IMPROPER PAYMENTS INFORMATION ACT OF 2002 DETAILED REPORT

BACKGROUND

We are committed to reducing improper payments. We report improper payment findings (both overpayments and underpayments) from our stewardship reviews of the non-medical aspects of Old-Age and Survivors' Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (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* (IPIA), we report as improper those payments that should not have been made or were made in an incorrect amount. 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 accuracy rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on the SSA rolls. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We select a statistically valid national sample monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the beneficiary or representative payee is interviewed, collateral contacts are made, as needed, and all non-medical factors of entitlement are redeveloped as of the current sample month. We input the findings to a national database for analysis and report preparation. Similarly, we determine the SSI payment accuracy rates by an annual review of a statistically valid national sample of the SSI recipient rolls, selected monthly. We determine separate rates 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 fiscal year (FY) 2007, improper payments resulting in overpayments were $3.9 billion, or 9.1 percent of outlays. Improper payments resulting in underpayments totaled $652 million representing 1.5 percent of total outlays. Every tenth of a percent change represents $42.6 million dollars in error. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements to those programs and activities listed in the former Section 57 of OMB Circular No. 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 we administer, for the fifth consecutive year we performed a review of our 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 FYs 2005, 2006, and 2007 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. However, there may be differences due to rounding. The percentages and dollar amounts presented in Table 1 are correct based on actual numbers used from the source data.

Target accuracy goals for FYs 2008, 2009, 2010, and 2011 for the OASDI and SSI programs are presented in Table 2. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments. For the SSI program, our goal is to achieve an underpayment accuracy rate of 98.8 percent and an overpayment accuracy rate of 96.0 percent for FYs 2008–2011.

Table 1: Improper Payments Experience FY 2005 - FY 2007 ($ in millions)

	FY 2005		FY 2006		FY 2007	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Payments	$430,400	100%	$454,300	100%	$479,500	100%
Underpayments	$507	0.12%	$238	0.05%	$580	0.12%
Overpayments	$210	0.05%	$948	0.21%	$345	0.07%
DI						
Total Payments	$83,800	100%	$90,700	100%	$97,300	100%
Underpayments	$473	0.56%	$442	0.49%	$175	0.18%
Overpayments	$2,100	2.55%	$877	0.97%	$864	0.89%
OASDI						
Total Payments	$514,200	100%	$545,000	100%	$576,800	100%
Underpayments	$980	0.19%	$680	0.12%	$754	0.13%
Overpayments	$2,300	0.45%	$1,824	0.33%	$1,209	0.21%
SSI						
Total Payments	$39,068	100%	$40,328	100%	$42,600	100%
Underpayments	$528	1.4%	$896	2.2%	$652	1.5%
Overpayments	$2,500	6.4%	$3,193	7.9%	$3,900	9.1%

Notes:

1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
3. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, +0.13% and -0.11% for underpayments and +0.05% and -0.04% for overpayments; for FY 2006, +0.05% and -0.04% for underpayments and +0.24% and -0.20% for overpayment; and for FY 2007, +0.11% and -0.14% for underpayments and +0.06% and -0.07% for overpayments.
4. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, +0.64% and -0.56% for underpayments and +1.81% and -1.82% for overpayments; for FY 2006, +0.64% and -0.48% for underpayments and +0.85% and -0.85% for overpayments; and for FY 2007, +0.17% and -0.19% for underpayments and +0.85% and -0.84% for overpayments.
5. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, ±0.3% for underpayments and ±0.9% for overpayments; for FY 2006, ±0.5% for underpayments and ±1.0% for overpayments; and for FY 2007, ±0.4% for underpayments and ±1.9% for overpayments.

