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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

COMPUTER MATCHING TO DETECT ERROR, WASTE, AND FRAUD

IN GOVERNMENT PROGRAMS

Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss the use of computer matching as a means for detecting and preventing error, waste, and fraud in Government programs. You asked us to present our views on whether computer matching is a cost effective management tool, and whether it can be used without compromising the privacy rights of individuals. You also asked us to address a number of specific issues, such as how often matches should be made, problems in performing them, and other benefits of computer matching.

Based upon our experiences as well as those of other agencies, we believe computer matching can be a very cost effective tool for detecting error and fraud in Government entitlement

programs and for identifying actions needed to strengthen program controls. Even more important, as a form of internal control, it can be a very effective deterrent to fraud and waste if it is common knowledge that it is being used. Funding for entitlement programs is projected at over \$350 billion for 1983, and potential erroneous payments could run into the billions. Because computer matching is a relatively low cost method of identifying and reducing erroneous payments, we endorse its use with the understanding that the rights of individual citizens will be protected as required by the Privacy Act of 1974, the Tax Reform Act of 1976, and due-process provisions for reducing or eliminating benefit payments are followed.

Definition of computer matching

Before I go any further, I think it would be useful to define computer matching and discuss briefly its use in entitlement programs. Simply stated, computer matching--as its name implies--is a technique in which selected data within a file or in two or more computerized files are compared to identify certain conditions which, if they exist, could indicate program ineligibility and erroneous payments. In the context of its use in entitlement programs, it is one step in the process of verifying eligibility information provided by people applying for or receiving program benefits. After a match has been made, additional steps must usually be taken to ensure that "matched records" pertain to the same individual and that the data in each record is accurate and up to date. Thus, because the computer provides the capability to match millions of records with extreme speed (vis-a-vis manual matching), computer matching is a systematic and efficient means of conducting a

preliminary screening and matching of records to identify possible erroneous payments.

COST-EFFECTIVENESS OF COMPUTER MATCHING

For the most part, our efforts have focused on identifying erroneous payments rather than evaluating the cost-effective use of computer matching by Federal and State agencies. (See App. I for a list of reports related to computer matching.) Our experiences with computer matching have shown that the benefits--namely identifying and stopping erroneous payments and correcting program deficiencies--generally far outweigh the cost of a match.

As far back as 1976, for example, we made a computer match of Supplemental Security Income (SSI) payments with records of benefit payments made by the Veterans Administration and the Railroad Retirement Board. 1/ By using a computer matching technique, we were able to identify and report total erroneous payments of more than \$60 million annually. The Social Security Administration has now been conducting similar matches routinely and we understand that in fiscal 1982 the savings actually exceeds \$100 million.

We reported in January 1982 2/ that overpayments in 5 major needs-based benefit programs would probably exceed \$1 billion in fiscal 1982. Since eligibility and the amount of these payments

1/Supplemental Security Income Payment Errors Can be Reduced," HRD-76-159, Nov. 18, 1976.

2/Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions," HRD-82-9, Jan. 14, 1982.

are dependent on recipients' income and assets, increased verification of these data via computer matching could reduce significantly the number of erroneous payments. The estimate of overpayments was made for the AFDC, SSI, Medicaid, Food Stamp, and Section 8 Housing programs. Although significant, they represent only a portion of the total potential erroneous payments for all entitlement programs.

As you can see, the potential payback of a computer match can be significant, but the question remains: how much does it cost? The straight-forward answer is "it all depends" because there are so many variables. Costs will depend on such variable factors as the size and complexity of the records being matched, the quality and compatibility of the data in computerized files, and the extent of verification required following a match.

One element of cost is the cost of the software needed to make the match. This cost, by itself, can be large; however, once developed, the software can be used on many different matches. For example, our staff designed a set of computer programs for matching which we call "SEEKER"; our development costs were about \$100,000. To date, we have used it on several different audits in GAO. Also, two executive agencies are using it now (the Veterans Administration and Department of Labor) and others are planning to. On one matching project alone we identified about \$2 million in overpayments of which about \$500,000 has been collected.

