OTHER ACCOMPANYING INFORMATION

The *Other Accompanying Information* section provides information to satisfy additional statutory and Office of Management and Budget reporting requirements.

In accordance with the *Reports Consolidation Act of 2000*, the *IG Statement on SSA's Major Management and Performance Challenges* section provides a summary and assessment of the most serious management and performance challenges facing our agency as determined by the Office of the Inspector General. The Office of the Inspector General also describes the steps we have taken to address each one of these challenges.

Next, in the *Other Reporting Requirements* section, we provide a summary of our financial statement audit and management assurances. We also discuss our anti-fraud activities and our biennial review of user fee charges, and we provide tables on our debt management activities.

Finally, the *Other Accompanying Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we address our efforts to detect, prevent, and collect payments made improperly under the Old-Age and Survivors Insurance, Disability Insurance, and Supplemental Security Income programs.

IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

SOCIAL SECURITY

November 4, 2011

The Honorable Michael J. Astrue
Commissioner

Dear Mr. Astrue:

The *Reports Consolidation Act of 2000* (Pub. L. No. 106-531) requires that Inspectors General provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. The *Reports Consolidation Act* requires that the Social Security Administration (SSA) place the final version of this Statement in its Annual *Performance and Accountability Report*.

In Fiscal Year (FY) 2011, we continued to focus on the management and performance challenges from the previous year. Those challenges are listed below.

- Implement the *American Recovery and Reinvestment Act* Effectively and Efficiently
- Reduce the Hearings Backlog and Prevent its Recurrence
- Improve the Timeliness and Quality of the Disability Process
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Customer Service
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Strengthen the Integrity and Protection of the Social Security Number
- Improve Transparency and Accountability

My office will continue assessing SSA's operations and the environment in which it operates to ensure our reviews focus on the most salient issues facing the Agency. To that end, we believe an emerging issue is the Agency's ability to plan both tactically and strategically to ensure it can meet its mission today and well into the future. We plan to include this issue as a management challenge in FY 2012.

I congratulate you on the progress made in FY 2011 in addressing these challenges. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively.

Sincerely,

Patrick P. O'Carroll, Jr.
Inspector General

Fiscal Year 2011 Inspector General Statement on the Social Security Administration's Major Management and Performance Challenges

November 2011

IMPLEMENT THE *AMERICAN RECOVERY AND REINVESTMENT ACT* EFFECTIVELY AND EFFICIENTLY

CHALLENGE: *While the completion of a new data center, which is funded by the American Recovery and Reinvestment Act of 2009 (ARRA) (Pub. L. No. 111-5), is critical to SSA's operations, the purchase of the building was delayed, further delaying construction.*

On February 17, 2009, the President signed ARRA into law. ARRA provided SSA funds to address three major efforts.

- $500 million to replace SSA's National Computer Center (NCC).
- $500 million to process disability and retirement workloads, including information technology (IT) acquisitions and research in support of these workloads.
- $90 million to reimburse costs for processing a one-time ERP of $250 to millions of qualified individuals receiving Social Security and Supplemental Security Income (SSI) payments. (On August 10, 2010, section 318 of Pub. L. No. 111-226 rescinded $47 million of the funds SSA received to administer the $250 ERPs.)

We believe the timely replacement of the NCC and the capacity of SSA's computer systems continue to be major challenges for the Agency. SSA's NCC houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. In FY 2011, we issued two reports on SSA's efforts to replace the NCC with a new data center.

Data Center Site Selection: In February 2011, we issued our report on *The Social Security Administration's New Data Center Site Alternatives.* We evaluated the appropriateness of the short list of potential building sites for the new data center selected by the General Services Administration's (GSA) site selection team. We found that the site selection team had developed a highly sophisticated set of selection criteria to evaluate general geographic areas and prospective individual properties. GSA's decision criterion sought to avoid both natural and man-made risks that could be hazardous to the data center's operation.

However, we had questions about the process the GSA site selection team employed to cull the site properties down to a short list. The three finalist sites had conflicts with one, two, or three secondary criteria, while several unsolicited sites had only one documented secondary criteria conflict.

Data Center Requirements: In May 2011, we issued our report on *The Program of Requirements for the Social Security Administration's New Data Center*. The objective of the review was to determine whether GSA and SSA followed best practices in developing the overall Program of Requirements for a new data center. The Program of Requirements provides the minimum design requirements that assist qualified design-build contractors in generating and presenting conceptual designs, budgets, and schedules for complete turnkey construction of the new Data Center.

We found that the GSA/SSA team had developed a comprehensive list of requirements. The team was thorough in creating a document that effectively communicated the needs of a new data center and the expected performance requirements. However, the structural design limits for wind speed force were lower than expected for best practice standards. Also, the information related to the redundancy requirements for the air-handling units was not clearly defined.

Purchase of the Data Center Site: The purchase of the property where a new data center will be built was delayed. GSA planned to purchase the required land in June 2011, but did not purchase it until August 2011, thus delaying the start of construction. The timely completion of a new data center is critical to SSA's ability to continue providing the level of service the American public expects and needs.

Agency Actions

In response to ARRA and Office of Management and Budget (OMB) guidance, SSA developed an ARRA Risk Management Plan that outlined the major challenges and risk mitigation activities facing SSA in implementing the requirements of ARRA. The challenges fell into five major categories: Overall Recovery Act Implementation, One-Time ERP Administrative Expenses, One-Time ERP Payments, Disability and Retirement Workloads, and Replacement of the NCC. The major areas were further defined by challenges specific to each category. SSA developed risk mitigation activities to address each identified challenge, and continues to implement them.

Data Center: In FYs 2010 and 2011, SSA, in coordination with GSA, developed the Program of Requirements for a new data center. GSA selected a site for a new data center and solicited for a design/builder. GSA purchased the site in August 2011, and plans to award construction by March 2012. It plans to complete construction in December 2014. After completion of construction and commissioning, IT migration to the new data center will take an additional 18 months. SSA stated that the new data center should be operational in 2016.

REDUCE THE HEARINGS BACKLOG AND PREVENT ITS RECURRENCE

CHALLENGE: *While SSA has a plan to eliminate the hearings backlog by 2013, budgetary challenges may affect its ability to do so. In addition, there is a growing concern with administrative law judges' (ALJ) adherence to SSA's policies, and variation in their decisional outcomes.*

Hearings Backlog: At the forefront of congressional and Agency concerns is the timeliness and accuracy of SSA's disability decisions at the hearings adjudicative level. SSA has made progress with its plans to eliminate the hearings backlog and improve average processing time to 270 days by 2013, though increases in hearing receipts and higher than expected ALJ attrition have hindered progress in FY 2011.

As the end of FY 2011, SSA's hearings backlog was approximately 787,000 cases—about 82,000 cases higher than the backlog at the end of FY 2010 and 62,000 higher than its goal for FY 2011. However, SSA continued to improve the timeliness of hearing decisions. The cumulative average processing time for hearings dropped to 360 days as of the end of FY 2011, compared to 426 days as of the end of FY 2010.

As we noted in a June 2011 Congressional Response Report, *The Office of Disability Adjudication and Review's Hearings Backlog and Processing Times*, SSA is facing significant budgetary challenges in meeting the 2013 goal of eliminating the pending hearings backlog. Based on our 2012 backlog projections, we concluded that SSA will miss its goal to eliminate the backlog by 2013 if ALJ availability, productivity, or projected hearing receipts varied by as little as 1 percent.

ALJ Performance: SSA is also facing increased scrutiny of the hearings process itself. Members of Congress have expressed concerns about ALJ adherence to the Agency's policies and procedures, as well as their ability to demonstrate good stewardship of taxpayer dollars. Other concerns, such as ALJ workloads, variances in ALJ decisional outcomes, management controls over the hearings process, and quality reviews of ALJ decisions have also come to the forefront. We have begun work to address these issues, which we expect to complete in FY 2012. Throughout these reviews, we plan to work with SSA management to identify any weaknesses in processes, recommend strengthened controls where appropriate, and ensure the continuing integrity of the hearings process.

We will also continue focusing our audit resources on other hearing-related areas to determine whether Agency processes are working as intended, including payments to claimant representatives, processing of complaints from the public, and availability of electronic services for the public. The hearings process is an important component of SSA's disability programs, and it is essential that the public receives a timely hearing and believes the underlying process treats them fairly.

Agency Actions

The Agency continued to implement the Commissioner's plan to eliminate the backlog through a variety of initiatives including

- expanding the list of diseases and conditions covered under compassionate allowances;
- increasing adjudicatory capacity through additional hiring, new hearing offices, and the use of senior attorney adjudicators;
- reducing the volume of aged cases in the hearings pipeline; and
- improving hearing efficiency with automation and improved business processes, such as the expansion of video hearings.

SSA hired 143 new ALJs in FY 2011, and adjudicated approximately 53,000 cases using the senior attorney adjudication program. It opened or expanded eight hearing offices in FY 2011. It held almost 130,000 video hearings nationwide in the FY, an increase of more than 9,000 video hearings than in FY 2010.

IMPROVE THE TIMELINESS AND QUALITY OF THE DISABILITY PROCESS

CHALLENGE: *The number of pending initial and reconsideration disability claims continues to increase and a backlog of continuing disability reviews (CDR) remains.*

Disability Claims Backlog: SSA is facing a considerable increase in initial and reconsideration claims. In FY 2011, SSA received over 3.2 million initial disability and 836,000 reconsideration claims. The increase in claims is matched by an increase in the number of claims pending completion. For example, at the end of FY 2008, there were over 556,000 initial claims pending. At the end of FY 2011, there were over 759,000 initial claims pending, an increase of 36 percent over the FY 2008 year-end pending level.

DDS Personnel Issues: In addition to the increased receipts, some disability determination services (DDS) are facing high attrition rates, hiring freezes, and employee furloughs, all of which affect SSA's ability to process the disability workload. In FY 2011, DDS staffing decreased from 18,269 employees to 17,271 employees – a loss of 998 employees. With the hiring freeze, DDSs are not allowed to replace the lost staff. At the end of 2011, five States were still furloughing DDS employees. In our November 2009 review of the *Impact of State Budget Issues on the Social Security Administration's Disability Programs*, we reported that State furloughs affected the number of disability determinations some DDSs would make in FY 2010. As a result of the furloughs, we estimated approximately 69,000 cases would be delayed in processing, resulting in about $126 million in benefit payments being delayed to newly disabled claimants.

CDR Backlog: In our March 2010 report on *Full Medical Continuing Disability Reviews*, we reported that SSA estimated a backlog of over 1.5 million medical CDRs at the end of FY 2010. As a result, we estimated that from Calendar Years (CY) 2005 through 2010, SSA made benefit payments of between $1.3 and $2.6 billion that it could have avoided if the medical CDRs in the backlog had been conducted by state DDSs when they became due. While SSA completed over 345,000 medical CDRs in FY 2011, over 1.3 million medical CDRs were pending completion at the FY's end.