Table 2: Improper Payments Reduction Outlook FY 2008 - FY 2011 ($ in millions)								
	2008 target		2009 target		2010 target		2011 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI								
Total Payments	$605,927	100%	$646,908	100%	$686,633	100%	$725,672	100%
Underpayments	$1,212	0.2%	$1,294	0.2%	$1,373	0.2%	$1,451	0.2%
Overpayments	$1,212	0.2%	$1,294	0.2%	$1,373	0.2%	$1,451	0.2%
SSI								
Total Payments	$45,588	100%	$48,431	100%	$50,977	100%	$52,806	100%
Underpayments	$547	1.2%	$581	1.2%	$612	1.2%	$634	1.2%
Overpayments	$1,823	4.0%	$1,937	4.0%	$2,039	4.0%	$2,112	4.0%

Notes:

1. We do not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2008 data will not be available until April 2009; therefore, the rates shown are targets (goals).
3. The FYs 2008, 2009 and 2010 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2009 Budget. The projections for FY 2011 are adjusted (from those presented in the Mid-Session Review) because there are 13 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 AND DI PROGRAMS

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 five years (FYs 2003-2007), a total of over $2.2 trillion was paid to OASI beneficiaries. Of that total, $3.1 billion was projected to be overpaid, representing 0.14 percent of outlays. Underpayments during this same period were projected to be $2.1 billion, the equivalent of 0.09 percent of outlays.

Applying the same analysis to the DI program, we find that over the last five years, (FY's 2003-2007), a total of over $419.8 billion was paid to DI beneficiaries. Of that total, $6.2 billion was overpaid, representing 1.5 percent of outlays. Underpayments during this same period totaled $1.9 billion, the equivalent of 0.5 percent of outlays.

MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

Major causes of improper overpayments 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 80 percent of the improper overpayments identified.

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

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

- Computations
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, our annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. For the 5-year period from FY 2003 through FY 2007, OASDI deficiency dollars totaled $13.3 billion, an average of about $2.6 billion per year. Accordingly, we seek continuous improvement in our processes to minimize improper payments.

CORRECTIVE ACTIONS

SGA: Although SGA is strictly an issue for Title II DI cases, errors attributed to SGA accounted for almost 50 percent of all OASDI overpayment deficiency dollars for the last five FYs (2003-2007).

Currently, SGA-related deficiency dollars are at the lowest level in the last five years. However, errors involving SGA remain a significant problem area and while the number of SGA error cases remains low, the error dollars for these cases are often substantial. In terms of all errors (both overpayments and underpayments) for FYs 2003 through 2007, SGA accounted for about 36 percent of total OASDI deficiency dollars.

The process for making SGA determinations has inherent delays that contribute to the magnitude of the overpayments. About 85 percent of the deficiency dollars associated with SGA are due to the beneficiary's failure to report that he/she is working. The remaining 15 percent of the deficiency dollars is associated with cases where we receive notice of work activity, but fail to take appropriate action to adjust payment. To address the "failure to report" issue, we are analyzing a segment of cases to determine if improvements can be made in the alerts and work development. Currently, many invalid work alerts are generated which creates non-productive work. In addition, requests for work development are not initiated until an SSA employee reviews work history based on alerts produced by postings to the Modernized Earnings File. Our current analysis will determine if it is more efficient to automate work development requests much earlier in the process.

DEATH NOTIFICATION: Timely and accurate death data enables us to better effectively administer programs and increase prevention of incorrect payments. We are 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. Our goal is to receive a verified death report within five days of death and within 24 hours of the report's receipt in the state repository. EDR helps improve the accuracy of the death master file that we share with other Federal agencies. We currently receive death data via EDR from 22 states, New York City, and the District of Columbia. Eight states are in the process of implementing EDR. These states will implement during FYs 2008–2010.

COMPUTATIONS: For the last five FYs (2003-2007), errors attributed to computations accounted for about 64 percent of all OASDI underpayment deficiency dollars and 12 percent of all OASDI overpayment deficiency dollars. In terms of all errors, computations accounted for 19 percent of total OASDI deficiency dollars for the period.