Another element of cost is the cost of computer time to match the files, but, here again, the cost is relatively insignificant in relation to potential benefits. On a current audit, we spent

less than \$10,000 in computer time to match over four million records; the potential erroneous payments on the hits identified in the match may be several million dollars.

The remaining costs of a computer match are the most difficult to assess and these include the costs to review a match to confirm that an erroneous payment has been or may be made. This effort is usually manual and the costs are dependent upon the eligibility requirements of a given program and the quality and availability of data needed for verifying whether a match does in fact represent an erroneous payment. Consequently, it is difficult to generalize on these costs and each matching project must be evaluated on a case-by-case basis.

Operational problems increasing costs

Some major operational problems can further increase the costs and time involved in computer matching. They involve incompatibilities in ways data is represented in computer files of different agency systems and inaccurate and unreliable data contained in their automated files. We have addressed both of these problems in several reports and although some progress has been made, much more needs to be done.

We have reported the problem of data standardization in computers over the years. For instance, in 1974 we reported 1/ that the common coding and representation of information in computers was needed to facilitate exchanges of data in automated

1/"Emphasis Needed on Government's Efforts to Standardize Data Elements and Codes for Computer Systems," B-115369, May 16, 1974.

records in machine-readable form and reduce its cost. In 1978, we reemphasized the need for computer standardization to facilitate data exchanges and noted a lack of compliance with existing standards. 1/

As automated data exchanges become more prevalent for computer matching as well as for other reasons, the need for an effective approach to standardization becomes even more important for economy and efficiency reasons.

Another major problem that we have seen over the years involves poor data quality in automated systems. In computer matching, a major part of the cost involves validating the quality of the data in the files of the agencies involved in the match. Validation includes assuring that the matched data is complete, accurate, and timely. The more data errors in the files, the more it costs to validate the computer matches.

In addition to the added costs of performing a match, poor data quality can also result in the failure to identify improper payments being made. The added costs here are erroneous payments.

Factors to consider in matching

Because of the many variables involved, prudent program management requires that proposed matches be planned and properly justified and evaluated periodically in terms of costs and actual benefits. In assessing benefits, however, program managers both

1/"The Federal Information Processing Standards Program: Many Potential Benefits, Little Progress, and Many Problems," FGMSD-78-23, Apr. 19, 1978.

at the Federal and State level should view computer matching as a tool for preventing as well as detecting error and fraud and therefore its use can act as a deterrent to program abuse.

In this context, computer matching can be viewed as an internal control technique, as well as a tool for evaluating the effectiveness of other internal controls. For instance, computer matching can be used before benefits are authorized to validate or verify eligibility-related information provided by an applicant (e.g., wage data in needs-based programs). In this way, computer matching functions as an internal control to detect or prevent erroneous or fraudulent payments before they occur. Computer matching can also be used--very effectively as shown by its many uses to date--to determine if applicants already receiving benefits are truly eligible. In this way computer matching functions as a tool for determining if other internal controls used for verifying an applicant's eligibility for benefits are functioning properly.

COMPUTER MATCHING: WHEN AND HOW OFTEN?

With regard to your question of when and how often computer matching should take place, the issue centers around whether it should be done in the pre-payment stage or the post-payment stage, and if in the latter, how frequently?