Agency Actions

SSA's Strategy: In November 2010, SSA released its *Strategy to Address Increasing Initial Disability Claim Receipts* (Strategy) to reduce the initial claims backlog to a pre-recession level by FY 2014. The multi-year Strategy includes

- increasing staffing in the DDS and Federal disability processing components;
- improving efficiency through automation;
- expanding the use of screening tools to assist in identifying claims likely to be allowed; and
- refining policies and business processes to expedite case completion.

As part of the Strategy, SSA hired additional DDS employees and plans to maintain higher staffing levels over the next several years. In addition, SSA continues to use overtime in the DDSs. SSA also created centralized units, called Extended Service Teams, in Arkansas, Mississippi, Oklahoma, and Virginia. The Teams assist by taking claims from the States with the highest pending levels. As of end of FY 2011, the total staffing for the Extended Service Teams was 300 employees. At year's end, SSA had 786 employees in the Federal disability processing components that support DDSs.

In our June 2011 review, *SSA's Strategy for Reducing the Initial Claims Backlog*, we reported that SSA had taken actions to reduce its initial disability claims backlog—primarily by hiring additional staff using both annual appropriations and funding provided under the *American Recovery and Reinvestment Act of 2009*. We also reported that the Strategy outlined additional actions SSA has taken or plans to take to reduce initial disability claims to a pending level goal of 525,000 by FY 2014. Based on SSA's projections for initial disability claims receipts, workyears, and productivity, we reported that it appears SSA will meet its goal. However, achieving this goal is dependent upon SSA receiving funding that will enable it to achieve the projections for work years and productivity.

Moreover, the Agency has initiated a project to modernize its Disability Case Processing System to develop a single case processing system to replace the 54 different existing systems that support the DDSs. The Disability Case Processing System will integrate case analysis tools and health IT. A single case processing system will help to rapidly distribute policy changes. It should also have a positive effect on processing times and the accuracy of disability decisions.

Cooperative Disability Investigations: We will continue working with SSA to address the integrity of the disability programs through the Cooperative Disability Investigations (CDI) program. The mission of the 24 CDI units is to obtain evidence that can resolve questions of fraud in SSA's disability claims. The program is managed jointly by SSA's Offices of Operations, the Inspector General, and Disability Programs. Since its inception in FY 1998 through FY 2011, the program efforts have resulted in $1.9 billion in projected savings to the Disability Insurance and SSI programs and over $1.2 billion in projected savings to non-SSA programs. In FY 2011, SSA opened three new CDI units.

REDUCE IMPROPER PAYMENTS AND INCREASE OVERPAYMENT RECOVERIES

CHALLENGE: *SSA is one of the top three Federal agencies with high improper payments. In FY 2010, SSA reported about $9 billion in improper payments, and the Agency incurred an administrative cost of $0.07 for every overpayment dollar it collected. Further, SSA needs to adhere to requirements in Executive Order 13520 – Reducing Improper Payments and Eliminating Waste in Federal Programs – and the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. No. 111-204) to address improper payments.*

SSA is responsible for issuing over $700 billion in benefit payments annually to about 60 million people. Given the large overall dollars involved in SSA's payments, even the slightest error in the overall process can result in millions of dollars in over- or underpayments.

Improper Payment Rates: Workers, employers, and taxpayers who fund SSA's programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

For example, according to SSA, in FY 2010,

- Old-Age, Survivors and Disability Insurance (OASDI) overpayments were $2.7 billion (0.39 percent of outlays), and underpayments were $1.8 billion (0.25 percent of outlays).

- SSI overpayments were $3.3 billion (6.7 percent of outlays), and underpayments were $1.2 billion (2.4 percent of outlays) and

For FY 2010, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; for SSI, the Agency's goal was to achieve an underpayment accuracy rate of 98.8 percent and an overpayment accuracy rate of 91.6 percent. SSA only met its payment accuracy goal for SSI overpayments.

For FY 2011, SSA's goals for OASDI payment accuracy and for SSI underpayments were the same as those in FY 2010. The SSI overpayment payment accuracy goal increased to 93.3 percent. (FY 2011 payment accuracy rates were not available at the end of FY 2011; they will be available in June 2012.)

Executive Order 13520 and IPERA: In November 2009, the President issued Executive Order 13520 on reducing improper payments; and in March 2010, OMB issued guidance for implementing it. Also, in July 2010, IPERA was enacted. OMB issued guidance on implementing IPERA in April 2011. As a result, all agencies with high-priority programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. OMB designated SSA's programs as high-risk.

Agency Actions

Improper Payment Causes: SSA identifies the major causes of improper payments and takes steps to address them. For example, one of the major causes of improper payments in the OASDI program is benefit computation errors. SSA has developed automated tools to address the more troublesome computation issues. Another major cause of improper payments in the SSI program is recipients' failure to provide accurate and timely reports of new or increased wages. In response, SSA developed a monthly wage reporting system incorporating touch-tone and voice-recognition telephone technology. SSA also implemented its Access to Financial Institutions project to reduce SSI payment errors by identifying undisclosed financial accounts with balances that place recipients over the SSI resource limit.

Debt Collection Tools: SSA uses a variety of methods to collect the debt related to overpayments. Collection techniques include internal methods, such as benefit withholding and billing with follow-up. In addition, SSA uses external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (Pub. L. No. 104-134) for OASDI debts, and the *Foster Care Independence Act of 1999* (Pub. L. No. 106-169) for SSI debts. These debt collection tools include the Treasury Offset Program, credit bureau reporting, administrative wage garnishment, and Federal Salary Offset. In FY 2010, SSA recovered $3.14 billion in improper payments at an administrative cost of $0.07 for every dollar collected.

CDRs: The CDR is a powerful tool for reducing improper payments. Through completion of CDRs, SSA periodically verifies that individuals are still disabled and eligible for disability payments. Available data indicate that SSA saves about $10.50 for every $1 spent on CDRs. However, the Agency has cut back on this workload over the past several years. From CYs 2005 through 2010, we estimated SSA would make between $1.3 and $2.6 billion in disability benefit payments that it could have avoided if it conducted the medical CDRs when they became due. We estimated SSA would pay between $556 million and $1.1 billion in CY 2011 that it could have avoided if it had conducted medical CDRs when they became due.

Audit Recommendations: SSA has worked to improve its ability to prevent over- and underpayments by implementing our audit recommendations. For example, in April 2011, we issued a report, *Title II Beneficiaries Whose Benefits Have Been Suspended and Who Have A Date of Death on the Numident*, which estimated that SSA improperly paid 2,976 beneficiaries approximately $23.8 million. SSA agreed with the recommendations we made to improve this area. We also issued a report in June 2011, *Supplemental Security Income Recipients with Unreported Real Property*, where we estimated that SSA improperly paid 320,940 recipients over $2.2 billion because of their unreported real property. SSA agreed with our recommendations.

IMPROVE CUSTOMER SERVICE

CHALLENGE: *SSA acknowledges that it has struggled to maintain the level of service the American people deserve. Many factors challenge SSA, including growing workloads, changing customer expectations, an aging workforce, and budget constraints.*

SSA is receiving increasing numbers of claims. The Agency received 3.2 million disability claims in FY 2011—about 100,000 more than in FY 2010. It also received about 4.8 million retirement and survivor claims (including Medicare applications) in FY 2011. Nearly 80 million baby boomers are expected to file for retirement over the next 20 years—an average of 10,000 per day. Also, SSA is finding that the public expects it to provide services in new ways made possible by technology. Further, the projected retirement of its employees continues to present a challenge to SSA's customer service capability. SSA estimates that over 47 percent of its employees, including 63 percent of its supervisors, will be eligible to retire by FY 2019. This loss of institutional knowledge may adversely affect SSA's ability to deliver the quality service the public expects.

Budget: The budget has also affected SSA's ability to provide service to the public. For example, in March 2011, SSA suspended mailing all Social Security Statements, and in August 2011, SSA began closing field offices 30 minutes earlier each day because of budget constraints. Further, in February 2011, the Commissioner stated SSA's FY 2012 budget would not allow the Agency to keep up with representative payee accountings.

Customer Service Plan: Despite these challenges, the public deserves competent, efficient, and responsive service. In April 2011, the President issued Executive Order 13571—*Streamlining Service Delivery and Improving Customer Service*—which requires Federal agencies to develop ". . .a Customer Service Plan to address how the agency will provide services in a manner that seeks to streamline service delivery and improve the experience of its customers." In a July 2011 review, *The Social Security Administration's Customer Service Delivery Plan*, we found SSA did not have a long-term (10 years or longer) customer service delivery plan. Instead, SSA uses its Agency Strategic Plan to present the incremental steps it must take to reach a greater vision for the Agency. It describes the goals and milestones of mostly short- and mid-range (3 to 5 years) initiatives, but does not prepare SSA for customer service demands in the long term. Because we believe long-term strategic planning presents a significant challenge for the Agency, we identified a new management challenge starting in FY 2012—*Strengthen Strategic and Tactical Planning*.

Representative Payee Program: Providing oversight to ensure representative payees properly manage the Social Security benefits of vulnerable beneficiaries is a critical customer service performed by SSA. SSA appoints representative payees to receive and manage the benefits of beneficiaries who are incapable of managing or directing the management of their finances because of their age or mental or physical impairment. Our reviews continue to identify problems with SSA's representative payee program. We found that SSA spends a great deal of resources pursuing representative payees who do not provide annual accountings of how they spend Social Security benefits on behalf of the beneficiaries in their care. Also, some minor children are not assigned representative payees as required by Agency policy. Additionally, some representative payees are not properly titling bank accounts of beneficiaries in their care; and certain individual and organizational representative payees have not complied with SSA's policies and procedures. For example, several of our audits identified problems with representative payees allowing SSI recipients' conserved funds to exceed the $2,000 resource limit, therefore making them ineligible for payments. Finally, we continue to find problems with representative payees not returning conserved funds to SSA for beneficiaries who are no longer in their care.

Agency Actions

SSA has implemented various initiatives to improve customer service, such as clarifying correspondence, expanding the use of online and automated services, improving telephone and field office services, and improving the representative payee program.

Correspondence: SSA issues approximately 390 million notices to the public each year, which makes notices the Agency's most common communication method. Therefore, SSA is improving its notices to ensure they are clear, concise, and easily understood. For example, SSA revised the payment explanations and language concerning reporting responsibilities. SSA added its Internet address to encourage the use of online services. SSA is making its notices available in Braille, in large print, in audio, and on compact disc. These options are especially helpful to people who are blind, visually impaired, or have difficulty reading.

Online and Automated Services: One of SSA's priorities is to provide the public with more service options through a wide range of online and automated services. The Agency is working to implement a new, more secure authentication process to provide a safe environment for people to conduct business with SSA online. In FY 2011, SSA launched a new homepage to help the public more easily find information and services on its Website. SSA is also working on an initiative to provide the public with access to a variety of personalized online services, such as verifying earnings history, receiving notices, and requesting routine actions. Further, SSA is implementing an online Spanish-language retirement application, and developing a Spanish version of the Medicare Extra Help Application.