For the 5-year period, leading causes of computational-related underpayments were calculations involving the Windfall Elimination Provision (WEP), family maximums, Automatic Earnings Reappraisal Operation (AERO), primary insured amount, and adjusted retirement factor/delayed retirement credit. WEP errors can create large underpayments and result from a WEP exception not being appropriately applied to the beneficiary. When pension information is not provided timely, an overpayment will often result. That is to say, when we become aware of a beneficiary's receipt of a pension, a new computation is used which often results in a lower benefit amount which subsequently results in an overpayment. Nearly 77 percent of the overpayment computational deficiency dollars for the FY 2003 through 2007 period involved WEP.

We are providing training in the use of two new automation tools, AeroWiz and MacPaste, for all technicians involved in processing computations. Continued use of these tools will address some of the issues with the computation errors.

RELATIONSHIP/DEPENDENCY: This category involves a variety of issues such as unreported remarriage, not having child-in-care, and students who were not in full-time attendance. In the Relationship/Dependency category, about 52 percent of deficiency dollars represent situations in which the beneficiary did not report remarriages. Deficiency dollars in this category are all overpayments, of which about 82 percent are OASI overpayments. Errors attributed to relationship/dependency issues accounted for about six percent of all OASDI overpayment deficiency dollars. This category accounted for about four percent of total OASDI deficiency dollars.

We are evaluating several recommendations to address relationship/dependency errors. These recommendations include potential systems enhancements related to entitlement of stepchildren, procedural revisions, and a possible legislative change.

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. Although earnings-related errors involve small dollars in the sample month, they can have a substantial impact over the life of the claim. Unless discovered in a review such as a quality review, earnings-related deficiencies reflect an incorrect payment that will continue for the life of the claim. Earnings-related errors most often result in underpayments to the beneficiary. For the FY 2003 through 2007 period, about 68 percent of the deficiency dollars for this category were underpayments. Errors involving earnings accounted for about 11 percent of all OASDI deficiency dollars for FYs 2003 through 2007.

We have taken a number of actions to reduce earnings-related errors. We added language to the improved Social Security Statement to remind the public to inform us 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.

For use with applicants, we have replaced the Earnings Computation alerts by the Earnings Alert Record Query for processing all claims. The Earnings Alert Record Query is a stand-alone query that checks the Master Earnings File for potential earnings irregularities on an individual's earnings record for years after 1977 (1978 and later). We implemented these alerts to enhance the detection of possible earnings irregularities and to eliminate unnecessary wage development during the earnings record review.

We have also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled us to exceed our goal (80 percent) to receive all Form W-2s electronically for tax year 2007. For tax year 2008, our goal is to receive 81 percent of all W-2s electronically. As of July 2008, we had received 213,937,728 (86.3 percent) of W-2s electronically.

To improve the posting of earnings records further, in June 2005 we implemented the Social Security Number Verification Service. The Social Security Number Verification Service allows registered employers or their third party representatives to verify the names and SSNs of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSNs per screen with immediate results or upload a file with up to 250,000 names and SSNs with the results available the next business day. In calendar year 2008, through July 4, 2008, we have verified over 43.8 million names/SSNs for nearly 32,000 employers.

Earnings that are not posted to an earnings record after the annual posting cycle go to a suspense file. These wage or self-employment earnings are not matched to an earnings record after all routine matching operations are complete. We are working to develop automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings; and,

- Match and move items from suspense to the beneficiary's earnings record.

We have also initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. We expect this re-examination process will produce information that will help us to better manage the suspense file. In addition, we developed a software program (Manual Suspense Items Reinstate – MSIR) that is being used in the Wilkes-Barre Data Operations Center to manually look at earnings suspense file items that scored high in matching routines, but not high enough to be reinstated through one of the automated processes. In FY 2008, MSIR reinstated nearly 20,000 items from tax years 1999 and 2002 to the Master Earnings File, totaling over $95 million.

WORKER'S COMPENSATION (WC): We have an ongoing effort to prevent future problems in the WC area, as well as clean up past problem cases. However, this manually-intensive workload continues to be a challenge. Although WC offset is solely limited to Title II DI cases, errors involving various types of WC offset accounted for about 11 percent of all Title II deficiency dollars for FYs 2003 through 2007. During this period, the vast majority of the WC deficiency dollars were underpayments, approximately 76 percent of the WC deficiency total.

