



Appendix



Improper Payments Information Act of 2002

Detailed Report

Background

The Social Security Administration (SSA) reports improper payments findings (both overpayments and underpayments) from its stewardship reviews of the nonmedical aspects of old age and survivors' insurance (OASI), disability insurance (DI), and supplemental security insurance (SSI) programs on an annual basis. In accordance with Office of Management and Budget (OMB) guidelines implementing the provisions of the Improper Payments Information Act of 2002, SSA reports as improper those payments that should not have been made or were made in an incorrect amount. Stewardship review findings provide the basis for reports to Congress and other monitoring authorities. Data from these reviews are also used in corrective action planning and in monitoring performance as required by the Government Performance and Results Act of 1993.

Statistical Sampling

The Old-Age, Survivors and Disability Insurance (OASDI) payment outlay rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on SSA rolls. In addition to the combined payment outlay rates for OASDI, separate rates are calculated for OASI and DI. A statistically valid national sample is selected monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the recipient or representative payee is interviewed, collateral contacts are made, as needed, and all nonmedical factors of eligibility are redeveloped as of the current sample month. Findings are input to a national database for analysis and report preparation. Similarly, the SSI payment outlay rates are determined by an annual review of a statistically valid national sample of the SSI beneficiary rolls, selected monthly. Separate rates are determined for the accuracy of payments in terms of overpayment and underpayment dollars.

Risk-Susceptible Program

The SSI program has been identified as susceptible to significant improper payments; i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million. (See Table 1.) SSI's estimated improper payments are expressed separately in terms of overpayments and underpayments. For FY 2004, improper payments resulting in overpayments totaled \$2.4 billion or 6.4 percent of outlays. Improper payments resulting in underpayments totaled \$504 million representing 1.3 percent of total outlays. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements beyond those programs and activities listed in the former Section 57 of OMB Circular A-11.

Since the OMB guidance on IPIA requires the evaluation of all payment outlays; e.g., beyond the OASI, DI and SSI programs that SSA administers, for the second consecutive year SSA performed a review of the Agency's administrative payments; e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments.

Improper Payment Rates and Target Goals

The improper payment rates for the OASI, DI and SSI programs for fiscal years (FYs) FY 2002, 2003 and 2004 are presented in Table 1. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid. Target goals for FYs 2005, 2006, 2007 and 2008 for the OASDI and SSI programs are presented in Table 2. Estimated improper payment rates for FY 2005 will be available in June 2006. In the SSI program, SSA established a 5-year goal to achieve 96 percent

overpayment accuracy by FY 2008. In the OASDI program, SSA's goal is to maintain overpayment accuracy at 99.8 percent for both overpayments and underpayments.

**Table 1: Improper Payments Experience FY 2002 – FY 2004
(\$ in millions)**

	FY 2002		FY 2003		FY 2004	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Payments	\$384,000	100%	\$396,700	100%	\$415,100	100%
Underpayments	\$175	0.05%	\$203	0.05%	\$535	0.13%
Overpayments	\$425	0.11%	\$173	0.04%	\$1,286	0.33%
DI						
Total Payments	\$64,200	100%	\$69,800	100%	\$78,200	100%
Underpayments	\$175	0.27%	\$280	0.40%	\$564	0.72%
Overpayments	\$169	0.26%	\$1,051	1.51%	\$1,296	1.70%
OASDI						
Total Payments	\$448,200	100%	\$466,500	100%	\$493,300	100%
Underpayments	\$350	0.08%	\$483	0.10%	\$1,099	0.21%
Overpayments	\$594	0.13%	\$1,224	0.24%	\$2,582	0.53%
SSI						
Total Payments	\$34,532	100%	\$35,706	100%	\$37,470	100%
Underpayments	\$469	1.4%	\$444	1.2%	\$504	1.3%
Overpayments	\$2,272	6.6%	\$2,195	6.1%	\$2,406	6.4%

Notes:

1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2002, +0.04% and -0.03% for underpayments and +0.10% and -0.28% for overpayments; for FY 2003, +0.04% and -0.02% for underpayments and +0.04% and -0.12% for overpayments; and for FY 2004, ±0.11% for underpayments and +0.32% and -0.34% for overpayments.
3. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2002, +0.26% and -0.29% for underpayments and +0.25% and -0.37% for overpayments; for FY 2003, +0.39% and -0.51% for underpayments and +1.50% and -2.39% for overpayments; and for FY 2004, +0.68% and -0.69% for underpayments and +1.53% and -1.54% for overpayments.
4. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2002, ±0.3% for underpayments and ±1.1% for overpayments; for FY 2003, ±0.3% for underpayments and ±1.0% for overpayments; and for FY 2004, ±0.3% for underpayments and ±0.7% for overpayments.