Selective verification of critical eligibility factors through computer matching at the pre-payment stage would have the obvious benefits of identifying potential program abusers and errors before erroneous payments are made, reduce expensive followup and collection activities, and, as I stated previously, act as a deterrent in preventing or reducing the amount of program abuse that may take

place. Consequently, matching at the pre-payment stage can be very desirable. It may not be feasible in all cases, however, because some programs may call for the initial payments to be made within a short timeframe. For example, the Food Stamp Act of 1977 (as amended) currently requires that allotments to eligible households be made in as short a period as 5 days, and not later than 30 days following the filing of an application. This requirement could make it difficult to use computer matches at the prepayment stage if the automated files to be matched are processed on incompatible systems or the data in the files is of questionable accuracy and requires significant amounts of verification before it can be used. If such constraints make computer matching impractical before initial payments or benefits are provided, consideration should be given to performing a match as soon as possible afterwards.

Because of changes in circumstances involving individual income, assets, dependencies, and the like, computer matches should also be considered for persons already receiving Federal benefits.

Whether matches should be performed, and whether the match should be on a one-time or routine basis are dependent on several factors and should be considered on a case-by-case basis. The obvious considerations are:

- Specific known or suspected cases of fraud or error in a benefit program.
- Whether computer matching would be effective in deterring people from misrepresenting information when applying for benefits.

- Significant changes in legislative or administrative requirements for eligibility and payment. A match could be a very economical means for determining whether required changes were correctly made.
- The potential for change in an individual's eligibility status. For example, changes in income or asset levels could change or eliminate eligibility for a benefit payment.
- The adequacy of the system of internal controls in a benefit program. If controls are judged to be weak, a program could be more vulnerable to error or fraud. A more frequent match might therefore be in order until the controls are strengthened.

STATUTORY CONSTRAINTS TO COMPUTER MATCHING

While there are advantages to using computers to verify data about persons applying for or already receiving Federal benefits, the Tax Reform Act of 1976, which was designed to protect the privacy rights of taxpayers, restricts or prohibits the matching of certain computerized data.

In January 1982, we recommended 1/ some legislative changes to facilitate computer matching in needs-based benefit programs. In these programs an individual's eligibility is based upon his or her income and assets. Our recommendations addressed the use for verification purposes of (1) wage and earnings data maintained by the States and SSA, and (2) unearned income data maintained by the

1/Legislative and Administrative Changes to Improve Verification of Welfare Recipients Income and Assets Could Save Hundreds of Millions" HRD-82-9, Jan. 14, 1982.

Internal Revenue Service (IRS). However, the opening of Federal tax data for use in other government programs involves certain policy considerations concerning privacy.

Wage and earnings data

Wage data maintained by the States is generally considered to be the best available wage information for verification purposes. The States collect this information from employers to determine eligibility and benefits under the unemployment insurance program. However, there are a couple of limitations. First, only 38 States have laws that require collection of quarterly wage data for use in the unemployment insurance program. The other 12 do not; most get only gross payroll data from employers. The Department of Labor has recently drafted proposed legislation to respond to our recommendation to require all States to collect wage data quarterly.

Second, the data for all States does not include wages of Federal employees, military personnel, and earnings of the self-employed. SSA wage information is more comprehensive than State data because it does include these wages and earnings. A major problem, however, is that because these data are collected for Federal income tax purposes, as well as for SSA's use, access to the data is controlled, for privacy reasons, by the Tax Reform Act of 1976. This law was enacted to provide stringent disclosure limitations on tax return data because of concerns about individual privacy. Although the Congress has passed separate legislation making SSA's wage data available for use in the AFDC and Food Stamp programs, such data cannot be used for verification purposes in other Federal needs-based programs.

We recommended in January 1982 that Congress consider amending the disclosure provisions of the Internal Revenue Code to permit disclosure of SSA data on individual wages; net earnings from self employment; and payments of retirement income to Federal, State, and local agencies administering Federal needs-based programs whenever comparable data is not available at the State level.

Unearned income and asset data

One potential means of identifying income and assets unreported or underreported by applicants and recipients of needs-based programs is IRS records on taxpayer unearned income. However, exchange of these data is also prohibited by the Tax Reform Act of 1976.

