

Social Security Administration (SSA)
Annual Payment Recapture Audit Report
November 2013

Introduction

This report fulfills the requirements of Section 2 (h)(2)(D)(ii) of the *Improper Payments Elimination and Recovery Act (IPERA) of 2010* (P.L. 111-204), which requires agencies to complete an annual Report to Congress and the Office of Management and Budget (OMB). Agencies must describe conditions that cause overpayments, provide any recommendations identified by payment recapture auditors on how to mitigate conditions that cause overpayments, and list any corrective actions taken during the preceding fiscal year to address the payment recapture auditor recommendations.

Despite budget constraints, we remain steadfast in our commitment to be good stewards of our benefit programs and support activities. We have a robust payment recapture audit program to prevent, detect, and recover improper payments. As prescribed by IPERA and guidance in OMB Circular A-123, *Management's Responsibility for Internal Controls*, our employees serve as payment recapture auditors by performing program integrity work for our Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. Our employees also review the payment accuracy of our administrative payments. In addition to our employee-performed administrative payment audits, in fiscal year (FY) 2012, we awarded a contract to a vendor to perform an independent payment recapture audit of our administrative payments to further strengthen our internal controls over these payments. We discuss the results of the independent payment recapture audit in this report.

Benefit Payments

Payment Overview

We pay benefit payments under the OASDI and SSI programs. OASDI provides monthly benefits to retired or disabled workers, their spouses, and minor or disabled children. In the event of a worker's death, we pay survivors' benefits to the surviving spouse and minor or disabled children. The OASDI accuracy rates have remained stable at a high level over the past several years. One of the leading causes of improper payments occurs when disability beneficiaries perform substantial gainful activity (SGA).¹ Improper payments can occur when beneficiaries fail to report earnings timely or when we do not withhold their monthly benefit payments after we learn of their work

¹ SGA is the level of an individual's work and earnings that can affect benefit payments. Generally, earnings averaging over \$1,040 a month (in 2013) demonstrate an individual's ability to perform SGA. This amount is subject to modifications and exceptions based on other statutory incentives designed to encourage work, such as impairment-related work expenses and subsidies.

activity performed after disability onset. In FY 2012,² projected OASDI benefit payments from our stewardship review were \$770.3 billion. Projected overpayments were \$1.7 billion or 0.2 percent, and underpayments were \$0.7 billion or 0.1 percent.

SSI is a means-tested program that provides cash assistance to blind or disabled adults and children and the elderly. SSI is a complex program to administer because eligibility and monthly payment amounts fluctuate based on monthly income, resources, and living arrangements. Improper payments can occur if recipients or their representative payees (persons who receive SSI payments on behalf of recipients who cannot manage their own benefits) fail to timely report changes in resources or an increase or decrease in wages. The primary cause of overpayment and underpayment errors is the failure of recipients or their representative payees to report changes in resources or wages. Failure to report resources or wages has been a persistent problem since the inception of the SSI program. In FY 2012,³ our projected SSI payments from our stewardship review were \$53.4 billion. Projected overpayments were \$3.4 billion or 6.3 percent, and underpayments were \$0.9 billion or 1.8 percent.

Payment Recapture Audits Business Process

We have a two-pronged approach for conducting OASDI and SSI payment recapture audits:

Stewardship Reviews - To measure accuracy, each month, our program specialists perform stewardship reviews of sample OASDI and SSI payments. Our stewardship reviewers have expert knowledge in our programs, business processes, applied statistics and statistical models, and business analytics. For each sampled payment, we interview the beneficiary or representative payee, make collateral contacts to verify allegations, and redevelop all non-medical eligibility and payment factors to assess payment accuracy. We use this data to identify the major causes of payment errors and target our resources to preventative and corrective actions that yield the highest return on investment.

Program Integrity Reviews - In our field offices, processing centers, and State disability determination services (DDS), we conduct a variety of program integrity reviews to verify continued program eligibility and the correct payment amount. We conduct:

- Medical continuing disability reviews (CDR) periodically to determine if individuals still meet our definition of disability;
- Work CDRs to determine if a disabled individual's earnings preclude eligibility or entitlement to a payment; and
- SSI redeterminations to review non-medical eligibility factors (e.g., income and resources).

² FY 2012 data are the most recent available. In mid-December 2013, we will publish our annual FY 2013 Agency Financial Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. Our FY 2013 Agency Financial Report will be available at www.socialsecurity.gov/finance.

³ Ibid.

Payment Recapture Audit Results

While our FY 2012 OASDI payment accuracy rate of 99.8 percent for overpayments and 99.9 percent for underpayments was high, we continue to seek ways to improve. Our stewardship reviews have determined that the major causes of OASDI improper payments are:

- Disabled beneficiaries performing SGA, and
- Computation errors.

Computation errors occur when we incorrectly calculate beneficiaries' benefit amounts because they fail to report payment-affecting changes, we receive inaccurate information from the beneficiaries, or we make administrative mistakes (e.g., determining age, earnings history, and the type of benefit awarded).