Many of the problems associated with this complex workload are due to technical difficulties in determining the correct rates and dates to be used in WC computations. There is no automated verification of WC payments, so we rely mainly on beneficiary disclosure of WC payments and changes. Many beneficiaries do not report this information on a timely basis, if at all. Consequently, some of these individuals are paid a higher Social Security disability benefit than they are eligible for, while others are underpaid since their WC stopped and their SSA benefit amount is not increased accordingly.

In addition, the variations in state laws regarding the offset of Social Security benefits for both WC payments and public disability benefits (PDB) contribute to payment problems. Some beneficiaries also receive a combination of periodic WC/PDB payments and a lump-sum settlement. The combination of variance in state laws and multiple types of payments of WC/PDB received by a beneficiary often results in technical errors.

Although much work remains in the WC area, there are signs of improvement. Enhancements to the Interactive Computation Facility for computing WC offset, specialized training for technicians, a national WC website, and the rewrite of the WC chapter of the Program Operations Manual Systems are among the initiatives underway to reduce errors for this complex workload. In addition, we are conducting an ongoing review targeted at recent WC adjudications.

In FYs 2006 and 2007, our processing centers conducted a series of studies to identify cases with a high probability of error to work in future years. These cases were reworked as part of a "clean-up" workload.

In FY 2008, we cleared nearly 10,000 clean-up cases, using the criteria developed in FY 2006 to determine which cases yield the highest return for investment, while continuing to concentrate on the quality of current WC processing. For FY 2009, we are expecting to clear another 6,500 cases. In addition to the clean-up cases, we worked to reduce occurrences of overdue California State Disability Income (SDI) terminations. In FY 2008, we worked 4,400 new alerts for SDI payments and corrected a backlog of 4,890 cases.

ANNUAL EARNINGS TEST (AET): AET errors involve situations where deductions in payments related to a beneficiary's work after retirement age were not taken into account or were not computed properly. AET errors accounted for about four percent of all Title II deficiency dollars for FYs 2003 through 2007. Nearly 88 percent of the deficiency dollars in this category are OASI overpayments.

When a person has earnings after retirement, he/she is asked to report his/her earnings when those earnings exceed the annual exempt amount or when a change in expected earnings will affect benefits payable. We use these reports to adjust benefits for the year. Our stewardship review data indicates the leading cause of AET error is that wages were not reported or were reported incorrectly. We are running the AET enforcement program three times per year in order to reduce improper payments in this area.

If a beneficiary does not provide an annual estimate or report (or provides an incorrect report), the enforcement process will identify the earnings when they are posted to the earnings record. We will develop through the field office to determine if withholding of benefits is applicable. Stewardship reviewers do not record an AET error until after the full enforcement process has been completed for a particular year.

GOVERNMENT PENSION OFFSET (GPO): GPO rules generally require Social Security benefits for a spouse or surviving spouse who receive a monthly pension from a Federal, state or local government agency to be reduced. All of the deficiency dollars in this category are OASI overpayments. Errors attributed to GPO accounted for six percent of all OASDI overpayment deficiency dollars. This category accounted for four percent of total OASDI deficiency dollars. There is a current legislative proposal in the President's FY 2009 budget that would require state and local governments to provide data directly to us for work not covered by Social Security. If implemented, this legislation would permit timely processing of these types of cases, thereby reducing errors due to government pension offset.

IMPROPER PAYMENTS IN THE SSI PROGRAM

In order to 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 five years, (FY's 2003-2007), we paid a total of $195.2 billion to SSI recipients. Of that total, $14.2 billion was overpaid, representing 7.3 percent of outlays. Underpayments during this same period totaled $3 billion, the equivalent of 1.5 percent of outlays.