Table 2: Improper Payments Reduction Outlook FY 2005 – FY 2008
(\$ in millions)

	2005 target		2006 target		2007 target		2008 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI								
Total Payments	\$513,036	100%	\$540,627	100%	\$569,135	100%	\$598,878	100%
Underpayments	\$1,078	0.2%	\$1,081	0.2%	\$1,138	0.2%	\$1,197	0.2%
Overpayments	\$1,078	0.2%	\$1,081	0.2%	\$1,138	0.2%	\$1,197	0.2%
SSI								
Total Payments	\$42,994	100%	\$42,805	100%	\$44,875	100%	\$46,625	100%
Underpayments	\$516	1.2%	\$513	1.2%	\$536	1.2%	\$560	1.2%
Overpayments	\$2,193	5.1%	\$1,969	4.6%	\$1,930	4.3%	\$1,865	4.0%

Notes:

1. SSA does not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2005 data will not be available until June 2006; therefore, the rates shown are targets (goals).
3. The FYs 2005, 2006 and 2008 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2006 Budget. The projections for FY 2007 are adjusted (from those presented in the Mid-Session Review) for the fact that there are only 11 payment days in that year, yet the quality review is not affected by payment days, but rather by entitlement months.

Improper Payments in the OASI program

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years (FYs 2000-2004), a total of over \$1.9 trillion was paid to OASI beneficiaries. Of that total, \$2.1 billion was overpaid, representing 0.1 percent of outlays. Underpayments during this same period also totaled \$2.1 billion, the equivalent of 0.1 percent of outlays.

Improper Payments in the DI program

Over the last 5 years, (FY's 2000-2004), a total of over \$324.6 billion was paid to DI beneficiaries. Of that total, \$3.3 billion was overpaid, representing 1.0 percent of outlays. Underpayments during this same period totaled \$1.4 billion, the equivalent of 0.5 percent of outlays.

Major Causes of OASDI Improper Payments

Major causes of improper payments in the OASDI program over this 5-year period are listed below (followed by a detailed description under the Corrective Actions section) and account for nearly 77 percent of the improper overpayments identified.

- Substantial Gainful Activity (SGA)
- Computations
- Annual Earnings Test
- Relationship/Dependency (e.g., unreported marriage, not having child-in-care, and students not in full-time school attendance)

The major causes of improper underpayments in the OASDI program have been:

- Computations
- Age/Date of Birth
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, SSA's annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. Accordingly, SSA seeks continuous improvement in its processes to minimize improper payments.

Corrective Actions

SGA: Errors attributed to SGA accounted for almost 42 percent of all OASDI overpayment deficiency dollars in FY 2004 and about 48 percent of all OASDI overpayments for the last 5 FYs (2000-2004). For FYs 1998-2002, SGA deficiencies accounted for about 45 percent of DI overpayments; however, in FY 2002, SGA accounted for only \$13.3 million in DI overpayments or only about 8 percent of the DI overpayments for that year. In analyzing the data on the causes of improper payments in the OASDI programs, it is important to recognize that given the huge dollar amounts of payments issued each year, the historically high accuracy rates of the payment issued and the size of the quality assurance samples, infrequently occurring error type cases can have a large impact on specific error categories from year-to-year. As a result, wide fluctuations often occur from year-to-year in the projected dollar amount of improper payments due to a particular category of error and oftentimes these fluctuations are not statistically significant. For the 5-year period, two-thirds of the deficiency dollars associated with SGA is due to the beneficiary's failure to report that he/she is working. The remaining one-third of the deficiency dollars is associated with cases where SSA receives a notice of work activity, but fails to take appropriate action to adjust payment.

SSA has implemented a new tool that should help improve timeliness and accuracy in processing DI work-related Continuing Disability Review (CDR) cases. eWork, which was implemented in 2004, provides managers with an automated tool for monitoring the CDR workload which aides in ensuring that these cases are prioritized for timely processing. Previously, problems with work CDR determinations were enhanced due to the use of multiple local area network-based systems to manage the work CDR process. In addition to being a tool for managers, eWork allows SSA staff to process and record work activity in a single national web-based database.

The Office of Child Support and Enforcement (OCSE) database of new hires should be useful to SSA in identifying unreported work that affects DI benefits. The identification of unreported wages from a match with the OCSE database would be timelier than the current annual earnings reporting/processing operation. SSA is currently pursuing a pilot with OCSE and is expected to be in place by the second quarter of FY 2006.

Death Notification: More timely and accurate death data would enable SSA to better effectively administer programs and increase prevention of incorrect payments. SSA is working with State governments and other jurisdictions to improve the current death registration process. The most efficient manner to improve timeliness and accuracy of State data is by using an Electronic Death Registration (EDR) system; a web-based automation of the death registration process. EDR electronically links the participants in death registration and contains an online real-time Social Security Number (SSN) verification process. SSA's goal is to receive verified death report within 5 days of death and within 24 hours of the report's receipt in the State repository. EDR would also improve the accuracy of the death master file that we share with other Federal agencies. In FY 2005, 7 States and the District of Columbia have implemented EDR. In September 2005, 5 more States were awarded EDR contracts; totaling 22 States that SSA has currently awarded EDR development contracts. SSA plans to award as many States as FY 2006 funding allows by September 30, 2006. We anticipate the States under contract will implement in FY 2006 and FY 2007. SSA is currently working with the Departments of Health and Human Services (DHHS) and Homeland Security to transfer this workload to DHHS as required by the Intelligence Reform and Terrorism Prevention Act of 2004.

