100%	100%	100%
Vendor and Travel	$1.159	$1.071	92%	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 2012 but could have occurred in a prior year.

Table 23: FY 2012 Aging of Outstanding Overpayments
Administrative Payments
(dollars in millions)

Type of Payment	FY 2012 Amount Outstanding (0 to 6 Months)	FY 2012 Amount Outstanding (6 Months to 1 Year)	FY 2012 Amount Outstanding (Over 1 Year)
Payroll and Benefits	$1.127	$0.684	$1.204
Vendor and Travel	$0.024	$0.063	$0.217

Note:

1. The payroll and benefits aging amounts for amounts outstanding over one year only include reductions (collections, write-offs, etc.) through the end of FY 2011.

Table 24: Administrative Debt Overpayments – Detections and Recoveries (dollars in millions)						
Administrative Debt Overpayments	**Amount Identified FY 2013**	**Amount Recovered FY 2013**	**Amount Identified FY 2012**	**Amount Recovered FY 2012**	**Cumulative Amount Identified FY 2013 and 2012**	**Cumulative Amount Recovered FY 2013 and 2012**
Total	$1.9	$1.2	$2.5	$1.3	$4.4	$2.5

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 Program: Administrative Payments section of this improper payments report.
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 in the following areas to reduce improper payments:

- 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 the program integrity efforts mentioned throughout this report, support the Acting 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 Government-wide requirements; and

- Internal controls over financial reporting are operating effectively.

We include the Acting Commissioner's annual statement of assurance, additional information on our review program, and our financial statement audit, in the *Systems and Controls* section of this *Agency Financial Report*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Agency Financial Report*.

Our strong overall internal control program contributes significantly to our efforts to reduce improper payments.

The Disaster Relief Appropriations Act - Hurricane Sandy

The *Disaster Relief Appropriations Act of 2013* (Disaster Relief Act) requires that Federal agencies supporting Hurricane Sandy recovery and other disaster-related activities implement additional internal controls to prevent waste, fraud, and abuse of these funds. The Disaster Relief Act required each Federal agency to submit an internal control plan to OMB, the Government Accountability Office, the agency's Inspector General, and the Committees on Appropriations of the House of Representatives and the Senate by March 31, 2013.

OMB Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, provides an overview of the internal control planning and reporting requirements for all programs funded under the Disaster Relief Act, with a focus on the following elements: (1) additional internal controls, (2) improper payments protocol, and (3) recapture of unexpended grant funds 24 months after agency obligation. On March 28, 2013, we submitted our Hurricane Sandy Disaster Relief (HSDR) Internal Control Plan and Risk Assessment. We determined the overall risk level for activities associated with HSDR payments was low, considering our overall control environment and specific control activities to monitor and report HSDR funds. However, the Disaster Relief Act requires us to treat these payments as "susceptible to significant improper payments" for purposes of the IPIA. Accordingly, we are testing 100 percent of the HSDR payment population to ensure we precisely use the Disaster Relief Act funds for their intended purposes.

Human Capital to Support Improper Payment Workloads

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2008 and FY 2012. However, due to budget constraints, we were unable to continue increasing this cost-effective work in FY 2013, and we actually experienced a decline in the number of full medical CDRs completed. In FY 2013, we completed a total of over 428,500 full medical CDRs and over 2.634 million SSI redeterminations. On average, we estimate about $9 to $10 in lifetime program savings per dollar we have spent on medical CDRs, including Medicare and Medicaid program effects. We also estimate, on average, about $5 of net program savings per dollar spent on SSI non-medical redeterminations, with savings from overpayments partly offset from the cost for underpayments. In addition, we completed about 252,900 work CDRs in FY 2013.

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 and other mission-critical work. 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 the DI and SSI programs. It allows adjustments to the Government-wide 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 2014, the funding adjustment authorized is $924 million. If appropriated, the total amount of $1.197 billion will enable us to complete 764,000 periodic medical CDRs, an increase of nearly 350,000 from our *FY 2013 Operating Plan* target, and continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars.

The President's FY 2014 Budget includes a special legislative proposal that will provide a dependable source of mandatory program integrity funding. The funding will enable us to significantly ramp up our program integrity work and increase our ability to conduct more full medical CDRs, which will help ensure that only those eligible for

OASDI and SSI disability benefits continue to receive them. Based on our assessments of the return on investment from CDRs conducted in FY 2011 and earlier, we estimate that we will achieve significant additional program savings from the President's proposed investment in CDRs. Due to the current budget situation, we are unable to increase our cost-effective program integrity work without additional funding.

Effective FY 2012, as required by IPERA, we are holding managers, program officials, and senior executives accountable for reducing improper payments. For these 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 potentially fraudulent transactions for management investigation based on predefined criteria. 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 adult initial and reconsideration disability determination allowances made by the State DDSs. We have performed PER reviews on DI cases for many years, and since Public Law 109-171 amending Section 1633(e) (1) of the *Social Security Act* was enacted in February 2006, we have performed PER reviews on 50 percent of the allowances involving SSI adults. We use a predictive statistical model to identify error-prone disability determinations, and we return deficient cases to the State DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2011 cases will result in lifetime savings (after all appeals) of:

- $439 million in OASDI benefit payments;
- $80 million in SSI Federal payments;
- $219 million in Medicare benefits; and
- $14 million in the Federal share of Medicaid payments.

Statutory and Regulatory Barriers

Our processes, policies, and regulatory and statutory requirements are complicated, which poses challenges in our administration of our programs. 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 2014 Budget includes several legislative proposals that can help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

DI Demonstration Authority

This proposal will re-establish and broaden the DI demonstration authority that expired with respect to projects initiated on or after December 18, 2005. This authority allows us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects. In addition to new authority to test early interventions, we will be able to test improvements in our return-to-work rules, which are subject to rigorous evaluation protocols. Simplifying the treatment of beneficiaries' earnings has the potential to eliminate current barriers to employment and reduce improper payments.

Windfall Elimination Provision and Government Pension Offset

Under this proposal, we will 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 will 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 will require States, local governments, private insurers, and other entities that administer Workers' Compensation (WC) and public disability benefits (PDB) to report payment information to us. We will create a standardized reporting format, and develop and implement a system to collect and use the information to offset DI benefits and reduce SSI payments, as necessary. This proposal includes funding for developing and implementing the system. We currently rely on the disabled worker to report receipt of, and any changes to, WC and PDB. The proposed required reporting and a system to receive the information timely are crucial to avoid improper payments that occur when we do not have information about the receipt or amount of WC and PDB payments. Under the proposal, we will also provide pertinent collected information for child support enforcement purposes to the Secretary of the Department of Health and Human Services.

Quarterly Federal Wage Reporting

This proposal will restructure the Federal wage-reporting process by requiring employers to report wages quarterly instead of annually. The proposal will facilitate the implementation of automated enrollment of employees in existing workplace pensions. It may also improve program integrity and help reduce improper payments because more frequent reporting can provide more timely information we can use to administer our programs. Finally, increasing the frequency of wage reporting can enhance tax administration.

Mandatory Program Integrity Funding

This proposal will repeal our discretionary cap adjustments beginning in 2014 and instead, establish a dependable source of mandatory funding for CDRs and SSI redeterminations, thereby ensuring that only those eligible for benefits continue to receive them. CDRs and redeterminations are our most valuable tools to combat improper payments. This proposal will ensure we have the funding necessary to conduct these reviews and reduce our CDR backlog.