MAJOR CAUSES OF SSI IMPROPER PAYMENTS

For the 5-year period, FY 2003-2007, the major causes of overpayments in the SSI program (followed by a detailed description 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 leading causes of overpayment deficiencies.

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
- In-kind Support and Maintenance
- Living Arrangement "A"

CORRECTIVE ACTIONS

For the entire 5-year period, 74 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim, redetermination, or limited issue.

WAGES: Wages have been one of the leading deficiency types for overpayment improper payments in the last five years. They accounted for about 20 percent of total overpayment improper payments during the 5-year period. The major factor (91 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate and timely report of new or increased wages for the recipient or deemor. Wage overpayments increased from $778 million in FY 2006 to $803 million in FY 2007, a three percent increase.

In an effort to achieve more timely and accurate reporting of wages, we have completed a pilot to test the feasibility of implementing large-scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, we 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 were the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period.

Effective July 2008, we made enhancements to the authentication system and implemented other necessary systems changes to support telephone wage reporting. We are implementing this new telephone reporting system and will be recruiting people to participate when they visit their local office to conduct business; e.g., file an initial claim for SSI payments or when interviewed for a scheduled redetermination. There should be a gradual increase in the number of participants over the remainder of FY 2008 and into FY 2009.

In FY 2008, we completed just over 1.2 million non-medical redeterminations and limited issue reviews of SSI recipients. Redeterminations increased by over 200,000 compared to FY 2007 while the number of limited issue reviews remained about the same.

Wages have been the leading cause of underpayment improper payments in four of the last five years, accounting for about 28 percent of total underpayment improper payments during the 5-year period. The major factor (81 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 deemors accounted for 64 percent of underpayment improper payments and wages earned by recipients accounted for 36 percent of underpayment improper payments.

For the 5-year reporting period, wage fluctuations accounted for 64 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. Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

In addition to improved wage reporting technology, we also implemented new wage interface alerts in June 2008 designed to detect instances of potential underpayment. These new alerts compare the information held by the Office of Child Support and Enforcement and our Master Earnings File. The interface match determines if the wage amounts used to compute an individual's payment amount may have resulted in less SSI being paid than was due. Any wage mismatches identified through this process are posted to the individual's SSI record for further development and resolution.

FINANCIAL ACCOUNTS: For the 5-year period, financial accounts were one of the leading causes of overpayment improper payments, accounting for about 20 percent of the total overpayment dollars. For FY 2007, financial account overpayment deficiencies project to $863 million.

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 regional quality performance offices found undisclosed bank accounts or an increase in the amount of an account that the recipient or representative payee did not disclose to us. This accounts for 96 percent of the total overpaid dollars for the past five years.

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 or limited issue related to financial accounts (e.g., 1099 alert). That is, these improper payments developed after we had been in contact with the recipient. In FY 2007, 86 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 and those individuals whose income and resources we consider in determining an individual's eligibility and benefit amount (deemors) to provide authorization for the agency 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, we promulgated final regulations in FY 2004 that exercised the Commissioner's authority to require the authorization that set the stage to allow us to query financial institutions electronically. In February 2004, we began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated that an electronic asset verification system would enable us to find undisclosed assets at the time of application.

Since the proof of concept we have been operating the Access to Financial Information process in New York, New Jersey, and most recently in California (beginning in November of 2007). Should funding become available, we will extend the Access to Financial Information process nationwide. Until such resources are available, we are continuing the operation of the Accuity system in the New York/New Jersey/California field offices and in our Quality Performance offices to assist them in detecting bank account errors as part of the annual stewardship review process.

IN-KIND SUPPORT AND MAINTENANCE (ISM): ISM deficiencies were the second leading cause of underpayment error dollars over the last five years, accounting for 19 percent of the total underpaid dollars. 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 (83 percent). This occurred because a change was not reported or we received an incomplete/inaccurate report (75 percent) and because field offices inaccurately processed cases (21 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, 70 percent of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination/related limited issue.

We are continuing to look at options for simplifying living arrangements and ISM policies that we believe would contribute to a reduction in underpayments.