Computations: In past years, SSA implemented a series of initiatives to correct computation errors in benefit payments that had accumulated. They were related to the improper handling of additional earnings by entitled beneficiaries and the failure to convert recipients to higher benefits timely. To prevent continued occurrences of these errors, SSA is in the process of developing automated capabilities that will prevent, identify and correct these situations.

Relationship/Dependency: In the relationship/dependency area, SSA has redesigned its student verification process. Starting in March 2001 for students born June 2, 1983 or later, SSA verifies a student's school attendance information by obtaining a school official's certification before awarding benefits. The student must leave a reporting form with the school, and then SSA requests the school, as well as the student, to advise SSA of changes in the student's school attendance that could affect the student's entitlement to benefits.

Wages/SEI: Wages or self-employment errors result when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. SSA added language to the improved Social Security Statement to remind the public to inform SSA of incorrect earnings postings. Beginning in FY 2000, all workers age 25 or over began receiving their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits. SSA has also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled SSA to receive almost 158 million W-2s electronically for tax year 2004 (66 percent of all W-2s filed). By tax year 2005, SSA expects to receive over 70 percent of all W-2s electronically.

Earnings that remain in suspense after the annual posting cycle are wage or self-employment earnings that are not matched to an earnings record after all routine matching operations are complete. SSA is working to develop highly automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings;
- Match and move items from suspense to the beneficiary's earnings record; and
- Pay benefit increases.

SSA has initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. SSA also expects this re-examination process will produce information that will help the Agency to better manage the suspense file.

To further improve posting of earnings records, in June 2005 SSA implemented the Social Security Number Verification Service (SSNVS). SSNVS allows registered employers or their third party representatives to verify the names and SSN's of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSN's per screen with immediate results or upload a file with up to 250,000 names and SSN's with the results available the next business day.

WC: SSA is giving high priority to correcting workers' compensation (WC) errors. Some people who receive Social Security disability benefits also receive Federal or State workers' compensation payments. When a person is eligible to receive both types of payments, State law may impose a limit on the total amount the person can receive each month. When that occurs, SSA withholds a portion of the person's Social Security disability payments. Since there is no automated verification of WC payments, SSA relies mainly on individual disclosure of WC payments and changes. Since these reports are typically not timely, if given at all, some of these individuals have been paid incorrect amounts of Social Security disability benefits while others had been underpaid since their WC had stopped and their SSA benefit amount had not been increased accordingly. Errors related to improper imposition of WC offset provisions is the third leading causes of OASDI underpayment errors in FY's 2003 and 2004.

SSA's Operations staff reworked more than 112,000 cases in FY 2002 where the beneficiary was in WC offset at the time the processing problems with WC were identified. In FY 2003, the cleanup effort was expanded to include

reworking more than 200,000 WC cases where WC offset was removed to ensure correct handling of these cases. These cases were to be worked over a 5-year period starting in FY 2003 and ending in FY 2007. However, in FY 2005, SSA placed a hold on the reworking of the cases where there is no longer an offset being imposed and instead is reviewing 14,000 of the original cases reworked in FY 2002 to use new interactive computation facilities. This review is to ensure these cases were computed correctly and documented properly. Information from this review will be used to establish any prospective development and processing changes. We are also continuing to pursue possible data exchange agreements with entities that have WC data available, such as the Centers for Medicare and Medicaid Services and other organizations that work with private and State insurance companies.

Dual Entitlement: SSA has also improved its process for ensuring SSI recipients file for benefits in the OASDI program. One of the conditions for SSI eligibility is that individuals file for any other benefits that they may be eligible to receive. SSA has identified nearly a half-million SSI disability recipients, current and former, who are potentially eligible for OASDI payments after earning sufficient work credits to qualify for the Disability Insurance program while receiving SSI benefits. To keep this from happening in the future, we have rewritten computer programs and retrained technical employees to identify eligibility as it occurs.

Improper Payments in the SSI program

To better track the causes of improper payments in the SSI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last 5 years, (FY's 2000-2004), a total of over \$172 billion was paid to SSI recipients. Of that total, \$10.7 billion was overpaid, representing 6.2 percent of outlays. Underpayments during this same period totaled \$2.2 billion, the equivalent of 1.3 percent of outlays.

Major Causes of SSI Improper Payments

For the 5-year period, FY 2000-2004, the major causes of overpayments in the SSI program (a more detailed description is below under the Corrective Actions section) were:

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

Each of these causes individually exceeded the sum of the next three overpayment categories.