SSA continues expanding its nationwide marketing campaign for its Internet services through public service announcements, press releases, videos, and news articles, to encourage the public to apply for retirement and Medicare online. SSA is also using social media such as Facebook, Twitter, and YouTube to provide the public with updates and highlight its online applications.

SSA reported that applicants filed 41 percent of retirement claims and 33 percent of disability claims online in FY 2011. In our March 2011 review, *Applicant Experiences with Retirement Insurance Benefit Internet Claim Applications*, and our June 2011 review, *Applicant Experiences with Disability Insurance Benefit Internet Claim Applications*, we found that applicants had a positive perception of the process and found it was very easy to navigate and understand the information. In FY 2011, the *American Customer Satisfaction Index* ranked SSA's online services as the best in Government, exceeding the top private-sector sites in customer satisfaction.

Telephone Services: In FY 2011, SSA completed more than 62 million actions on its national 800-number. SSA continues to replace its 800-number infrastructure with a new system that will help improve service and increase efficiency. The redesigned system will feature shorter navigation menus and revised scripts for automated applications. It will also offer callers the opportunity to hang up and receive a return call from SSA when wait times exceed 3 minutes. In addition, SSA continues to use technology to forecast call volumes, anticipate staffing needs, and better distribute calls across the network. As a result, SSA reported it reduced busy rates to 3 percent in FY 2011. In FY 2011, SSA answered calls in 180 seconds, 23 seconds faster than in FY 2010.

Field Offices and Processing Centers: SSA continues to upgrade its field offices to offer improved services, such as videoconferencing for individuals living in rural areas and televisions in field office reception areas to broadcast information about SSA programs. SSA reported it installed video service at 361 locations, which include field offices. Additionally, in FY 2011, SSA installed televisions in 453 offices, ending the FY with 592 offices with televisions.

In our October 2010 review, *Customer Waiting Times in the Social Security Administration's Field Offices*, we found wait times had improved during our audit period, even though a significant number of customers still waited more than 1 hour for service, and many customers left before receiving service. The improvement occurred despite an increase of over 1 million visitors. Based on our review, we believe SSA is focused on providing timely service to its customers, and the majority of customers we interviewed agreed that SSA was successful in this goal.

Representative Payee Program: To ensure the benefits of minor children are properly managed, SSA agreed to evaluate the feasibility of identifying all children under age 15 without a representative payee. SSA released a new Web-based electronic representative payee misuse system to store and track misuse allegations. To protect beneficiaries from potential harm resulting from conflict of interest, SSA hired a contractor to perform reviews of organizational representative payees serving in dual roles as both the payee and employer. SSA has issued publications reminding Agency staff to follow policy governing the representative payee program, and has worked with payees to correct deficiencies identified during audits.

INVEST IN INFORMATION TECHNOLOGY INFRASTRUCTURE TO SUPPORT CURRENT AND FUTURE WORKLOADS

CHALLENGE: *At a time when SSA needs to provide additional electronic services to meet the growing needs of its customers, SSA's systems capacity is severely strained and in need of modernization. Additionally, SSA has a significant deficiency in its control of access to sensitive information.*

SSA faces the challenge of how to best use technology to meet its increasing workloads. SSA will not be able to manage its current and future workloads without the proper IT infrastructure. The Agency uses a variety of technologies, including telephone service, the Internet, and videoconferencing to deliver service to its customers. We, along with other organizations including SSA's Advisory Board and the Future Systems Technology Advisory Panel, have concerns regarding the Agency's lack of IT strategic planning, as well as its IT physical infrastructure, system modernization efforts, security of sensitive information, and IT service delivery.

IT Physical Infrastructure: SSA's NCC, built in 1979, houses the infrastructure that supports the Social Security programs provided to the public and other services provided to Federal, State, international, and private agencies. SSA's primary IT investment over the next few years is the replacement of the NCC. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. However, the Agency has projected that its new facility will not be operational before 2016.

Systems Modernization: Another major challenge facing SSA is the modernization of its systems and applications. SSA's systems modernization is constrained by multiple underlying challenges. The first is that the foundation of SSA's IT infrastructure is an outdated database management system called the Master Data Access Method (MADAM), which SSA developed in the 1980s. There is a concern that future operating system changes may render MADAM unusable, and the technical knowledge and skills needed to remedy the situation timely may not be available. Consequently, future operating system changes could lead to prolonged outages. Further, the Agency's continued reliance on MADAM exposes it to significant risks, including delays in its ability to improve its systems functionality.

Further, some of SSA's legacy applications are in Common Business Oriented Language (COBOL), which constrains SSA's modernization efforts. Studies of SSA's use of COBOL have identified challenges, including cumbersome maintenance, lengthy redevelopment time, and potential loss of institutional knowledge as experienced COBOL programmers retire. In addition, COBOL restricts SSA from developing more sophisticated Web services to enable the Agency to meet the growing needs of its customers.

Security of Sensitive Information: The Agency faces another challenge to keep the sensitive information it houses secure. SSA's FY 2009, 2010, and 2011 Financial Statement Audits identified a significant deficiency in the Agency's control of access to its sensitive information. For example, SSA did not consistently comply with policies and procedures to periodically reassess the content of security access given to its employees and contractors. Moreover, some employees and contractors had greater access to systems than they needed to perform their jobs. Additionally, certain configurations increased the risk of unauthorized access to key financial data and programs.

Electronic Services: Finally, SSA must provide additional electronic services to meet the growing needs of its customers. Because of the economic times and baby boom generation retirements, more individuals are filing for retirement and disability benefits. SSA must find ways to expand easy-to-use and secure electronic services for its customers.

In FY 2011, 41 percent of all retirement applications and 33 percent of initial disability applications were filed online. In December 2009, Commissioner Astrue testified that to keep field offices from being overwhelmed by increasing workloads, the Agency would need to increase electronic filing to 50 percent by 2013.

Agency Actions

IT Physical Infrastructure: SSA has taken steps to address its IT physical infrastructure challenge. The Agency has taken or planned actions to address the NCC's sustainability through 2014. Moreover, in February 2009, SSA received $500 million in ARRA funding to replace its NCC. GSA selected a site for SSA's new data center in June 2011 and purchased it in August 2011. GSA and SSA also developed a Program of Requirements, and GSA plans to award design and construction for a new data center in March 2012. The planned completion of construction date is December 2014. After completion of construction and commissioning, IT migration to the new data center will take an additional 18 months. The new data center is expected to be operational in 2016.

In addition, SSA completed the construction of the Second Support Center and took occupancy in January 2009. The Second Support Center can recover all Agency mission-critical workloads, with the exception of some of the disability workloads, should the NCC become unavailable.

Systems Modernization: To address its outdated database management system, SSA is converting its major program databases from MADAM to an industry-standard, modern database management system to ensure continuity of operations and provide more functionality and flexibility for future workloads. This conversion involves changes to the current database structure. These enhancements will take several years to complete. To date, SSA has successfully completed the conversion of its Numident/Alphident and Master Earnings Files. SSA is currently converting the Supplemental Security Record file and plans to convert Master Beneficiary Records file from FY 2012 to 2014.

The Agency's strategy to address the challenges related to its use of COBOL includes plans to develop new IT applications with more modern programming languages. SSA plans to transition existing COBOL legacy applications to more modern programming languages as well. Per SSA, its budget, business priorities, and changing legislation will affect how quickly these modernization efforts proceed.

The Agency has also initiated a project to modernize its Disability Case Processing System (DCPS). The objective of the DCPS project is to develop a single case processing system to replace the 54 different existing systems that support the DDSs. DCPS will integrate case analysis tools and health information technology. Also, having a common case processing system will help to rapidly distribute policy changes and have a positive effect on processing times and the accuracy of disability decisions.

Security of Sensitive Information: SSA has taken steps to address the security of sensitive information. SSA assembled a workgroup to address the access control weaknesses identified as a significant deficiency. The workgroup is testing a commercial tool to manage its employee and contractor access. SSA plans to roll out a pilot program in December 2011 to resolve some of its access control weaknesses.

Electronic Services: To address this challenge and reduce the workload in field offices, SSA offers over 30 electronic services. Further, SSA has researched Internet authentication solutions to secure such online initiatives as Ready Retirement, replacement SSN cards, and other automated services.

SSA is developing the Citizen Authentication Initiative to authenticate its electronic service users in the future. The authentication system will register and authenticate users and provide controlled, single sign-on access. SSA plans to use this authentication system to enable members of the public to access SSA's electronic services. The authentication system will position SSA to meet its strategic goals of expanding electronic government and increasing the use of electronic services. By increasing the functionality and scope of SSA's electronic applications and providing strong, secure, and robust authentication protocols, the Agency expects to channel more members of the public toward doing business electronically.

STRENGTHEN THE INTEGRITY AND PROTECTION OF THE SOCIAL SECURITY NUMBER

CHALLENGE: *Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits they are due.*

In FY 2011, SSA issued approximately 16.4 million new and replacement SSN cards and received approximately $580 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

SSN Use: Since the SSN's inception, SSN collection and use has significantly increased nationwide. These unique nine-digit numbers have become commonly used identifiers, and therefore, are valuable as illegal commodities. It has become, in effect, a de facto national identifier, and the Social Security card is used as a breeder document to establish identity and to access other services in American society.

While SSA has strengthened controls in the enumeration process and worked to better protect SSNs in its records, the Agency has little control over an SSN's collection, use, and disclosure by external entities once it is assigned. For example, while the vast majority of wage reports received from employers are accurate, SSA has had limited success correcting and posting wage reports with erroneous employee names or SSNs.

Currently, there is no Federal law that imposes broad restrictions on the use of the SSN. In fact, some Federal and State laws require the use of SSNs in certain governmental programs, such as Medicare. To better protect SSNs and assist SSA in improving the accuracy of its earnings records, we believe Congress and the Agency should continue seeking measures to limit the collection, use, and disclosure of SSNs—in addition to other measures discussed below.

SSN Assignment and Protection: We commend the Agency for numerous improvements in its enumeration process. Nevertheless, we continue to have concerns regarding SSN assignment and protection. For example, the Agency has no authority to curb the unnecessary collection and use of SSNs. Our audit and investigative work have taught us that the more SSNs are unnecessarily used, the higher the probability they could be used to commit crimes throughout society. We believe SSA should support legislation to limit public and private entities' collection and use of SSNs, and to improve the protection of this information when obtained.

We are also concerned that some noncitizens who are authorized to work by the Department of Homeland Security (DHS), but will only be in the United States for a few months, are permitted to obtain SSNs that are valid for life. Further, we believe controls over the issuance of Social Security Number Printouts are insufficient to prevent improper access to these sensitive documents and disclosure of personally identifiable information (PII). As such, SSA should continue its efforts to safeguard and protect PII. Finally, we are concerned with the growth in the demand for Social Security Number Printouts, because the proof of identity required for obtaining these is less than that required for SSN replacement cards. We believe SSA should consider charging its customers standardized fees for Social Security Number Printouts to reduce the incentive for obtaining duplicative copies of these documents.