LIVING ARRANGEMENTS: Living arrangement "A" was the third leading cause of underpayment improper payments for the last five years, accounting for 18 percent of the total underpaid dollars. This category includes 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 arrangement.)

Over the five years, this deficiency primarily occurred (88 percent) when the recipient was charged with 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) and it no longer applied. Overall, the vast majority of underpaid dollars (78 percent) in this category occurred because recipients and representatives initially provided an incomplete or inaccurate report or failed to report a change. For each year in the 5-year period, almost two-thirds of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination/related limited issue.

The redetermination process is one of our most powerful tools for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when we are 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. We have 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 allowance, denial, and overall accuracy rates for FYs 2006 and 2007 are presented in Table 3. These rates are determined by our quality assurance review of initial claims. We review all sampled determinations prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, we established a combined allowance and denial goal for net accuracy. The goal for FY 2008 is 97 percent. FY 2008 data will be available in January 2009.

Table 3: DDS Initial Claim Net Accuracy		
Initial Claim Net Accuracy	**FY 2006**	**FY 2007**
Allowance	98.1%	98.4%
Denial	95.1%	95.6%
Combined	96.2%	96.6%

Note: The changes from FY 2006 to FY 2007 are not statistically significant.

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, we make the selection 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. We review all sampled determinations prior to effectuation and return and correct deficient cases. For FY 2006, the Actuary estimates that PER saved $609 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 13:1. We are currently calculating the results of those reviews.

The *Social Security Act* now includes an extension of the PER review of favorable adult disability decisions to the SSI program. This initiative 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.

FY 2008 is the first year we were required to review 50 percent of all allowances in the SSI program. In FY 2007, we were required to review 40 percent of SSI allowances. We are currently calculating the results of those reviews.

IMPROPER PAYMENTS FOR ADMINISTRATIVE OUTLAYS

We conducted an evaluation of our FY 2007 administrative payments and determined them not to be susceptible to significant improper payments. In FY 2007, we outlaid $10,465 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

We segmented administrative payments into several categories and used the categories to analyze and determine the vulnerability of these outlays to improper payments.

Table 4: FY 2007 Administrative Expenses ($ in millions)	
Payroll and Benefits	$5,448
State DDS	$1,783
Other Administrative Expenses*	$3,234
Total Administrative Payments	$10,465

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, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.

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

As part of the risk assessment, we also considered the following factors:

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

Based on the results of the overall risk assessment, we determined that our 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, we have established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges. Additionally, we use computer-assisted auditing techniques to identify possible duplicate payments. Our in-house recovery audit program employs an automated query system to identify payments made to the same vendor, with the same invoice date, and for the same amount to help identify payments that represent a higher risk of being double payments.

Results from our in-house recovery audit program and quality review process continue to confirm that Administrative Payments are well below the threshold established for reporting improper payments. These results further validate and reinforce our existing controls for the prevention, detection, and collection of improper payments.

PROGRAM SCOPE

The recovery audit program scope included a review of administrative contractor payments for FY 2007 totaling $1.4 billion. Of that amount, about 0.23 percent or $3,176,361 had been identified and collected. These results further validated our existing controls for prevention, detection, and collection of administrative improper payments.

We 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: FY 2007 Recovery Auditing Results ($ in millions)								
Agency Component	**Amount subject to Review for CY Reporting**	**Actual Amount Reviewed and Reported CY**	**Amounts Identified for Recovery CY**	**Amounts Recovered CY**	**Amounts Identified for Recovery PYs**	**Amounts Recovered PYs**	**Cumulative Amounts Identified for Recovery (CY + PYs)**	**Cumulative Amounts Recovered (CY + PYs)**
Administrative Expenses	$1,392	$11.995	$3.176	$3.176	$1.909	$1.909	$5.085	$5.085

ACCOUNTABILITY FOR IMPROPER PAYMENTS

In June 2002, we 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 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, agency executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. Progress is monitored in regular executive meetings.