The major causes of underpayments in the SSI program for the same period (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Living Arrangements
- In-kind Support and Maintenance

Corrective Actions

For the entire 5-year period, 81 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim or redetermination.

Financial Accounts: For the 5-year period, financial accounts were the leading cause of overpayment improper payments, accounting for about 19 percent of the total. For FY 2004, financial account overpayment deficiencies project to \$369 million and represent 14 percent of all improper payments.

Financial account deficiencies occur when financial accounts owned by the recipient or deemor (parent or spouse of an eligible individual) exceed the resource limit and the recipient becomes ineligible for SSI payments. For each year in the 5-year period, the primary cause of these errors was the failure of the recipient or representative payee to advise the Agency of the existence of a financial account or an increase in the amount of an account.

Each year, the majority of improper payments in this category were attributed to changes that occurred subsequent to an initial claim or after completion of the last redetermination. That is, these improper payments developed after the Agency had been in contact with the recipient. Over the 5-year period, 74 percent of the improper payments in this category fit this description.

The Foster Care Independence Act of 1999 gives the Commissioner the authority to require SSI applicants and recipients to provide authorization for SSA to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, SSA promulgated final regulations in FY 2004 that allow the Agency to query financial institutions electronically. In February 2004, SSA began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated the financial community's support of this process. In addition, verification requests were returned quickly to the Agency which allows immediate continuation of the SSI application or redetermination. In February 2005, Social Security initiated a study to ascertain the characteristics of cases that are likely to have unreported resources. The data gathering of this study concluded in FY 2005. Study analysis and reporting will occur in the second quarter of FY 2006 whereby the results will be used to increase the effectiveness and efficiency of a future national electronic verification process.

Wages: Wages have been the leading deficiency type for overpayment improper payments in 3 of the last 5 years and the second leading deficiency type over the last 5 combined years. They accounted for about 18 percent of total overpayment improper payments during the 5-year period. The major factor (89 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate timely report of new or increased wages for the recipient or deemor.

In another effort to achieve more timely and accurate reporting of wages, SSA has completed a test to determine the feasibility of implementing large scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, SSA has tested whether SSI recipients (or their representatives, parents or spouses, where deemed wages affect benefit payments) would report wages, monthly, using this new technique. The key issues will be the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period. The results of this test were evaluated and SSA decided to conduct a second pilot to test a more user-friendly knowledge-based authentication process rather than the PIN/password process used in the first pilot. Reporters had difficulty navigating the PIN/password process. Results of the second pilot will determine whether to proceed with implementing wage reporting using touch-tone and voice recognition telephone technology. Timely and accurate reporting on this issue offers the opportunity to prevent substantial amounts of SSI wage overpayments, which accounted for \$398 million in overpayment deficiencies in FY 2004.

SSA is conducting an initiative with the intention to streamline SSI wage documentation requirements. In January 2005, SSA began a year long test in selected services areas where working SSI recipients and deemors mail pay slips to a centralized unit to process wage reports. This centralized wage reporting test will be evaluated when it concludes in December 2005.

Effective January 2001, SSA began using online queries to access the Office of Child Support Enforcement's (OCSE) quarterly wage data and "new hires" OCSE file as tools to assist in detecting improper payments due to wages. But even these data are at least 4 months old when accessed. In an effort to learn more quickly about unreported work, SSA is also exploring the usefulness of a quarterly match with the "new hires" file from OCSE.

Wages have been the leading cause of underpayment improper payments in 4 of the last 5 years, accounting for about 27 percent of total underpayment improper payments during the 5-year period. The major factor (84 percent) in wage underpayment improper payments was the failure of recipients/representative payees to report a decrease or termination in wages for the recipient or deemor.

Over the 5-year period, wages earned by recipients and wages earned by deemors were about equally involved, accounting for 53 percent and 47 percent of underpayment improper payments, respectively.

For the 5-year reporting period, wage fluctuations accounted for 80 percent of underpayment wage improper payments. The remaining improper payments resulted because recipients/representative payees failed to report a reduction or termination of wages, or because of miscellaneous reasons; e.g., wages were deemed that should not have been deemed.

For the entire 5-year reporting period, 80 percent of the wage underpayment improper payments were caused by a change that occurred after the last redetermination (72 percent) or after an initial claim (8 percent).

Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

Living Arrangements: Living arrangements were the second leading cause of underpayment improper payments for 4 of the last 5 years, and the leading category in FY 2002. It refers to people who should have been paid based on “living in own household”; e.g., home ownership, rental liability, paying pro rata share of household expenses, but were paid based on another living arrangements. Over the 5 years, this deficiency primarily occurred (81 percent) when the recipient/representative payee failed to provide an accurate timely report showing that the value of the one-third reduction (the reduction factor when a recipient is not paying his or her full share of the household expenses) no longer applied. Two changes accounted for the majority of underpayment dollars: (1) the recipient began paying a pro rata share of household expenses (40 percent); or (2) the recipient assumed rental liability (26 percent). For each year in the 5-year period, over one-half of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination. Only 5 percent of the total underpayment improper payments resulted when the recipient changed a contribution after receipt of the first SSI payment.