Posting of Earnings: Maintaining the integrity of the SSN and Social Security programs also involves properly posting earnings reported under SSNs. SSA needs accurate earnings records to determine both the eligibility for Social Security benefits and the amount of those benefits. SSA expends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for wage earners whose names and SSNs cannot be matched to SSA's records. As of October 2010, the ESF had accumulated approximately 305 million wage items for Tax Years (TY) 1937 through 2008, representing about $921 billion in wages. In TY 2008 alone, SSA posted 9.4 million wage items, representing $86 billion, to the ESF.

While SSA cannot control all the factors associated with erroneous wage reports, it can improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's employee verification programs, and enhancing employee verification feedback to provide employers with sufficient information on potential employee issues. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the Internal Revenue Service to achieve more accurate wage reporting.

Agency Actions

Despite related challenges, we believe SSA's improved procedures have reduced its risk of improperly assigning these important numbers. Some of SSA's more notable enumeration improvements include (1) establishing Enumeration Centers in many States that focus exclusively on assigning SSNs and issuing SSN cards; (2) requiring that field office personnel processing SSN applications use a Web-based Intranet application known as SSNAP, which combines the functionality of the *SS-5 Assistant* and the Modernized Enumeration System; and (3) implementing a new SSN assignment methodology called SSN randomization.

SSA has also taken steps to reduce the size and growth of the ESF. The Agency has increased its electronic wage reporting, expanded the use of its Social Security Number Verification Service (SSNVS) program, and continued to support DHS in administering the E-Verify program.

Increased Electronic Wage Reporting: SSA has been working to eliminate paper wage reports while migrating to an electronic earnings record process, because paper wage reports are more error-prone, labor-intensive, and expensive to process. SSA encourages employers to use Business Services Online to electronically file *Wage and Tax Statements* (Forms W-2) for their employees. In FY 2011, SSA processed over 184 million Forms W-2 electronically.

Expanded Use of SSNVS: SSA has been working with the business community to encourage additional employers to use SSNVS. SSNVS allows employers to determine, almost instantly, whether an employee's reported name and SSN match SSA's records. Increased use of SSNVS helps reduce fraud and improves the accuracy of individuals' earnings records. In FY 2011, approximately 43,000 registered employers used SSNVS to check over 106 million SSNs.

Collaborated with DHS: SSA continues to support E-Verify, a DHS program that allows employers to verify electronically whether newly hired employees are authorized to work in the United States under immigration law. With SSA's assistance, DHS has made program improvements. For example, DHS implemented E-Verify's Photo Screening Tool, which allows employers to check the photograph on the new hire's Employment Authorization Document or Permanent Resident Card against the 15 million images stored in DHS' immigration databases. Further, the Photo Screening Tool helps employers identify instances of identity theft in the employment eligibility process.

In March 2011, DHS implemented the E-Verify Self Check service, which is a free, Internet-based application that can be used by U.S. workers over age 16 to confirm their employment eligibility. DHS is implementing the Self Check service in phases—it is now available in 21 States. For FY 2011, about 293,000 employers were enrolled to use E-Verify, and they submitted over 18 million queries during this period. Additionally, nearly 23,000 transactions were processed through the E-Verify Self Check Service.

IMPROVE TRANSPARENCY AND ACCOUNTABILITY

CHALLENGE: *SSA continues to lack a full set of performance indicators that measure whether it is meeting all its strategic goals. Additionally, SSA faces a number of challenges ensuring accountability, including concerns over its systems security, administrative cost allocations, and IT investment fund transfers.*

There have been a number of efforts to make Federal agencies more transparent and accountable. The *Chief Financial Officers Act of 1990* (Pub. L. No. 101-576) provides for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and Congress in the financing, management, and evaluation of Federal programs. The *Government Performance and Results Act of 1993* (GPRA) (Pub. L. No. 103-62) and the *GPRA Modernization Act of 2010* (Pub. L. No. 111-352) seek to improve Federal program effectiveness and public accountability by focusing on results, service quality, and customer satisfaction. More recently, the Open Government Directive requires that Federal agencies improve the quality of Government information, publish Government information online, create and institutionalize a culture of open Government, and create an enabling policy framework for open Government.

Performance Indicators: While SSA has increased the transparency of its operations through its *Annual Performance Plans, Performance and Accountability Reports*, and *Open Government Plan*, we believe the Agency can strengthen public reporting of its performance. In our report, *Performance Indicator Audit: The Social Security Administration's Fiscal Year 2010 Performance Indicators*, our contractor concluded that SSA could develop more outcome-based performance indicators (PI). Our contractor evaluated SSA's alignment of its PIs with its strategic goals and objectives and found that 3 strategic goals and objectives did not have an associated PI, and 16 PIs were ineffective measures of the Agency's progress in achieving its strategic goals and objectives.

We believe SSA is more transparent when it measures and publicly reports on the performance of its critical programs or activities. Neither SSA's *Strategic Plan* nor the *Annual Performance Plan* contained a performance measure to publicly track SSA's progress in constructing a new data center, even though the *Strategic Plan* states that all the Agency's plans depend on a strong 21st-century data center to replace the aged NCC. Also, SSA does not have a performance measure to track progress in updating its computer programs, even though its *Strategic Plan* noted that its IT infrastructure was resting on a foundation of aging computer programs. The aging computer systems make it difficult to implement new business processes and service delivery models.

Performance Data: Our contractor completed more in-depth analyses of performance data that support 10 PIs that measure SSA's Environmental Management System, electronic service delivery, disability process, and hearings and appeals process. It tested critical controls of the systems that produced the data, and determined their adequacy, accuracy, reasonableness, completeness, and consistency. It concluded that SSA could improve the underlying data supporting the PIs for each of the key activities we examined. For example, our contractor was unable to test the controls and reliability of the data for the PIs measuring electronic service delivery, since SSA did not maintain the data that supported the reported performance in its PAR. SSA stated that it did not maintain data to support some PIs because of computer storage issues and staffing resources. Our contractor concluded SSA should reevaluate its computer storage capacity since such technology has evolved over the past several years. Also, our contractor found that SSA could improve the internal controls and accuracy of the underlying data supporting the measurement of the hearings and appeals process.

Information Security: Sound internal controls help ensure the Agency is accountable to its mission and relevant laws, regulations, and policies. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Last year, we reported a significant deficiency in SSA's internal control over information security in our *Report on Management's Assertion about the Effectiveness of Internal Control*. We are reporting the same deficiency this year. Specifically, SSA had not consistently complied with the policies and procedures on periodic reassessments of the content of security access profiles. Additionally, security permissions provided to some employees and contractors were in excess of access required to complete their job responsibilities. Lastly, SSA's mainframe operating system contained configurations that increased the risk of unauthorized access to key financial data and programs.

Administrative Cost Allocation: We also believe SSA can bring greater accountability to its administrative cost allocation. The *Social Security Act* authorizes SSA to allocate administrative costs to the four Trust Funds for which it provides administrative support: the Retirement and Survivors Insurance Trust, the Disability Insurance Trust, the Hospital Insurance Trust, and the Supplementary Medical Insurance Trust. SSA uses its Cost Analysis System (CAS) to allocate administrative costs to these four Trust Funds and general fund programs administered by SSA, such as the SSI program.

We hired a contractor to review CAS given its importance to SSA's ability to provide reliable and timely information on the full costs of the programs it administers. Our contractor found that CAS has certain risks that SSA needs to address to ensure it provides viable calculations of SSA's administrative costs. For example, SSA has not updated the CAS cost allocation methodology in over 30 years to account for changes in business processes, system technology, or Federal accounting standards. The failure to periodically revisit and update the cost allocation methodology could result in costing assumptions and cost factors that are no longer valid or accurate. Consequently, the equitable and appropriate allocation of SSA's administrative costs to the Trust Funds could be at risk.

Similarly, the Office of Disability Adjudication and Review cost allocation process was outdated and inaccurate. The Office developed the original standard time values in the early 1980s. The specific details regarding the rationale and calculation of the standard time values were unclear, as there is no documentation on their development, and individuals who created them have retired. The ODAR cost allocation process standard time values were revised in FY 2011. During the first quarter of Fiscal Year (FY) 2010, ODAR conducted an internal Cost Reporting ODAR Workgroup (CROW) study of the standard time values used in its workload measurement process. ODAR managers requested the study because they believed that some of the standard time values they were using in their cost allocation process were outdated and inaccurate. Based on the CROW study results, ODAR reduced standard time values for hearings by an average of 16.22 hours and reduced travel times for ALJs from 1.1 hours per workday to 3.55 hours per month.

Time Allocation System: In 2001, SSA developed a workgroup to develop and implement a unified system for measuring and distributing work hours among organizations and workloads that would be accurate, reliable, and cost-effective. The workgroup proposed the Time Allocation System (TAS) to replace the District Office Work Sample used in the Work Measurement System, which submits to CAS. In 2009, SSA identified many instances of differences between observed activities and TAS reporting. That same year, SSA terminated the TAS project. We believe that if SSA had conducted sufficient project planning before initiating the TAS project, most, if not all, of the events that led SSA to terminate the project could have been resolved before expending approximately $36 million of Agency resources.

IT Investment Account: Accountability includes using budgeted funds efficiently and effectively. Each FY, SSA does not spend approximately 1 percent of its administrative budget to cover adjustments to existing obligations. SSA can transfer the unspent administrative funds that are not used to cover adjustments to an account for IT investment. Based on a historical review, we found that SSA did not need to leave any funds unspent at the end of the FY to cover adjustments. Accordingly, we recommended that SSA review its existing policy and procedures and make changes as needed to decrease the amount of administrative funds remaining at the end of each FY.

As of May 2011, Congress rescinded $275 million from SSA's unspent administrative budget in the no-year account. While we found that SSA was transferring unspent funds for IT investment in accordance with public laws, we believe SSA could improve the transparency of the process if the Agency seeks the explicit approval of its congressional oversight committee before making the transfer and obtains agreement on the amount to transfer.

Agency Actions

Transparency: SSA has continually revised its performance indicators and goals to provide the public an indication of its performance. SSA has also taken steps to implement the Open Government Directive, which is focused on increasing transparency within the Federal government. It released its first Open Government Plan in June 2010 and has continued to update its Open Government Website. SSA also released 34 different datasets on Data.gov as of the end of September 2011. These datasets are accessible by the public.

Accountability: SSA has taken steps to address the security of its sensitive information. SSA assembled a workgroup to address the access control weaknesses identified as a significant deficiency. The workgroup is testing a commercial tool to manage its employee and contractor access. SSA plans to roll out a pilot program in December 2011 to resolve some of its access control weaknesses.

Other Reporting Requirements

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Anti-Fraud Activities

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Improper Payments Information Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires us to report annually on the extent to which we reviewed cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) benefits; and the extent to which the cases we reviewed were those that involved a high likelihood or probability of fraud.