AGENCY INFORMATION SYSTEMS TO REDUCE IMPROPER PAYMENTS

BACKGROUND

In the SSI Corrective Action Plan discussed above, we identified a number of information technology (IT) initiatives aimed at prevention, detection, and collection of improper payments. We have 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 our Chief Information Officer on areas of Capital Planning and Investment Control. The ITAB is comprised of the Chief Information Officer, Deputy Commissioner for SSA, all Deputy Commissioners, and other executive staff.

As part of the Capital Planning and Investment Control environment, the ITAB reviews and approves IT plans outlining Office of Systems' IT initiatives 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 our 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 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 we develop the IT initiatives identified to improve preventing, detecting, and collecting improper payments and are given the resources to do so, we will be in a better position to achieve our strategic objectives in this area. The President's FY 2009 budget for the agency is $10,327 billion for Limitation on Administrative Expenses, an increase of $582 million in discretionary budget authority over our FY 2008 appropriation. With the President's FY 2009 budget, we will be able to process significantly more retirement claims and answer more

800-number calls, substantially reduce the hearings backlog, and process more program integrity work. The budget supports our efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include processing of nearly 100,000 more continuing disability reviews and nearly 300,000 more SSA non-disability redeterminations as compared to FY 2008, as well as the use of computer matches to identify and prevent overpayments. Through these activities, we can ensure the ongoing stewardship of our programs.

STATUTORY AND REGULATORY BARRIERS TO REDUCING IMPROPER PAYMENTS

We continuously develop legislative proposals to improve administration of the OASI, DI, and SSI programs. For example, several proposals that would make amendments to the OASI, DI, and SSI programs are included in the President's FY 2009 budget. One of the proposals would simplify administration of the DI program by modifying the rules for computing the reduction under the workers' compensation (WC) offset provision. Receipt of WC payments often results in a reduction in the benefits payable to a disabled worker and the worker's entitled family members.

WC OFFSET SIMPLIFICATION PROPOSAL: Simplifying the DI program reduces improper payments. One of the proposals in the President's budget would change the amount of the offset to a benefit reduction equal to the lesser of the worker's monthly WC benefit or a flat percentage (31 percent) of the Social Security DI benefits payable to the disabled worker and the worker's family. In addition, the offset period would be limited to no longer than 5 years from the worker's first month of entitlement to disability benefits.

The current WC offset provision is a complex aspect of the Social Security DI program, is difficult to administer, and is error-prone. The provision requires us to: 1) base the initial offset on an amount equal to 80 percent of the worker's pre-disability earnings, 2) continually monitor the amount of the ongoing WC payment, 3) apply special rules when adding annual Cost-of-Living-Adjustments to the benefit payable, and 4) redetermine every three years the amount of the pre-disability earnings used in the offset. Due to the complexity of the provision, we devote substantial staff time to reworking cases in which errors were made. This proposal would simplify the administration of the WC offset provision, thus allowing us to use our administrative resources more effectively. These resources could be applied to other pressing workloads at SSA—e.g., conducting Continuing Disability Reviews.

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

In FY 2008, we collected $2.81 billion in program debt. We achieve debt collections in a variety of ways that have been developed over the years. Collection techniques include internal methods such as benefit withholding and billing and follow-up. In addition, we use external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (DCIA) for OASDI debts and the *Foster Care Independence Act of 1999* (FCIA) for SSI debts. These debt collection tools include the Treasury Offset Program (TOP), credit bureau reporting, administrative wage garnishment (AWG), and Federal Salary Offset (FSO).

Our strategy for improving our 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, we have worked steadily over the years to build the strong debt collection program we now employ. We have a history of striving for maximum stewardship of the OASI and DI Trust Funds and the General Fund. In the early 1990s, we launched an expansion of debt collection tools that continues today.

Beyond our internal methods of debt collection which are benefit withholding and billing/follow-up, Table 6 below summarizes the results of key debt management initiatives we have undertaken, followed by a discussion summary of each initiative.