In-kind Support and Maintenance (ISM): ISM deficiencies were the third leading cause of underpayment error dollars over the last 5 years. The primary cause of ISM underpayment improper payments for the 5-year period was when the recipient was no longer receiving ISM yet it continued to be figured into the payment calculation (79 percent). This occurred because recipients/representative payees failed to report changes or made an incomplete/inaccurate report (70 percent) and because field offices inaccurately processed cases (22 percent). The remainder occurred because of administrative tolerances or mail-in redeterminations that did not solicit information to identify the change in ISM. For the 5-year period, over one-half of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination.

The redetermination process is one of the most powerful tools available to SSA for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when the Agency is not in contact with the individual. Clearly, more frequent redeterminations will result in reductions in the level of improper payments.

Medical Aspects of the DI and SSI programs

The medical aspects of the DI and SSI programs are administered through State agencies at the initial claim, reconsideration and continuing disability review stages of the disability process. SSA has established net accuracy rate goals for Disability Determination Service (DDS) allowance and denial decisions. The goals reflect the percent of initial claims that maintain their original DDS decision after Federal review and subsequent additional development, as required.

The actual allowance and denial accuracy rates for FYs 2003 and 2004 are presented in Table 3. These rates are determined by SSA's quality assurance review of initial claims. In compliance with Section 221(a) of the Social Security Act, SSA reviews samples from each State to determine whether the DDS is in compliance with Federal policy and procedural requirements. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, SSA established a combined allowance and denial goal for net accuracy. The goal for FYs 2004 and 2005 is 97 percent. FY 2005 data will be available in January 2006.

Table 3: DDS Initial Claim Net Accuracy		
Initial Claim Net Accuracy	FY 2003	FY 2004
Allowance	98.3%	98.2%
Denial	94.7%	95.4%
Combined	96.1%	96.4%

The Social Security Act also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations; i.e., pre-effectuation reviews (PER). To the extent feasible, the selection is made from those determinations most likely to be incorrect.

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. All sampled determinations are reviewed prior to effectuation and deficient cases are returned and corrected. For FY 2004, the Actuary has produced estimates that PER saved the trust funds \$618 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 13:1.

SSA's budget includes a proposal to extend PER reviews of favorable adult disability decisions to the SSI program. This proposal supports the President's management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this initiative.

Improper Payments for Administrative Outlays

An evaluation was conducted of SSA's FY 2004 administrative payments and they were determined not to be susceptible to significant improper payments. In FY 2004, SSA outlayed \$8,909 million to administer the OASI, DI and SSI programs. These costs largely consisted of payroll and benefits but also included payments to State agencies for the DDS.

Risk Assessment

To better facilitate the risk assessment process, SSA segmented administrative payments into several categories. These categories were used to analyze and determine SSA's vulnerability to improper payments.

Table 4: FY 2004 Administrative Expenses (\$ in millions)	
Payroll and Benefits	\$4,433
State DDS	\$1,696
Other Administrative Expenses*	\$2,780
Total Administrative Payments	\$8,909
Notes:	
*Other Administrative Payments includes Travel, Transportation, Rents, Communications & Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land & Structure, Grants, Subsidies, & Contributions, Information Technology Systems, Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.	

Using OMB guidelines, SSA conducted a risk assessment on each of the categories listed in Table 4 above. The payment categories were reviewed and any identified improper payments were assessed versus the entire payment category. The result of this analysis showed that SSA's administrative payments were not susceptible to significant improper payments.

Also considered as part of the risk assessment were:

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

Based on the results of the overall risk assessment, the Agency determined that SSA's administrative payments do not meet the criteria for further reporting to Congress or OMB based on the OMB-issued guidance.

Recovery Audit Program

Section 831 of the Defense Authorization Act for FY 2002 added a subchapter to the U.S. Code (31 USC 3561-3567) that requires agencies that enter into contracts with a total value in excess of \$500 million in a FY to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

OMB guidance states that Agencies shall have a cost effective program of internal control to prevent, detect, and recover overpayments to contractors resulting from payment errors. To comply with this guidance and support the evaluation that administrative payments are not susceptible to significant improper payments, SSA previously contracted with PRG Shultz, a recovery auditing firm, through an Interagency Agreement with the Department of the Treasury. The purpose of the contract was to validate the existing internal SSA review of contractor administrative payments. The recovery auditor began an initial review of the Agency's administrative payment process and internal control structure in January 2004. The audit process continued throughout FY 2004 and into FY 2005.

Program Scope

The recovery audit program scope included a review of administrative contractor payments from FY 2001 through FY 2004 totaling \$3.3 billion. Of that amount, only .001 percent or \$48,503 had been identified and collected. These results further validated SSA's existing controls for prevention, detection and correction of administrative improper payments.