Entitlement Reviews

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. We select cases and undertake reviews, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. We list below the major entitlement reviews conducted by our agency:

Disability Quality Assurance Reviews

We perform quality assurance reviews of random samples of Disability Determination Services (DDS) determinations to measure the level of accuracy against standards mandated by the Regulations. We conduct these reviews prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows that, for favorable determinations, the State DDSs have consistently made the correct decision to allow or continue benefits.

Quality Assurance Reviews					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
% of State DDS decisions to allow or continue not returned to the DDSs for correction	96.9%	97.7%	98.3%	98.6%	98.4%
No. of cases reviewed	33,329	32,292	34,378	32,451	32,807
No. of cases returned to the DDSs due to error or inadequate documentation	1,028	729	601	445	524

Title II (DI) Preeffectuation Reviews

We also perform preeffectuation reviews of favorable Title II and concurrent Title II/Title XVI initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. For FY 2011, the following table shows that 97.4 percent of the decisions made on Title II preeffectuation reviews are accurate.

Title II Preeffectuation Reviews

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
% of State DDS decisions to allow or continue not returned to the DDSs for correction	96.3%	97.3%	97.9%	97.8%	97.4%
No. of cases reviewed	307,884	338,440	356,956	378,712	390,480
No. of cases returned to the DDSs due to error or inadequate documentation	11,225	9,203	7,481	8,506	10,246

Title XVI (SSI) Preeffectuation Reviews

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable Title XVI initial and reconsideration adult determinations. FY 2007 was the first full year of review. As in Title II cases, we also use a profiling system to select cases for review. For FY 2011, the following table shows that 97.9 percent of the decisions made on Title XVI preeffectuation reviews are accurate.

Title XVI Preeffectuation Reviews

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
% of State DDS decisions to allow not returned to the DDSs for correction	97.4%	98.1%	98.3%	98.4%	97.9%
No. of cases reviewed	80,784	105,203	114,645	124,045	124,401
No. of cases returned to the DDSs due to error or inadequate documentation	2,117	2,018	1,900	2,023	2,612

Continuing Disability Reviews

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews (CDR) through which we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. We also conduct a quality review of those decisions. We show the accuracy of these CDRs in the following table.

CDR Accuracy					
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Overall Accuracy	95.6%	96.6%	97.7%	97.8%	97.7%
Continuance Accuracy	96.4%	97.6%	98.6%	98.4%	98.3%
Cessation Accuracy	93.5%	93.2%	94.8%	96.0%	96.0%

OASI and SSI Quality Assurance Reviews

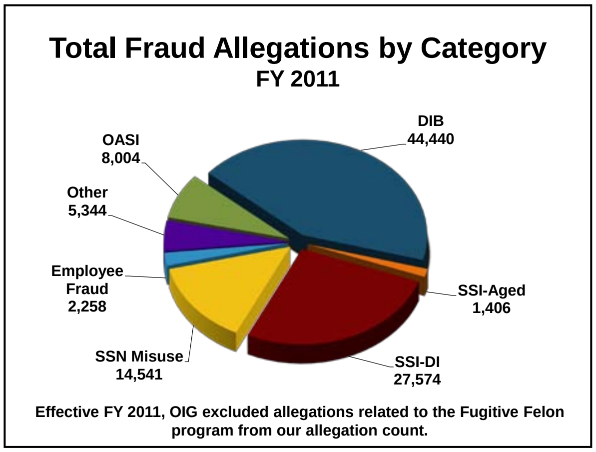
One of our four *Government Performance and Results Act* strategic goals is "preserve the public's trust in our programs." One of the ways in which we achieve this goal is by performing OASI and SSI quality assurance reviews. We present a detailed discussion on the results of these reviews in the *Performance Section* of this report on pages 75–78.

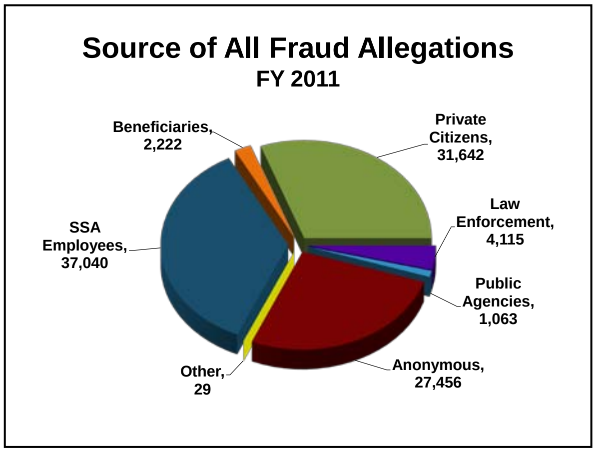
SSI Redeterminations

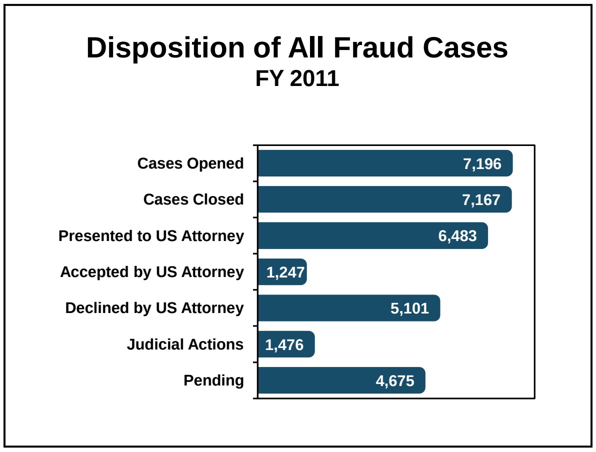
Once an individual becomes entitled to Social Security or SSI disability benefits, any changes in his or her circumstances may affect the amount or continuation of their benefits and thus we must reflect those changes in our records. SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that we paid the recipient the correct amount. We set a goal for the number of SSI redeterminations we would process in FY 2011. We present a detailed discussion on SSI redetermination performance in the *Performance Section* of this report on pages 72–73.

THE OFFICE OF THE INSPECTOR GENERAL'S ANTI-FRAUD ACTIVITIES

In FY 2011, as part of our fraud detection and prevention program for safeguarding the agency's assets, we worked with our Office of the Inspector General (OIG), the U.S. Department of Justice, and other Government agencies on cases involving fraud, waste, and abuse. The following charts summarize the OIG's involvement in fraud activities throughout the fiscal year.







Biennial Review of User Fee Charges

SUMMARY OF FEES

User fee revenues of $368 and $424 million in FY 2010 and FY 2011, respectively, accounted for less than 1 percent of our total financing sources. We derive over 78 percent of user fee revenues from agreements with 23 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2011, we charged a fee of $10.56 per payment for the cost of administering State supplemental SSI payments. This fee will increase to $10.94 for FY 2012. We adjust the user fee annually based on the Consumer Price Index unless the Commissioner of Social Security determines a different rate is appropriate for the States. We charge full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Based on our review of fees during FY 2010, we identified changes in costs, which could affect current fees and agency activities for which we need to assess new fees. A review of these changes should result in a uniform fee structure for non-programmatic workloads. We are developing time studies to assist with determining the proper fee. We are planning to perform another review of these fees during FY 2012.

Debt Management

The following two tables provide information on our debt management activities. We calculated the data shown in the tables by using accounts receivable amounts taken directly from the Financial Statements. We provide definitions of certain line items immediately following the Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to collect overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

FY 2011 Quarterly Debt Management Activities
Programmatic and Administrative Activity

Dollar Totals (in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables	$15,265	$15,299	$15,943	$15,854
New receivables	1,247	2,741	4,738	6,102
Total collections	(866)	(1,746)	(2,655)	(3,633)
Adjustments	(86)	(400)	(591)	(809)
Total write-offs	(242)	(508)	(761)	(1,018)
- Waivers	(129)	(261)	(409)	(546)
- Terminations	(113)	(247)	(352)	(472)
Aging schedule of debts:				
- Non delinquent debt	10,748	10,838	11,444	11,190
- Delinquent debt				
- 180 days or less	1,299	1,209	1,224	1,283
- 181 days to 10 years	3,013	3,045	3,040	3,128
- Over 10 years	205	207	235	253
- Total delinquent debt	$4,517	$4,461	$4,499	$4,664

Debt Management Activities Programmatic and Administrative Activity					
Dollar Totals (in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total receivables	$14,254	$14,913	$15,000	$15,212	$15,854
New receivables	5,020	5,615	5,818	5,736	6,102
Total collections	(2,971)	(3,366)	(3,561)	(3,650)	(3,633)
Adjustments	(472)	(580)	(1,093)	(888)	(809)
Total write-offs	(986)	(1,010)	(1,077)	(986)	(1,018)
- Waivers	(443)	(443)	(475)	(497)	(546)
- Terminations	(543)	(567)	(602)	(489)	(472)
Non delinquent debt	10,745	11,176	11,030	11,055	11,190
Total delinquent debt	$3,509	$3,737	$3,970	$4,157	$4,664
Percentage Analysis					
% of outstanding debt:					
- Non delinquent	75.4%	74.9%	73.5%	72.7%	70.6%
- Delinquent	24.6%	25.1%	26.5%	27.3%	29.4%
% of debt estimated to be uncollectible[1]	27.4%	27.1%	27.5%	27.7%	27.8%
% of debt collected	20.8%	22.6%	23.8%	24.0%	22.9%
% change in collections from prior FY	2.6%	13.3%	5.8%	2.5%	-0.5%
% change in delinquencies from prior FY	7.6%	6.5%	6.3%	4.7%	12.2%
Clearances as a % of total receivables	27.8%	29.3%	30.9%	30.5%	29.3%
- Collections as a % of clearances	75.1%	76.9%	76.8%	78.7%	78.1%
- Write-offs as % of clearances	24.9%	23.1%	23.2%	21.3%	21.9%
Other Analysis					
Cost to collect $1	$0.07	$0.07	$0.06	$0.07	$0.08
Average number of months to clear receivables:					
- OASI	18	18	18	16	15
- DI	39	40	42	45	38
- SSI	42	36	34	35	35

Note:

1. The percentage is derived from Allowance for Doubtful Accounts found in footnote 6 of the Financial Statements.

Definitions:

1. Adjustments – Program debt adjustments represent (1) written-off debts, by way of terminations, that we reinstate for collections, (2) changes in debts when we update debtor accounts with new information, and (3) minor differences between reports containing debt information that we use to maintain an ending accounts receivable balance.
2. Waivers – Waivers represent the amount of overpayments forgiven because the overpaid person (1) is without fault in causing the debt, and (2) either cannot repay it or repayment would be against good equity and conscience. Waivers permanently remove debts from our accounts receivable balance, which precludes any further collection efforts.
3. Terminations – Terminations represent our decision to cease our own efforts to collect a debt because (1) the debtor cannot or will not repay the debt, (2) the debtor cannot be located after diligent search, or (3) the debt is at least two years delinquent. Even though we terminate internal active collection, we may still use external collection efforts such as the Treasury Offset Program and Administrative Wage Garnishment. If the debtor becomes entitled to Title II benefits or eligible for Title XVI payments, we reinstate the debt and resume recovery through benefit/payment withholding.
4. Delinquent Debt – A debt is delinquent when no voluntary payment has been made 30 days after the latest of the following: (1) the date we establish a Title II debt, (2) the date of the initial overpayment notice for a Title XVI debt, (3) the date of the last voluntary payment, (4) the date of an installment or periodic payment arrangement (if we do not receive a payment), and (5) the date we decide a debtor remains responsible for a debt, in response to a due process action by the debtor.