From their inception through September 2008, these initiatives have yielded over $3.0 billion in benefits through a combination of overpayment recovery and prevention improvements.

Table 6: Results Summary - Debt Management Initiatives ($ in Billions) Through September 2008				
Initiative	**Initial Inception**	**Results**		
		OASDI	**SSI**	**TOTAL**
Tax Refund Offset/Treasury Offset	1992	$0.881	$0.620	$1.501
Credit Bureau Reporting	1998	$0.251	$0.217	$0.468
Cross Program Recovery	2002	$0.029	$0.409	$0.438
Wage Garnishment	2005	$0.033	$0.008	$0.041
Automatic Netting - SSI	2002	N/A	$0.596	$0.596
Total ($ Billion)		**$1.194**	**$1.850**	**$3.044**
Note: Tax Refund Offset/Treasury Offset includes Federal Salary Offset recoveries.				

TAX REFUND OFFSET/TREASURY OFFSET: Taking advantage of the legal authorities granted in the *Omnibus Budget Reconciliation Act of 1990* (for OASDI debts), and the *Deficit Reduction Act of 1984* (for SSI debts), we began an expansion of our debt collection initiatives with the implementation of tax refund offset (TRO) in 1992. We enhanced our TRO program twice in the 1990s and then merged it with TOP in 1998. To date, we have collected over $1.5 billion in delinquent debt via TRO/TOP.

CREDIT BUREAU REPORTING: In 1998, we began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, we 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 $468 million in delinquent overpayments by people who do not want to submit to the reporting or to other aggressive collection tools such as TOP and AWG.

CROSS PROGRAM RECOVERY - SSI: After receiving the authority to use mandatory Cross Program Recovery (CPR), or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, we developed and implemented this internal collection method. Since 2002, we have collected over $409 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

CROSS PROGRAM RECOVERY - OASDI: We received additional authority for CPR in the *Social Security Protection Act of 2004*. We are now able to use mandatory CPR in situations where CPR was not previously permitted. We 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. In August 2007, we further expanded the use of CPR to include recovery of OASDI overpayments from SSI underpayments. Since implementing this expanded CPR process, we have recovered over $29 million in OASDI overpayments. We intend to continue expanding the CPR program to other situations in the future.

ADMINISTRATIVE WAGE GARNISHMENT: We also implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each payday from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. We issued the first garnishment orders in April 2005 to the employers of OASI, DI, and SSI debtors who became delinquent in 2005. We expanded the AWG program to all existing delinquent debtors in August 2006. To date we have recovered over $41 million in AWG.

NON-ENTITLED DEBTORS: In November 2005, we implemented a new initiative called the Non-Entitled Debtors (NED) program, which was also authorized by the FCIA. This automated system enables us to control recovery activity for debts owed by people for whom we do not have a master record. For example, the records for debtors such as representative payees who receive overpayments after the death of the beneficiary are controlled in NED. Work is continuing on the expansion of this system, which will eventually include all types of debtors who are not entitled to benefits and will allow us to collect NED debts by means such as TRO, AWG, and FSO.

FEDERAL SALARY OFFSET: In FY 2006, we implemented FSO, which was authorized by the DCIA for OASDI debts, and by the FCIA for SSI debts. FSO is the process whereby the salary paying agency withholds amounts each pay day from an employee of the Federal government who owes a debt to a creditor agency. We use FSO to collect delinquent SSA overpayments owed by Federal employees, including employees who work for SSA.

AUTOMATIC NETTING - SSI: In addition to the preceding improvements, we 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, we have prevented over $596 million in overpayments computed and underpayments paid.

OTHER INITIATIVES: We have 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, authorized by the DCIA, collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program, authorized by the *Taxpayer Relief Act of 1997*, collects delinquent tax debts from Social Security benefits.

Continued improvement in our debt collection program is also underway. The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and administrative fees, interest-charging, or indexing a debt to reflect its current value.

This page was intentionally left blank.