SSA did not renew the FY 2004 Interagency Agreement with Treasury since we decided to discontinue utilizing PRG Shultz as our recovery auditor. Instead, SSA adopted some of the procedures employed by PRG Shultz, and established an in-house recovery audit program for the review of administrative payments. Results from the recovery audit program continue to reinforce our internal control structure which continues to exhibit our commitment to the President's Management Agenda.

Initial results from our in-house recovery audit and quality review process continue to confirm that administrative payments are well below the threshold established for reporting improper payments. The in-house recovery audit and quality review process will continue to report results monthly, with details on necessary corrective action.

The Agency has elected to exclude the following classes of contracts from the scope of the recovery audit:

- Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and condition of the contract.
- Cost-type contracts that were completed, subjected to final contract audit and, prior to final payment of the contractor's final voucher, all prior interim payments made under the contract were accounted for and reconciled.

Table 5: Recovery Auditing Results (\$ in millions)						
Agency Component	Amount Subject to Review for FY 2005 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Percentage of Amounts Identified/Actual Amount Reviewed	Amounts Recovered, Current Year	Amounts Recovered, Prior Year(s)
Administrative Expenses	\$1,160	\$61	\$.317	.52%	\$.050	\$.017

Accountability for Improper Payments

In June 2002, SSA released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased overpayment detection and prevention, new measurement strategies, potential changes in SSI policies and Agency accountability. We are extremely pleased that the Government Accountability Office (GAO) removed the SSI program from its high-risk list of government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA's progress to improve the management of the program. We are continuing our efforts to improve our management of the SSI program across three fronts – improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To achieve these goals, SSA executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. The plan is updated monthly and progress is monitored at regular meetings with SSA executives.

Agency Information Systems to Reduce Improper Payments

Background

In the SSI Corrective Action Plan discussed above, the Agency has identified a number of information technology (IT) initiatives to meet the 5-year goal to achieve 96 percent overpayment accuracy by FY 2008. SSA has a formal process to plan and execute IT projects and the IT budget. The Information Technology Advisory Board (ITAB) is an executive body offering advice to the Agency's Chief Information Officer (CIO) on areas of Capital Planning and Investment Capital (CPIC). The ITAB is comprised of the CIO, Deputy Commissioner for SSA, all Deputy Commissioners and other executive staff.

As part of the CPIC environment, IT plans outlining Office of Systems IT initiatives are reviewed and approved by the ITAB prior to the beginning of the fiscal year. These IT plans become the blueprint for the developmental and maintenance activity within the Office of Systems.

On a quarterly basis, the ITAB reviews the progress of each IT plan and the agreed capital investments. Major investments are assessed at key decision points to ensure they are well founded, are achieved within the approved cost and schedule, and provide expected benefits. They may be redirected or terminated when necessary. These activities are key to SSA's capital investment and control process.

IT Strategy

Starting in FY 2005, the "clusters" of IT projects were replaced with Strategic Objective (SO) Portfolios. These SO Portfolios are based on SSA's nine Strategic Objectives as defined in the Agency Strategic Plan. There are also two additional portfolios not corresponding to an Agency Strategic Objective: one for Infrastructure and one for Legislation. The majority of improper payment IT initiatives fall within two SO portfolios: 1) Improper payments; and 2) Manage finances.

Provided the Agency develops the IT initiatives identified to improve preventing, detecting and collecting improper payments and is given the resources to do so, SSA will be in a better position to achieve its goal to have 96 percent SSI payment accuracy by FY 2008. In the FY 2006 budget submission, SSA requested \$9,403 billion for Limitation on Administrative Expenses (LAE). Almost half of the increase of \$670 million in discretionary budget authority from SSA's FY 2005 appropriation will be used to fund SSA's ongoing work related to Medicare modernization, in particular, the Medicare prescription drug program. The FY 2006 budget also supports SSA's efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include significant budget investments in continuing disability reviews and SSI non-disability redeterminations as well as increased emphasis on the use of computer matches to identify and prevent overpayments. Through these activities, SSA can ensure the ongoing stewardship of our programs.

Statutory and Regulatory Barriers to Reducing Improper Payments

SSA continuously develops legislative proposals to improve administration of the OASI, DI and SSI programs. For example, SSA will be asking Congress to consider amendments to the OASI, DI and SSI programs in support of the President's FY 2006 budget. Of the proposals in the draft "Social Security Amendments of 2005", two would simplify administration of the SSI program and one would improve the integrity of the program and provide SSA with an additional tool to prevent improper payments.