IRS requires that data on taxpayer unearned income be reported through third-party information returns so that it can verify the accuracy of taxpayers' Federal tax returns. Third-party returns are submitted, for example, for pensions and annuities, interest income, dividends, lump-sum distributions from profit sharing and retirement plans, bearer certificates of deposit, and individual retirement accounts. This information, which is maintained in IRS' information return processing file, could be used to verify the unearned income being reported to the eligibility programs, and also to indicate ownership and value of assets which produced the income.

A 1978 feasibility test done by IRS for SSA demonstrated the usefulness of information return data for identifying SSI recipients who receive interest income. SSA provided IRS with

the social security numbers (SSNs) of 5,000 SSI recipients who claimed to have no income from bank accounts. IRS then matched these SSN's against its files. The results, developed as aggregated data only, showed that 13.5 percent of the recipients did have bank account income. Further, based on the amount of that income, SSA estimated that 2.5 percent of the 5,000 recipients owned more assets than allowed for SSI eligibility.

According to SSA projections, more than 100,000 recipients were potentially overpaid \$122 million annually because of these unreported assets. SSA concluded that matching the SSNs of all SSI recipients with IRS records and using the results to re-determine recipients' eligibility appeared highly feasible and cost effective.

Given these results, and based on other work we had done in federally supported programs, we recommended in January 1982 that the disclosure provisions of the Internal Revenue Code be amended to permit disclosure of IRS data on sources and amounts of unearned income to Federal, State, and local agencies administering federally funded needs-based programs. Both this and our previously mentioned recommendation on wage related data recognized the need for restricting such disclosure so that tax return information would be made available only for purposes of, and to the extent necessary in, determining an individual's eligibility for benefits or the amount of benefits.

Privacy considerations and tax information

Because of privacy and other concerns, Congress has appropriately approached the opening of tax data with caution. In

September of this year, Congress amended the Code to facilitate the disclosure of tax returns and return information for nontax criminal investigation purposes. The debates leading to this amendment, however, did not include the issue of using tax data to help administer needs-based programs.

We continue to believe that this issue merits consideration. However, we recognize that the policy considerations are sensitive and complex. On the one hand, there are the tenets that taxpayers who supply IRS with tax information have a basic right to privacy with respect to that information, and that such information should be subject to disclosure only when society has a compelling interest which outweighs individual privacy concerns. Some believe that violation of these tenets might affect voluntary compliance with and, thereby, the health of the Nation's tax system. On the other hand, there is the need to improve needs-based program eligibility and benefit determinations so that benefit dollars are not lost to the Government or diverted from those entitled to them. We consider the problem sufficiently significant to warrant congressional debate and consideration.

THE PRIVACY ACT AND OMB GUIDELINES
FOR COMPUTER MATCHING

While I am on the subject of privacy, I would like to comment briefly on the computer matching guidelines issued by the Office of Management and Budget (OMB). These provide requirements that agencies should follow to comply with the Privacy Act.

The Privacy Act of 1974 was passed because of concerns about possible invasions of the privacy of U.S. citizens by the Federal

Government. The Act requires agencies to issue public notices of the existence and uses of their "systems of records" containing information about people. It also specifies conditions under which personal data in these systems can be disclosed and requirements for maintaining records on such disclosures. Further, it defines the rights of individuals to obtain, review, and when, in error, amend records about them. Among other things, it also requires agencies to establish appropriate administrative, technical, and physical safeguards of records.

We believe that the OMB guidelines are important because compliance with them would help assure uniform adherence with key provisions of the Privacy Act. In addition, the OMB guidelines add a requirement which is extremely important. The guidelines require agreements in writing with non-Federal entities that would not otherwise be subject to the disclosure controls of the Privacy Act. These agreements should address such things as file ownership, limits on the use and disclosure of the files as well as the information extracted by the matches, and the nature of file disposition. Although these agreements are important, their implementation must be actively monitored by Federal agencies to assure compliance.