Improper Payments Information Detailed Report

Background

We take our responsibility to reduce improper payments seriously; curbing improper payments is one objective in our strategic goal to preserve the public's trust in our programs. Each year, we report improper payment findings (both overpayments and underpayments) from our stewardship reviews of the non-medical aspects of the Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs. In accordance with the Office of Management and Budget (OMB) guidelines for implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), we report as improper those payments that result from:

- Our mistake in computing the payment;
- Our failure to obtain or act on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

We accumulate much of our debt recovery data based on an operating month rather than a true calendar month. An operating month cuts off on the last Friday of the calendar month. Each quarter of a normal operating year contains 13 weeks and the fiscal year contains 52 weeks. Every 5 or 6 years, the fiscal year contains 53 weeks rather than the normal 52 weeks because the year is not evenly divisible by 7 days. FY 2011 is a 53-week fiscal year. Our program overpayment collection totals in the Agency Efforts to Collect Overpayments in the OASI, DI, and SSI Programs section and the administrative overpayment collection totals in Table 23 show our fiscal year performance through the end of the 53rd week.

Improper Payments Elimination and Recovery Act

On July 22, 2010, President Obama signed IPERA into law. IPERA amends IPIA and expands our accountability, transparency, and reporting responsibilities for improper payments. Although IPERA amends IPIA, IPIA remains the authorizing legislation for this report.

Accountability for Improper Payments

As our Accountable Official for improper payments, Deputy Commissioner Carolyn W. Colvin is responsible for overseeing agency efforts to prevent, reduce, and recover improper payments. Due to the strategic importance of this effort, we have taken steps to strengthen management focus on, and accountability for, initiatives aimed at better detection and prevention of improper payments.

Our Deputy Commissioner for Quality Performance, Ron Raborg, has lead responsibility for improper payments. The Deputy Commissioner for Quality Performance, in collaboration with other agency executives, provides oversight of improper payment activities, develops improvement plans, and sets achievement milestones. We review our progress in monthly meetings and hold agency executives accountable for achieving plan milestones.

Effective FY 2012, as required by IPERA, we are also holding managers, program officials, and senior executives accountable for reducing improper payments. For affected employees, their annual performance plans reflect their responsibility to support efforts to maintain sufficient internal controls to prevent improper payments, detect and recover improper payments, and meet targets to reduce improper payments.

TRANSPARENCY OF IMPROPER PAYMENTS

In addition to the information contained in this report on our improper payment efforts, we established a public website www.socialsecurity.gov/improperpayments, which provides further information on our efforts to curb improper payments for the Old-Age, Survivors and Disability Insurance (OASDI) and SSI programs as well as meeting the requirements of Executive Order 13520, *Reducing Improper Payments.*

RISK ASSESSMENT: BENEFIT PAYMENTS

IPERA guidance requires agencies to examine the risk of improper payments in their program activities if they have not recently performed one. Our annual stewardship review is a proven, cost-effective means for evaluating payment accuracy and identifying major causes of improper payments in our benefit programs, and OMB has approved it as a means to assess the risk of improper payments in our programs. (See the Statistical Sampling section below for further information about our stewardship reviews.)

PAYMENT RECAPTURE AUDIT PROGRAM: BENEFIT PAYMENTS

For our OASDI and SSI benefit payments, we meet the payment recapture audit requirements of IPERA through existing program integrity efforts and workloads. For example, our stewardship reviews are similar to payment recapture audits for benefit payments. (See the Statistical Sampling section below for further information.) In addition, we have program integrity measures such as continuing disability reviews (CDR) and SSI redeterminations. We also have improper payment prevention and detection initiatives in place, such as Access to Financial Institutions (AFI) and SSI Telephone Wage Reporting (SSITWR).

We are working with OMB on implementing the payment recapture audit program reporting requirements in OMB Circular No. A-136, *Financial Reporting Requirements* and determining payment recapture audits methodology.

RISK SUSCEPTIBLE PROGRAM

IPERA expanded the definition of programs susceptible to significant improper payments to include programs with improper payments estimated to exceed $100 million. Under this definition, our OASI, DI, and SSI programs are susceptible to significant improper payments. We estimate improper payments in these programs in terms of overpayments and underpayments. See Table 1 for details of our OASI and DI improper payments, and Table 9 for details of our SSI improper payments.

OMB's IPERA guidance requires us to evaluate all of our payment outlays, i.e., payments from the OASI, DI, and SSI programs and other outlays such as administrative payments. For the eighth consecutive year, we performed a review of our administrative payments, including payroll disbursements, vendor payments, etc. We found these payments were not susceptible to significant improper payments. Further information on this risk assessment of our administrative payments is available in the Improper Administrative Payments section.

STATISTICAL SAMPLING

We use stewardship reviews to measure the accuracy of payments to beneficiaries in current payment status. Each month, we review a sample of OASI cases, DI cases, and SSI cases to determine payment accuracy rates. For each sample case, we interview the beneficiary or representative payee, make collateral contacts as needed, and redevelop all non-medical factors of eligibility as of the sample month. We then input the findings into a national database for analysis and report preparation.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refer to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay either more or less than what we should have. Some cases have more than one error causing an incorrect payment, with each of these errors referred to as a deficiency. We analyze and track the individual effect of each separate cause of error. Because we project findings from samples, we use a five-year average for each type of deficiency to rank and identify trends.

Stewardship review findings provide the data necessary to meet the IPIA reporting requirements. The OASDI and SSI payment accuracy rates developed in the stewardship reviews reflect the accuracy of payments issued to current OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We also provide payment accuracy rates for the current and previous reporting periods.

AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS

Our employees are focused on achieving our goals to reduce improper payments. We have the human capital, internal controls, information systems, and other infrastructure necessary to assist them.

Human Capital to Support Improper Payment Workloads

For our program integrity reviews, we completed increasing numbers of CDRs and SSI redeterminations between FY 2007 and FY 2010. Even with our reduced FY 2011 funding, our CDR and SSI redetermination goals remained the same as the goals in FY 2010. This year, we completed 2,456,830 SSI redeterminations and 345,492 full medical CDRs. We estimate that every dollar spent on full medical CDRs yields at least $10 in lifetime program savings; every dollar spent on SSI redeterminations yields better than $7 in program savings over 10 years, including savings accruing to Medicaid. We completed 323,748 work CDRs in FY 2011.

Our program integrity work is labor-intensive and dependent on having the necessary trained staff to do the work. The same employees who handle our program integrity work also handle applications for benefits. We cannot continue to improve our processes without adequate resources to complete all the work for which we are responsible. Sustained, adequate funding is crucial to providing us with the necessary staff to balance our service and stewardship work and continue to reduce improper payments.

The *Budget Control Act* (Public Law 112-25) includes program integrity initiatives to reduce improper benefit payments under (among other Federal programs) the DI and SSI programs. It allows adjustments to the Governmentwide discretionary caps in order to permit additional appropriations for purposes of conducting CDRs and SSI redeterminations to the extent that such appropriations for program integrity purposes exceed $273 million a year. For FY 2012, the funding adjustment authorized is $623 million. If appropriated, the total amount of $896 million would enable us to complete approximately 240,000 more periodic medical CDRs and 200,000 more SSI redeterminations compared to FY 2011, resulting in significant savings of taxpayer dollars.

Internal Controls

We have a well-established, agency-wide management control and financial management systems review program as required by the *Federal Managers' Financial Integrity Act*. We accomplish the objectives of the program by:

- Integrating management controls into our business processes and financial management systems at all organizational levels;
- Reviewing our management controls and financial management systems controls on a regular basis; and
- Developing corrective action plans for control weaknesses and monitoring those plans until the weaknesses are corrected.

The effective internal controls we incorporate into our business processes and financial management systems, as well as program integrity efforts mentioned throughout this report, support the Commissioner's annual statement to the President and Congress on whether our:

- Internal controls over the effectiveness and efficiency of programs and compliance with applicable laws and regulations are operating effectively;

- Financial management systems are in conformance with Governmentwide requirements; and
- Internal controls over financial reporting are operating effectively.

As part of our FY 2011 financial statement audit, Grant Thornton, LLP, found that we fairly stated that our internal controls over financial reporting were operating effectively.

We include the Commissioner's annual statement of assurance and additional information on our review program and our financial statement audit in the *Systems and Controls* section of this *Performance and Accountability Report*.

Our strong overall internal control program contributes significantly to the agency's efforts to reduce improper payments.

Information Systems

The Comprehensive Integrity Review Process supports our stewardship responsibility to ensure the accuracy of benefit payments and to protect personal information maintained in our programmatic systems. This process enables us to fulfill our obligation to comply with Federal laws, such as the *Federal Managers' Financial Integrity Act*, which requires that we establish and maintain effective internal controls. The Comprehensive Integrity Review Process automatically selects, based on predefined criteria, potentially fraudulent transactions for management investigation. The selection criteria focus on potentially fraudulent activity rather than improper payments. However, if the transaction involves an issued payment, we do ask the reviewer to look at the accuracy of the payment to ensure that we complied with proper procedures.

Other Infrastructure

As required by law, we conduct preeffectuation reviews (PER) on at least 50 percent of initial and reconsideration allowance disability determinations made by the State Disability Determination Services (DDS). In FY 2009, we initiated PERs of all DDS allowances for OASDI benefits and initial and reconsideration allowances for the SSI program. We returned deficient cases to the DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2009 cases will result in lifetime savings (after all appeals) of:

- $300 million in OASDI benefit payments;
- $58 million in Federal SSI payments;
- $151 million in Medicare benefits; and
- $48 million in the Federal share of Medicaid payments.

(See the Medical Aspects of the DI and SSI Programs section for further information on PER.)

Statutory and Regulatory Barriers

Our processes, policies, and regulatory and statutory requirements are complicated, which make them difficult to administer and explain. To meet the challenges of our growing workloads and provide the best service possible, we will simplify and streamline our policies and procedures and move more of our business processes to an electronic environment. We work with Congress and our stakeholders to identify ways to simplify our statutory and regulatory requirements. The President's FY 2012 Budget includes several proposals that would simplify and streamline how we do our work. We discuss some of these proposals in the following paragraphs.