SSI Simplification Proposals: Simplifying the SSI program reduces improper payments. The first simplification proposal in the President's budget would modify the requirement to establish a dedicated account and the accompanying spending restrictions so that they would not apply in cases in which a parent of a disabled child lives with the child and is his or her representative payee. Removing the dedicated account requirement in cases of parents and children would be family friendly in that it recognizes that parents know how best to allocate money for their children's needs. It also would result in an administrative simplification in that SSA would no longer have to track expenditures from dedicated accounts. The second proposal would treat most cash military compensation as earned income for SSI purposes. The provision would treat cash military compensation and civilian wages alike, and thus eliminate the present unfair and disadvantageous treatment of cash military compensation other than basic pay. It would also eliminate SSA having to categorize as either earned or unearned income over 40 types of military compensation.

Program Integrity Proposal: A proposal in the draft bill would require SSA to conduct SSI pre-effectuation reviews in 50 percent of disability allowances of adult cases in order to ensure accurate SSI disability determinations. The projected SSI estimated savings over 10 years of \$493 million, and additional significant savings in the Medicaid program of nearly \$639 million. By the tenth year after enactment, the pre-effectuation reviews would have identified and prevented improper payments in an estimated 25,000 incorrect SSI disability and blindness determinations.

Agency Efforts to Collect Overpayments in the OASI, DI and SSI Programs

In FY 2005, SSA collected \$2,034 million in program debt. The Agency's debt collections are achieved in a variety of ways that have been developed over the years. Collection techniques include SSA's internal methods such as benefit withholding and billing and follow-up. In addition, the Agency uses external collection techniques such as the Treasury Offset Program (TOP), credit bureau reporting and administrative wage garnishment (AWG).

SSA's strategy for improving its debt collection program is to focus on the techniques that provide direct collections from revenue sources or that can be easily integrated into existing systems. In keeping with this strategy, SSA has worked steadily over the years to build the strong debt collection program it now employs. Although the Agency

has a history of striving for maximum stewardship of the trust funds, it launched an expansion of debt collection tools in the early 1990's that continues today. Taking advantage of the legal authorities granted to it in the relatively recent past, SSA began its expansion with the implementation of tax refund offset (TRO) in 1992. The Agency enhanced its TRO program twice in the 1990's and then merged it with TOP in 1998. In June 2005, SSA surpassed \$1 billion in cumulative debt collections from TRO/TOP.

In 1998, SSA began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, the Agency also began reporting those delinquent debts to the credit repositories. Since 1998, the negative consequences of credit bureau reporting have contributed to the voluntary repayment of over \$250 million in delinquent overpayments by people who do not want to submit to the reporting.

After receiving the authority to use mandatory cross program recovery, or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, SSA developed and implemented this internal collection method. Since the year 2002, the Agency has collected over \$200 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

SSA received additional authority for cross-program recovery in the Social Security Protection Act of 2004. SSA is now able to use mandatory cross-program recovery in situations where cross-program recovery was not previously permitted. SSA started using this new authority in January 2005 to collect SSI overpayments from large OASDI underpayments, even when the individual remains eligible for SSI monthly payments. SSA intends to expand the cross-program recovery program to other situations in the future.

Most recently, SSA implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each pay day from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. The first garnishment orders were issued in April 2005 to the employers of OASI, DI and SSI debtors who became delinquent in 2005. SSA intends to expand its AWG program to all existing delinquent debtors.

In addition to the preceding improvements, SSA implemented other debt collection techniques of major import. One such improvement is called "Netting," an automated process implemented in September 2002 to automatically net SSI overpayments against SSI underpayments. Since implementing automatic netting, SSA has prevented over \$280 million in overpayments computed and underpayments paid through September 2005.

SSA also helped other Federal agencies with debt collection by collaborating with Treasury's Financial Management Service and Internal Revenue Service to develop two collection programs for collecting delinquent non-tax and tax debt: (1) The Benefit Payment Offset program collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program collects delinquent tax debts from Social Security benefits.

Continued improvement in the Agency's debt collection program is also underway. SSA is developing its Federal Salary Offset program, by which delinquent OASI, DI and SSI overpayments will be collected from the salaries of Federal employees who owe the debts. The Agency is also finishing its work on a new system called the Non-Entitled Debtors program. This automated system will enable SSA to collect debts owed by people who do not have master record with the Agency. Debtors such as representative payees who receive overpayments after the death of the beneficiary will be controlled by this system.

The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and interest-charging or indexing a debt to reflect its current value. For additional information, please refer to the Debt Management narrative in the *Other Statutory Information* section of the report.