We also believe that the guidelines can be improved by extending their coverage to computer matches that are aimed at verifying eligibility of persons before payments are made. These types of matches are currently excluded from the guidelines.

With regard to the requirement in the Privacy Act that calls for providing adequate safeguards over personal information, we have reported on a continuing number of computer security problems

in Federal and State agencies. In a report entitled "Automated Systems Security--Federal Agencies Should Strengthen Safeguards Over Personal and Other Sensitive Data" issued on January 23, 1979, we pointed out that ten Federal agencies were experiencing problems in establishing organizations, plans, procedures, and methodologies for cost effective computer security safeguards over automated data. In more recent reports issued in 1981 and 1982 we have found this to be a continuing problem in both Federal and State Governments because policy guidance has not been adequate and senior agency managers have given only limited support to improving agency security programs.

Nonetheless, there are a number of recognized techniques and procedures which can be employed to give a high degree of computer security during a computer match. It is incumbent upon each agency to use these computer security techniques and procedures and monitor their use during the match to guard against unauthorized disclosure of personal information or other possible violations of the Privacy Act.

Mr. Chairman, to summarize our views, we believe that computer matching can be an effective tool for verifying the eligibility of entitlement program beneficiaries. However, such matches must be performed within the framework of the Privacy Act of 1974 and Tax Reform Act of 1976. Moreover, where legislation is needed in order to make additional data such as tax data available for matching and verification purposes, Congress must consider the privacy and tax compliance implications prior to authorizing or not authorizing the use of such data.

This concludes our prepared statement. We would be pleased to respond to any questions. Thank you.

**SELECTED GAO REPORTS
FROM 1976 TO 1982
INVOLVING COMPUTER MATCHING**

<u>Report Title or Subject</u>	<u>Report Number</u>	<u>Date Issued</u>
States' Capability to Prevent or Detect Multiple Participation in the Food Stamp Program	CED-82-103	06-16-82
Prisoners Receiving Social Security and Other Federal Retirement, Disability, and Education Benefits	HRD-82-43	07-22-82
Millions Could be Saved by Improving Integrity of the Food Stamp Program's Authorization-To-Participate System	CED-82-34	01-29-82
Legislative and Administrative Changes to Improve Verification of Welfare Recipients Income and Assets Could Save Hundreds of Millions	HRD-82-9	01-14-82
States' Efforts to Detect Duplicate Public Assistance Payments	HRD-81-133	09-17-81
Concerns About HHS' Ability to Effectively Implement Incentive Funding for State Information Systems in the Aid to Families With Dependent Children Program	HRD-81-119	06-29-81
Impact of State Death Information on Federal Income Security Programs	HRD-81-113	07-28-81
Millions Can be Saved by Identifying Supplemental Security Income Recipients Owning Too Many Assets	HRD-81-4	02-04-81
VA Improved Pension Program: Some Persons Get More Than They Should and Others Less	HRD-80-61	08-06-80
Social Security Should Obtain and Use State Data to Verify Benefits for All Its Programs	HRD-80-4	10-16-79

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<u>Report Title or Subject</u>	<u>Report Number</u>	<u>Date Issued</u>
Social Security Student Benefits For Postsecondary Students Should be Discontinued	HRD-79-108	08-30-79
Social Security Should Improve Its Collection of Overpayments to Supplemental Security Income Recipients	HRD-79-21	01-16-79
Letter Report on Social Security Administration's Problems in Detecting Duplicate Payments Retirement, Survivors and Disability Insurance Program Benefits to Students	HRD-79-27	12-22-78
Letter Report on Duplicate AFDC Payments in New York	HRD-78-133	06-21-78
Wisconsin's Aid to Families With Dependent Children and Child Support Enforcement Programs Could Be Improved	HRD-78-130	06-22-78
Privacy Issues and Supplemental Security Income Benefits	HRD-77-110	11-15-77
Supplemental Security Income Payment Errors Can be Reduced	HRD-76-159	11-18-76