



# SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable Joseph R. Biden, Jr.  
President of the Senate  
Washington, D.C. 20510

Dear Mr. Biden,

It is my pleasure to submit to you our Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we report to you annually on estimates of improper payments in the preceding year and our actions to address the improper payment causes of those improper payments.

Our valuable and experienced employees serve as payment recapture auditors by performing program integrity work for the Old-Age, Survivors and Disability Insurance and Supplemental Security Income programs. We also use employees to review payment accuracy of our administrative payments, which include payroll and benefits, payments to State disability determinations services, and other payments such as those to vendors. To enhance our internal controls over administrative payments, we awarded a contract to a payment recapture auditor for fiscal year (FY) 2012. We will report on the results of that audit in the 2013 report.

This report provides our payment accuracy rates for FY 2011 and describes the major causes of improper payments we identified and the corrective actions we have implemented and plan to implement. If you have questions about this report, please feel free to contact me. Your staff may contact Scott Frey at (202) 358-6020.

Sincerely,

Carolyn W. Colvin

Enclosure

cc:  
Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



## SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable John A. Boehner  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker,

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Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



## SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable Susan Collins  
Ranking Member, Senate Committee on Homeland Security  
and Governmental Affairs  
United States Senate  
Washington, D.C. 20510

Dear Madam Chairwoman,

It is my pleasure to submit to you our Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we report to you annually on estimates of improper payments in the preceding year and our actions to address the improper payment causes of those improper payments.

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Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



## SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable Elijah E. Cummings  
Ranking Member, Committee on Oversight  
and Government Reform  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Cummings,

It is my pleasure to submit to you our Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we report to you annually on estimates of improper payments in the preceding year and our actions to address the improper payment causes of those improper payments.

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Sincerely,

  
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Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



## SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable Darrell Issa  
Chairman, Committee on Oversight  
and Government Reform  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

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Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



# SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

The Honorable Joseph I. Lieberman  
Chairman, Senate Committee on Homeland Security  
and Governmental Affairs  
United States Senate  
Washington, D.C. 20510

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Mr. Patrick O'Carroll,  
Social Security Administration Inspector General



# SOCIAL SECURITY

The Deputy Commissioner

NOV 1 2012

Mr. Jeffrey D. Zients  
Acting Director  
Office of Management and Budget  
725 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20503

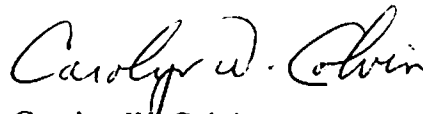
Dear Mr. Zients,

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Carolyn W. Colvin

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cc:  
Mr. Patrick O'Carroll,  
Social Security Administration Inspector General  
Mr. Danny Werfel  
Controller, Office of Management and Budget

**Social Security Administration (SSA)  
Annual Payment Recapture Audit Report  
November 2012**

**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 allowed 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.

**Benefit Payments**

*Payment Overview*

We pay benefits 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 beneficiaries perform Substantial Gainful Activity (SGA<sup>1</sup>). Improper payments can occur when beneficiaries fail to report earnings timely or when we do not withhold their monthly benefit payments after we receive notice of their work and

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<sup>1</sup> SGA is the level of an individual's work and earnings that can affect benefit payments. Generally, earnings averaging over \$1,010 a month (in 2012) 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.



earnings. In FY 2011<sup>2</sup>, our projected benefit payments from our stewardship review were \$717 billion in OASDI benefits. Projected overpayments were \$2.3 billion or 0.3 percent and underpayments were \$0.9 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 beneficiaries to report changes in resources or wages. This has been a persistent problem since the inception of the SSI program. In FY 2011, our projected SSI benefit payments from our stewardship review were \$51.7 billion. Projected overpayments were \$3.8 billion or 7.4 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 benefit 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 nonmedical 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 accurate 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 nonmedical eligibility factors (e.g., income and resources).

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<sup>2</sup>FY 2011 data is the most recent available. In mid-November 2012, we will publish our annual FY 2012 Performance and Accountability Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. This report will be available at [www.socialsecurity.gov](http://www.socialsecurity.gov).

### *Payment Recapture Audit Results*

While our FY 2011 OASDI payment accuracy rate of 99.7 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:

- A disabled beneficiary performing SGA, and
- Computation errors.

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

The FY 2011 SSI payment accuracy rate was 92.7 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 major causes of overpayments:

- Financial accounts that exceed the allowable resource limits, and
- Wages that exceed allowable income limits and failure to report fluctuations in wages.