The FY 2012 SSI payment accuracy rate was 93.7 percent for overpayments and 98.2 percent for underpayments. In an effort to improve our SSI payment accuracy rate, we are pursuing several initiatives, dependent upon resource availability, that address the following major causes of overpayments:

- Financial accounts that exceed the allowable resource limits;
- Wages that exceed allowable income limits and failure to report fluctuations in wages; and
- Undisclosed non-home real property that exceeds the resource limit.

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue or change the monthly payment amounts. On average we estimate about \$9 to \$10 in lifetime program savings per dollar 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.

We exceeded our FY 2013 CDR program integrity workload goal by completing 428,568 medical CDRs (101.6 percent of the goal of 422,000). We completed 252,992 work CDRs in FY 2013. We also exceeded our SSI redetermination program integrity workload goal by completing 2,634,183 redeterminations in FY 2013 (100.5 percent of the goal of 2,622,000).

Corrective Actions from Payment Recapture Audits

Based on findings from our audits, we developed and implemented several program integrity initiatives to identify and prevent improper payments. These initiatives include (but are not limited to):

Access to Financial Institutions (AFI) - AFI helps us address the leading cause of SSI overpayments. By automatically verifying applicants', recipients' and deemors' reported financial institution accounts and searching for unreported accounts, we prevent and reduce the

occurrence of overpayments by promptly identifying excess resources. We currently use AFI in all 50 states, the District of Columbia, and the Northern Mariana Islands. In March 2012, we integrated electronic requests for financial information into our SSI automated processing system for most initial claims and redeterminations. In FY 2013, we further lowered the AFI threshold to verify liquid financial resources and increase undisclosed bank account searches. We fully implemented this expansion of AFI in October 2013.

SSI Telephone Wage Reporting (SSITWR) system - Wages continue to be a major source of SSI payment error because we do not always receive accurate or timely monthly wage information. To facilitate timely reporting, we established a dedicated telephone number to allow recipients, deemors, (examples of individuals who may be “deemors” are a beneficiary’s spouse, parent, essential person and sponsor of an alien.) and representative payees to report prior monthly gross wages by calling and using a combination of touch-tone entry and voice-recognition software.

A successful wage report via the SSITWR system automatically enters the telephone-reported wage data into our SSI system. This process is more efficient than having the SSI recipient visit a field office where we manually enter the wage data. The improved SSITWR efficiency allows us to process wage reports earlier and adjust the next monthly SSI payment, thereby preventing improper payments.

As part of our efforts to promote monthly wage reporting, we conducted a Representative Payee Outreach Pilot. In September 2012, we mailed over 32,000 notices to the representative payees of certain working SSI recipients. The notice asked the payees to use SSITWR to report the monthly wages of the SSI recipient. There were 42,000 successful SSITWR reports in November 2012, an increase of 7,000 from the October 2012 total. Based on the successful results of the pilot, in FY 2013 we expanded the mailing to a larger group of representative payees of working SSI recipients. The total number of reporters has been trending upward since the initial 7,000 increase in November 2012.

SSI Mobile Wage Reporting Smartphone Application - Beginning in December 2012, 50 field offices piloted mobile wage reporting. This initiative allows SSI recipients (or their parents, spouses, or representative payees) to use their smart phones to report prior monthly gross wages, using a free application available from Google Play and Apple App stores. The initial pilot was successful; therefore, we expanded to nearly 270 field offices in March 2013. The expansion of the pilot was also successful, resulting in submission of more than 9,000 wage reports using the smart phone application.

Based upon the successes of the initial and expansion pilots, we implemented nationally the use of SSI mobile wage reporting on August 1, 2013. We received over 5,100 successful wage reports made through the SSI mobile wage reporting application in September 2013.

The Continuing Disability Review Enforcement Operation (CDREO) predictive model
The CDREO is an automated process that matches current Disability Insurance (DI) beneficiaries with Internal Revenue Service reported earnings and alerts the records of DI beneficiaries with potentially uninvestigated earnings. Each year, approximately 2 million records contain earnings

that result in more than 500,000 requiring review. These records are referred to as “CDREO alerts”.

The predictive model identifies DI beneficiaries at risk of large earnings-related overpayments. From October 2010 through May 2013, we conducted a pilot that applied a predictive model to a portion of the CDREO alerts and prioritized them by highest-scoring cases first. Based on the successful results of the pilot, showing a reduction in the amount of work-related overpayments, we applied the predictive model to all CDREO alerts released in June 2013.

Coordination of the Automated Earnings Reappraisal Operation (AERO) and the CDREO

The AERO process automates an increase in benefit payments based on additional earnings in the prior year. The increase in benefit payment amounts may later be determined incorrect as a result of processing a work CDR. Processing an AERO recomputation and completing a subsequent work CDR can cause issuance of an inaccurate underpayment, followed by a large overpayment. In October 2012, we piloted a new process which utilized a predictive model for AERO cases with a pending work CDR. We delayed benefit increases resulting from an AERO recomputation for six months for disability beneficiaries with a pending work CDR. The six-month delay allowed us additional time to complete the pending work CDR and determine if benefits were still due before releasing the higher benefit payment. The first test of the pilot in October 2012 was a success. We are continuing the pilot and drew a new sample of cases in October 2013 and we plan to analyze the data in April 2014.