Glossary of Acronyms

A

ACAPS	Appeals Council Automated Processing System
ADA	Agency Decisional Accuracy Rate
AFGE	American Federation of Government Employees
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
APP	Annual Performance Plan
ASA	Average Speed of Answer
ASP	Agency Strategic Plan
AWG	Administrative Wage Garnishment
AWIC	Area Work Incentives Coordinator

B

BA	Benefit Authorizer
BEVE	Benefit Verification Statement
BPAO	Benefits Planning, Assistance and Outreach

C

CA	Claims Authorizer
CAS	Cost Analysis System
CDI	Cooperative Disability Investigation
CDR	Continuing Disability Review
CIO	Chief Information Officer
CMS	Centers for Medicare and Medicaid Services
COTS	Commercial Off-The-Shelf
CPI	Consumer Price Index
CPIC	Capital Planning and Investment Capital
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CPMS	Case Processing and Management System
CR	Claims Representative
CSRS	Civil Service Retirement System
CY	Calendar Year

D

DDS	Disability Determination Service
DDSO	Division of Direct Service Operations
DHHS	Department of Health and Human Services
DHS	Department of Homeland Security
DI	Disability Insurance

DIODS	Disability Operational Data Store
DMS	Debt Management System
DOL	Department of Labor
DOS	Department of State
DOWR	District Office Workload Report

E

EAB	Enumeration-at-Birth
eDIB	Electronic Disability
EDR	Electronic Death Registration
EIC	Executive Internal Control
EMIS	Executive and Management Information System
EMODS	Earnings Management Information Operational Data Store
EN	Employment Networks
EPOXY	Earnings Posted Overall Cross Total/Year-to-Date System
ESF	Earnings Suspense File

F

FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contributions Act
FICA/SECA	Federal Insurance Contributions/Self Employment Contributions Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Systems
FO	Field Office
FOSSNER	Field Office Social Security Number Enumeration Report
FSO	Federal Salary Offset
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act of 1993
GS	General Schedule
GSA	General Services Administration

H

HHS	Health and Human Services
HI/SMI	Hospital Insurance/Supplemental Medical Insurance

HO	Hearings Office
HSPD	Homeland Security Presidential Directives
I	
ICT	Immediate Claims Taking
iDD	Internet Change of Direct Deposit
iMRC	Internet Medicare Replacement Card
IPIA	Improper Payments Information Act of 2002
IRIB	Internet Retirement Insurance Benefits
IRS	Internal Revenue Service
IRTPA	Intelligence Reform and Terrorism Prevention Act
ISBA	Internet Social Security Benefit Application
ISM	In-Kind Support and Maintenance
IT	Information Technology
ITAB	Information Technology Advisory Board
IWMS	Integrated Work Measurement System
IWMS/DOWR	Integrated Work Measurement System/District Office Workload Report
K	
KPI	Key Performance Indicator
L	
LAE	Limitation on Administrative Expenses
M	
MCAS	Managerial Cost Accountability System
MD&A	Management's Discussion and Analysis
MEF	Master Earnings File
MI CENTRAL	Management Information Central
MIICR	Management Information Initial Claims Record
O	
OASDI	Old-Age, Survivors and Disability Insurance
OASI	Old-Age and Survivors Insurance
OCO	Office of Central Operations
OCSE	Office of Child Support Enforcement
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General
OIO	Office of International Operations
OMB	Office of Management and Budget
O/P	Overpayment
OQA	Office of Quality Assurance
OQAPA	Office of Quality Assurance and Performance Assessment
OTR	On-The-Record

P

PABSS	Protection and Advocacy for Beneficiaries of Social Security
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PEODS	Post-eligibility Operational Data Store
PER	Per-Effectuation Review
PMA	President's Management Agenda
PP&E	Property, Plant and Equipment
PPWY	Processed Per Workyear
PSC	Program Service Center
PTF	Payments to the Trust Funds
PUMS	Public Understanding Measurement System
PwC	PricewaterhouseCoopers LLP

Q

QA	Quality Assurance
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R

RC	Regional Commissioner
RO	Regional Office
ROAR	Recovery of Overpayments, Accounting and Reporting System
RRB	Railroad Retirement Board
RRI	Railroad Retirement Interchange
RSDI	Retirement, Survivor, Disability Insurance
RSI	Retirement and Survivors Insurance
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RZ SDO	Redeterminations Service Delivery Objective

S

SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDW	Special Disability Workload
SECA	Self Employment Contributions Act
SEI	Self Employment Income
SFFAS	Statement of Federal Financial Accounting Standards
SGA	Substantial Gainful Activity
SO	Strategic Objective
SR	Service Representative
SSA	Social Security Administration
SSAMIS	Social Security Administration Management Information Systems
SSI	Supplemental Security Income
SSN	Social Security Number

SSNVS	Social Security Number Verification Service
SSOARS	Social Security Online Accounting and Reporting System
SSPA	Social Security Protection Act of 2004
SSR	Supplemental Security Record
STATE	Department of State
SUMS	Social Security Unified Measurement System
SWA	State Workforce Agency

T

Title II	Social Security
Title XVI	Supplemental Security Income
TOP	Treasury Offset Program
TRO	Tax Refund Offset
TRO/TOP	Tax Refund Offset/Treasury Offset Program
TSR	Teleservice Representative
TST	Technical Support Technician
TY	Tax Year

U

U/P	Underpayment
USC	United States Code
USCIS	United States Citizenship and Immigration Services

V

VERN	Verify Update Earnings Screen
VR	Vocational Rehabilitation
VTC	Video Teleconference

W

W-2s	Employee Wage Reports
WC	Workers' Compensation

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