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue or change the amount of benefit payments. We estimate that every dollar spent on CDRs yields at least \$9 in lifetime program savings including savings accruing to Medicare and Medicaid, and every dollar spent on SSI redeterminations yields about \$6 in program savings over 10 years, including Medicaid savings.

We exceeded our FY 2012 CDR program integrity workload goal by completing 443,233 medical CDRs (101.9 percent of the goal of 435,000). We also met our SSI redetermination program integrity workload goal by completing 2,624,170 redeterminations (100.1 percent of the goal of 2,622,000). Our FY 2012 CDRs and redeterminations will result in estimated program savings of roughly \$6 billion over 10 years, including Medicare and Medicaid savings.

### *Corrective Actions from Payment Recapture Audits*

Based on findings from our audits, we have 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' and recipients' 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, contingent upon receiving adequate funding, we anticipate performing more rigorous checks of financial account assets.

- SSI Telephone Wage Reporting (SSITWR) – 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 and their representative payees to report monthly wages by calling and using a combination of touch-tone entry and voice-recognition software.

SSITWR 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 and 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 ongoing efforts to promote monthly wage reporting, we conducted a Payee Outreach Pilot in FY 2011. We mailed notices to a group of representative payees for working SSI recipients. The notices asked the payees to start using SSITWR to report the recipients' wages to us and we recruited about 14,000 new users. Based on the successful pilot results, we mailed over 32,000 additional notices to representative payees for working SSI recipients. In FY 2013, we will continue to recruit new SSITWR users and will post a promotional webcast on our website. In addition, we will release an Internet-based wage reporting application in the future.

## **Administrative Payments**

### *Payment Overview*

We issue three types of administrative payments<sup>3</sup>:

1. **Payroll and Benefits:** In FY 2011, we spent \$6.8 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 \$2.3 billion in FY 2011. We pay for all costs incurred in making disability determinations, including overhead and salaries for over 17,000 DDS employees.
3. **Other Administrative Expenses:** In FY 2011, other administrative expenses totaled approximately \$3.0 billion. These expenses included rent, vendor payments, travel, and other typical support costs associated with operating a large public program.

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### *Payment Recapture Audits Business Process*

Currently we perform an in-house payment recapture audit of our administrative payments. We also use a statistical sampling process for vendor payments. Once we identify the sample payments, we review the vouchers for compliance with agency and Federal policies, procedures, and regulations. We grade vouchers individually based on a point system for compliance with established mailroom, registration, and voucher examination processing procedures, and adherence to the *Prompt Pay Act*, *Debt Collection Improvement Act*, and *Improper Payments Information Act*. In addition, we review automated workload processes to ensure proper internal controls and separation of duties.

**Payroll and Benefits** - Payroll and benefits account for a majority of total administrative expenses. For FY 2011, we found almost \$2.8 million in payroll overpayments out of \$6,764 million total payroll payments, which yielded a 0.04 percent improper payment rate.

**DDS Expenses** - Our 10 regional offices review amounts drawn against preapproved 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 the OIG's audit findings refer to their website at: <http://oig.ssa.gov/audits-and-investigations/audit-reports/all>.

**Other Administrative Expenses** - Our in-house recovery 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 the year under review, invoices for purchase orders accounted for the largest number of improper payments, and the most common cause for improper payments was selection of the incorrect vendor payment location.

In November 2011, to further strengthen our internal controls, we also awarded a payment recapture audit contingency contract for review of our administrative payments. The contract requires the auditors to examine our administrative payments to identify overpayments made during FYs 2008 thru 2010. The contractor will audit expenditures for DDS, grants, employee travel, employee payroll, utilities, and other vendor and contractual payments. Although IPERA does not require that we include employee salaries and benefits in the scope of our payment recapture audit, we included these because they are our largest administrative expenditure. We will report on any auditor findings in next year's annual Payment Recapture Audit Report.

### *Payment Recapture Audit Results and Corrective Actions*

In FY 2011, through our in-house vendor and travel payment recapture audits, we identified improper payments of \$2.8 million or approximately 0.09 percent of other administrative payments. We collected nearly \$305,000 of the improper payments identified. 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. CPMS electronically communicates invoice information (e.g., total amount of invoice, invoice number, and vendor name) from field offices directly into our centralized accounting system. This system allows a service provider to submit only one invoice for a service (e.g., testimony from medical or vocational experts and transcription services) rendered during a hearing, and sends duplicate invoices back to the service provider. We are currently piloting CPMS in several field offices and one national hearing center. We expect to fully implement CPMS in all field offices and national hearing centers by January 2013.

### **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.