Administrative Payments

Payment Overview

We issue three types of administrative payments:⁴

1. Payroll and benefits: In FY 2012, we spent about \$6.4 billion to fund payroll and benefits for over 62,000 agency employees.
2. DDS expenses: Payments to DDSs for making medical determinations on our disability initial claims and medical CDRs totaled about \$2.1 billion in FY 2012. We pay for all costs incurred in making disability determinations, including overhead and salaries for over 15,000 DDS employees.
3. Other administrative expenses: In FY 2012, other administrative expenses totaled approximately \$3.1 billion. These expenses included rent, vendor payments, travel, and other typical support costs associated with operating a large public program.

⁴ FY 2012 data is the most recent available. In mid-December 2013, we will publish our annual FY 2013 Agency Financial Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. Our FY 2013 Agency Financial Report will be available at www.socialsecurity.gov/finance.

Payment Recapture Audits Business Process

Currently we perform an in-house payment recapture audit of our administrative payments for payroll and benefits, DDS expenses, and other administrative expenses, which we describe below. In addition, we review automated workload processes to ensure proper internal controls and separation of duties. In November 2011, to strengthen our internal controls, we awarded a payment recapture audit contingency contract for review of our administrative payments.

Payroll and benefits - Payroll and benefits account for a majority of total administrative expenses. We conduct annual payment accuracy reviews.

DDS expenses - Our 10 regional offices review amounts drawn against pre-approved DDS spending plans. For payment accuracy, we rely upon the Office of the Inspector General's (OIG) audits of DDSs and further use those findings to enhance payment controls. [For more information on OIG's audit findings, refer to their website at: http://oig.ssa.gov/audits-and-investigations/audit-reports/all](http://oig.ssa.gov/audits-and-investigations/audit-reports/all).

Other administrative expenses - Our in-house payment recapture audit program uses a number of tools to detect improper payments including an automated query system to identify potential duplicate payments. We established numerous internal controls to reduce the risk of vendor overpayments including the review and approval of invoice payments by contracting officer technical representatives and project officers. In addition, our funds control system minimizes the risk of overpayments by restricting payments to a particular vendor to the amount of the contract or purchase order award. Our in-house audit program not only tracks the recovery of identified improper payments, but also analyzes recoveries to determine invoice type and cause. For FY 2013, invoices for purchase orders accounted for the largest number of improper payments, and the most common cause for improper payments was incorrect amounts paid, including duplicate payments.

Payment recapture audit contingency contract - The contract required the auditors to examine our administrative payments made during FYs 2008 through 2010. The contractor audited expenditures for DDSs, grants, employee travel, employee payroll, utilities, and other vendor and contractual payments. Although IPERA does not require we include employee salaries and benefits in the scope of our payment recapture audit, we included these payments because they are our largest administrative expenditure.

Payment Recapture Audit Results and Corrective Actions

In-house payment recapture audit - In FY 2012, through our in-house payment recapture audits of payroll and benefit payments, we found almost \$4.6 million in payroll overpayments out of \$6,422 million total payroll payments, which yielded a 0.07 percent improper payment rate. Through our in-house vendor and travel payment recapture audits, we identified improper payments of \$1.2 million or approximately 0.04 percent of other administrative payments. We collected nearly \$1.1 of the 1.2 million improper payments identified, or about 92 percent. Our successful efforts validate our existing controls for prevention, detection, and collection of administrative improper payments.

Results from the audit program and quality review process continue to confirm that administrative payments are well below the OMB-determined threshold for reporting improper payments. When we uncover deficiencies, we correct and mitigate future improper payments by revising operating policies and procedures and providing employee training.

One example of our corrective actions for duplicate invoices is the enhancement of the Case Processing and Management System (CPMS) to process administrative payments.⁵ CPMS only allows payments to vendors for services recorded and certified in the system, thereby eliminating duplicate payments. We fully implemented the CPMS enhancement in all hearing offices and National Hearing Centers in December 2012. This enhancement has significantly eliminated duplicate payments for expert services in our hearings operation.

Payment recapture audit contingency contract - The auditors completed the payment recapture audit in August 2013. Out of \$23,282 million in payments reviewed, the auditors identified, and we confirmed through September 2013, improper payments totaling almost \$25,000 or 0.0001 percent. We continue to review the auditors' findings to verify the alleged improper payments, and we expect to complete our review by December 2013. We will determine and report on our corrective actions of the verified improper payments in next year's *Annual Payment Recapture Audit Report*. At that time, we will also report on the status of any recaptured funds.

Conclusion

The programs we administer demand stewardship that is worthy of their promise of economic security from generation to generation. We are firmly committed to sound management practices, including evaluating our programs' integrity and taking appropriate actions to prevent improper payments. Properly managing our resources and program dollars is critical to that success. Equally important to our success is having adequate and sustained funding to carry out all of our work.

⁵ CPMS electronically transmits obligations and invoice information from hearing offices directly into our centralized accounting system.