DI Demonstration Authority/Work Incentives Simplification Pilot

This proposal would reauthorize, for five years, our demonstration authority, which allows us to use OASDI, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Fund monies to conduct various demonstration projects, including alternative methods of treating work activity of disabled OASDI beneficiaries (including recipients of childhood disability benefits and disabled widow(er) benefits). Subject to rigorous evaluation protocols, the Work Incentives Simplification Pilot (WISP) would test important improvements in our return-to-work rules. WISP would eliminate current barriers to employment by simplifying the treatment of beneficiaries' earnings, potentially reducing improper payments.

Windfall Elimination Provision and Government Pension Offset

Under this proposal, we would develop automated data exchanges for States and local governments to submit timely information on pensions based on work not covered by Social Security. The proposal includes funding for developing and implementing the data exchanges. Receiving this pension information timely would help us avoid improper payments created when we do not know a beneficiary is receiving a pension that makes the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) applicable.

Workers' Compensation

Under this proposal, we would develop and implement a system to collect information on Workers' Compensation (WC) recipients from States and private insurers. We would use the information to offset DI benefits and reduce SSI payments as necessary. This proposal includes funding for developing and implementing the system. Receiving this information timely would help us avoid improper payments that occur when we do not have information about receipt/amount of WC payments.

IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

Table 1 features the improper payment rates for the OASI and DI programs for FYs 2008, 2009, and 2010. We calculate the overpayment rate by dividing overpayment dollars by dollars paid, and the underpayment rate by dividing underpayment dollars by dollars paid.

Table 1: OASDI Improper Payments Experience
FY 2008 – FY 2010
(dollars in millions)

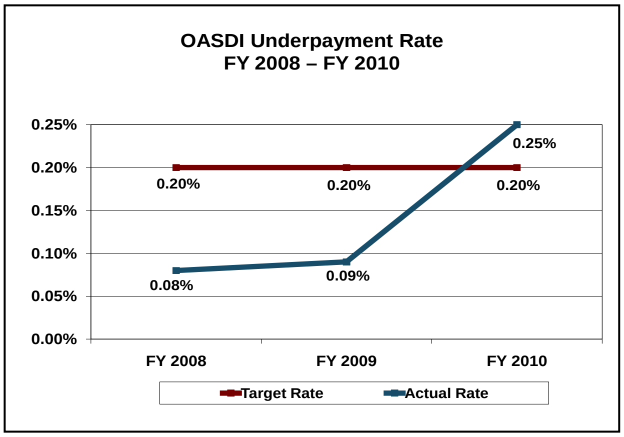
	FY 2008		FY 2009		FY 2010	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	$502,692		$544,478		$572,569	
Underpayment Error	$334	0.07%	$428	0.08%	$527	0.09%
Overpayment Error	$841	0.17%	$841	0.15%	$1,878	0.33%
DI						
Total Benefit Payments	$104,517		$115,087		$122,899	
Underpayment Error	$160	0.15%	$191	0.17%	$1,261	1.03%
Overpayment Error	$1,200	1.12%	$1,706	1.48%	$844	0.69%
OASDI						
Total Benefit Payments	$607,210		$659,565		$695,469	
Underpayment Error	$495	0.08%	$619	0.09%	$1,788	0.25%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	$2,041	0.34%	$2,547	0.37%	$2,722	0.39%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

1. Total benefit payments represent actual cash outlays for the fiscal year to the nearest million dollars. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
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 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, +0.06 percent and -0.04 percent for underpayments and +0.16 percent and -0.12 percent for overpayments; for FY 2009, ±0.05 percent for underpayments and +0.15 percent and -0.17 percent for overpayments; and for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments.
4. DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, +0.14 percent and -0.12 percent for underpayments and ±0.91 percent for overpayments; for FY 2009, +0.16 percent and -0.17 percent for underpayments and ±1.33 percent for overpayments; and for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments.
5. The changes in the DI error rates from FY 2009 to FY 2010 are not statistically significant. The change in the overall OASDI underpayment error rates from FY 2009 to FY 2010 is a statistically significant increase. While significant, the overall underpayment rate changed by only 0.16 percentage points.

Over the last five years (FYs 2006-2010), we paid approximately $2.6 trillion to OASI beneficiaries. Of that total, we project $4.9 billion are overpayments, representing 0.19 percent of outlays. We project that underpayments during this same period were $2.1 billion, the equivalent of 0.08 percent of outlays.

Applying the same analysis to the DI program, we project that we paid $530.5 billion to DI beneficiaries over the last five years (FYs 2006-2010). Of that total, we project $5.5 billion are overpayments, representing 1.0 percent of outlays. We project underpayments during this same period totaled $2.3 billion, the equivalent of 0.4 percent of outlays.



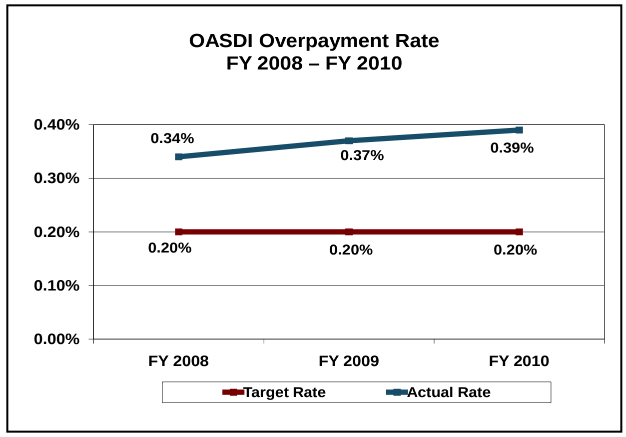


Table 2 presents our target accuracy goals for FYs 2011, 2012, and 2013 for the OASDI programs. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2011 – FY 2013 (dollars in millions)

	2011 Target		2012 Target		2013 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	$722,190		$755,180		$796,168	
Underpayments	$1,444	0.20%	$1,510	0.20%	$1,592	0.20%
Overpayments	$1,444	0.20%	$1,510	0.20%	$1,592	0.20%

Notes:

1. We do not have separate OASI and DI targets (goals); therefore, we present a combined OASI and DI target.
2. FY 2011 data will not be available until April 2012; therefore, the rates shown are targets (goals).
3. Total benefit payments for FYs 2011-2013 are estimates consistent with projections for the President's FY 2012 Budget.

Major Causes of OASDI Improper Payments

Over the last five years, the major causes of overpayments in the OASDI program have been:

- Substantial Gainful Activity (SGA)
- Computations
- GPO
- Earnings History

Over the last five years, the major causes of underpayments in the OASDI program have been:

- Computations
- Earnings History
- WC

Table 3 lists these major causes of improper payments (overpayments and underpayments) in the OASDI program using OMB's three categories of error.

Table 3: Major Causes of OASDI Improper Payments in FY 2010

	% of Improper Payments	Major Types of Errors
Administrative and Documentation Errors	28%	Incorrect computations, onset dates, and earnings history
Authentication and Medical Necessity Errors	13%	Relationship/dependency errors and failure to report cessation of full-time attendance for students
Verification and Local Administration Errors	59%	Non-verification of earnings, income, or work status (e.g., in relation to SGA and GPO); inputting, classifying, or processing applications or payments incorrectly

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

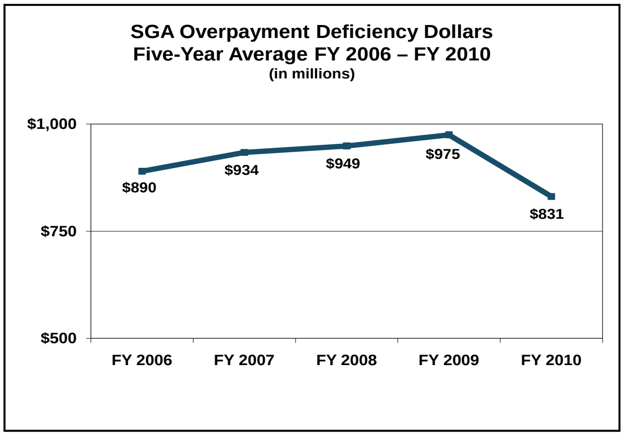
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources, or incorrectly assessing the necessity of a medical procedure.
- **Verification and Local Administration Errors** are errors due to not verifying recipient information including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.

Substantial Gainful Activity

Description:

When a disability beneficiary works, a number of factors determine whether he or she can continue to receive monthly benefits. Improper payments occur when beneficiaries fail to report earnings timely or when we do not withhold monthly benefit payments timely. The following chart displays the five-year average of SGA overpayment deficiency dollars.

Historical Figures:



Corrective Actions:

The following table shows our actions to ensure accurate reporting of beneficiaries' earnings:

Table 4: SGA – Corrective Actions		
Description	**Target Completion**	**Results**
Case Focus		
We dedicated staff to target the oldest cases first.	Ongoing	We have allocated additional staff resources to analyze the oldest work-related issues and are targeting the oldest cases, those over 365 days old.
Priority Alerts		
We prioritized the systems enforcement alerts we use to identify unreported earnings and then worked the cases with highest earnings first to minimize overpayments.	Ongoing	In regions not involved in our predictive model pilot study, we now prioritize the CDR enforcement alerts used to identify unreported earnings, and complete the cases with highest earnings first to minimize overpayments.
We are conducting the Automated Earnings Reappraisal Operation Pilot.	To be determined based on study results	In the pilot, we are working to coordinate two earnings related processes: benefit recomputations and identifying DI beneficiaries with unreported earnings. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.

Table 4: SGA – Corrective Actions

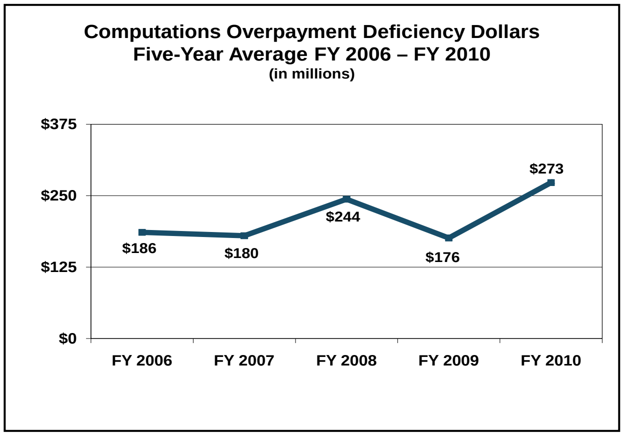
Description	Target Completion	Results
We are conducting the CDR Enforcement Operation Predictive Model Pilot.	To be determined based on study results	We developed a statistical predictive model that identifies beneficiaries who are at risk of receiving large earnings-related overpayments. We began testing this model in October 2010 in our New York Region, and we have expanded the pilot to include over 50 percent of the CDR workload with the inclusion of the Kansas City Region and the Office of Central Operations. The predictive model will help us prioritize staff resources to work high-risk cases first and reduce the amount of work-related overpayments.
Improved Communication		
We improved communication between field offices and processing centers (PC) for cases transferred between components (e.g., field office cases manually processed by the PC).	October 2011	We are working with representatives from each PC to update and streamline our CDR policies and procedures for PC staff. We will make the updated and consolidated instructions available to field offices and PCs to better coordinate field office and PC actions on work issue cases.
Wage Reporting		
We revised work activity report forms.	February 2012	We recently revised the forms we use to gather information about work activity from applicants and beneficiaries to make the forms easier to understand and complete. For example, we streamlined documentation requirements for work activity that is not SGA, and we eliminated the signature requirement. We received OMB approval for the forms and are currently working with our Office of Systems to incorporate the forms into our computer systems. We will also update our policies to streamline our follow-up procedures when beneficiaries do not respond to our request for information. We plan to release our new procedures and work activity report forms simultaneously.
Legislative Proposal		
We submitted an FY 2012 President's Budget legislative proposal that would reauthorize our demonstration authority to conduct WISP. WISP would test important improvements in our return-to-work rules and simplify the treatment of beneficiaries' earnings, potentially reducing improper payments. (See the Agency Efforts to Reduce Improper Payments section.)	Pending	The 112th Congress has not taken action yet.

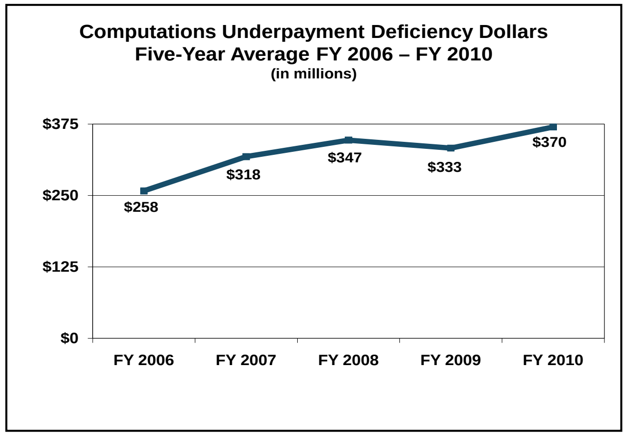
Computations

Description:

We base a person's benefit amount on a number of factors including age, earnings history, and the type of benefit awarded. Inaccurate information or administrative mistakes can cause errors in calculating benefits. There are a wide variety of causes for computation errors. For the FY 2006 through FY 2010 period, approximately 57 percent of the computation errors were underpayments, with the leading causes being recomputations, the WEP, primary insurance amount, and adjustment of the reduction factor. (Note: A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html.) For FY 2006 through FY 2010, errors involving WEP were the leading cause of computational deficiency dollars. Overpayments often result when we do not receive pension information timely and, therefore, do not apply WEP appropriately. Nearly 50 percent of the overpayment computational deficiency dollars for the FY 2006 through FY 2010 period involved WEP.

Historical Figures:





Corrective Actions:

The following table shows our actions to ensure accurate benefit computations:

Table 5: Computations – Corrective Actions

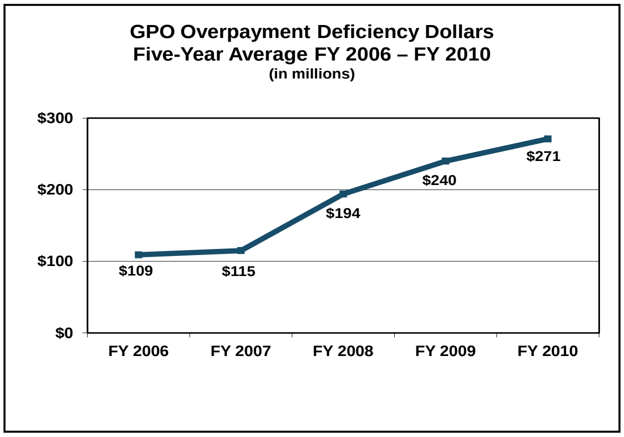
Description	Target Completion	Results
Civil Service Retirement System (CSRS) Match		
We conduct an ongoing match with the Office of Personnel Management (OPM) to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2011, the OPM match generated 10,272 WEP alerts.
Centenarian Project		
We conduct an annual national Centenarian Project to ensure that we pay benefits only to eligible, living individuals. Our managers review the records of selected centenarian beneficiaries and attempt contacts.	Ongoing	Of the nearly 9,220 centenarian cases we reviewed from April 2010 to December 2010, we found 19 percent of the beneficiaries were deceased. We identified $21.7 million in erroneous payments. In 2011, we reviewed 10,700 cases.

Government Pension Offset

Description:

We may offset OASDI benefits for a spouse or surviving spouse if he or she receives a Federal, State, or local government pension based on work on which the spouse did not pay Social Security taxes. Errors occur when beneficiaries do not report receipt of these types of pensions. The following chart displays the five-year average of GPO overpayment deficiency dollars. (Note: A definition of GPO is available at: www.socialsecurity.gov/pubs/10007.html)

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce improper payments caused by the non-reporting of government pensions:

Table 6: GPO – Corrective Actions

Description	Target Completion	Results
CSRS Match		
We conduct an ongoing match with OPM to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2011, the OPM match generated 1,723 alerts.
Legislative Proposal		
We submitted an FY 2012 President's Budget legislative proposal for automated data exchanges.	Pending	The 112th Congress has not taken action yet.

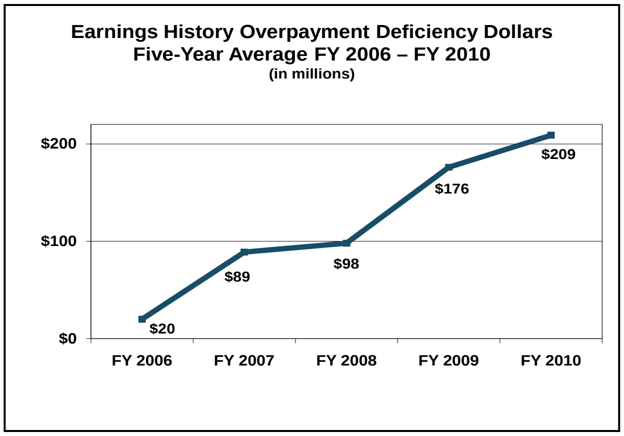
Earnings History

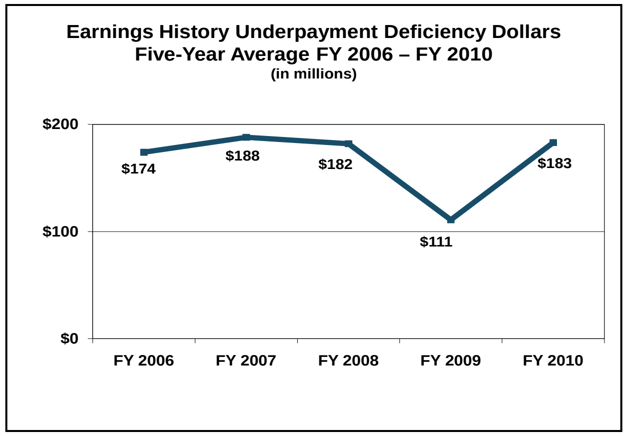
Description:

A person's earnings history is a factor in determining the amount of monthly benefits that the worker or someone filing on that the worker's account will receive. When our records do not accurately reflect the worker's earnings, we may calculate benefits incorrectly. For FY 2006 through FY 2010, errors based on earnings history are 47 percent underpayment and 53 percent overpayment dollars.

Wage discrepancies and scrambled earnings (i.e., earnings belonging to one worker posted to another worker's record) account for the largest percentage of earnings errors. Although earnings-related errors usually involve small dollars in each month of payment, the errors can have a substantial effect over the life of the claim.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors related to earnings history:

Table 7: Earnings History – Corrective Actions

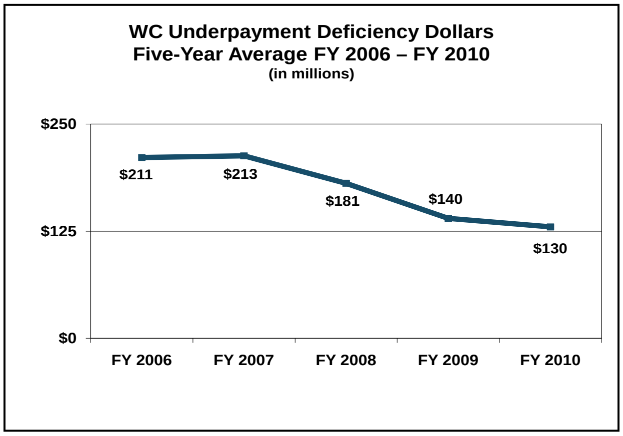
Description	Target Completion	Results
Emphasize Corrected Earnings		
In FY 2009, we modified our instructions to clarify evidence needed for correcting earnings and eliminated development that does not affect the accuracy of the earnings record.	Ongoing	We are performing additional studies that would help determine the effect of our modified instructions.
Earnings Alert System		
In FY 2010, we modified the Earnings Alert System to allow adjudicators to identify and develop those irregularities on the earnings record which, when resolved, will most likely affect the worker's benefit payment.	Ongoing	We have completed the majority of the modifications to the Earnings Alert System and have updated the associated policy instructions. We are performing additional studies that would will help determine the effect of our modified Earnings Alert System.

Workers' Compensation

Description:

If a person receives both WC and Social Security disability benefits, the total amount of these benefits cannot exceed 80 percent of his or her average earnings before becoming disabled. (Note: A definition of WC is available at: www.socialsecurity.gov/pubs/10018.html.) If the total benefits exceed that amount, we reduce DI benefits to the 80 percent threshold. Underpayments occur when the receipt of WC decreases or ceases and we do not increase the disability benefit. The following chart displays the five-year average of WC underpayment deficiency dollars.

Historical Figures:



Corrective Actions:

The following table shows various actions to reduce improper payments caused by unreported changes in WC:

Table 8: WC – Corrective Actions		
Description	**Target Completion**	**Results**
WC Policy Forum		
In November 2008, we established the WC/Public Disability Benefits (PDB) Policy Forum, which is an intercomponent workgroup that addresses new WC policy issues to advance improvements needed in the WC workload.	Ongoing	The WC/PDB Policy Forum holds quarterly discussions to address issues related to WC/PDB policy and procedures.
Instructions Update		
We updated all policy instructions with a clear and reorganized format, expanded information and guidance for developing WC evidence, incorporated regional instructions, where appropriate, and added technical guidance on new software to improve the overall accuracy of the WC workload.	Ongoing	In addition to updated national operating instructions, we created the WC Resource Page to provide a centralized resource for analysts and technicians charged with administrating WC/PDB workloads. The website contains links to resources and tools to assist with the adjudication of WC/PDB cases.
Automated Processing		
We developed and implemented an automated process to ensure the agency systematically and routinely follows up on new pending WC cases.	Ongoing	We generate systems alerts at regular intervals for pending WC/PDB cases. The alert allows us to routinely monitor and control pending cases, and make timely adjustments to OASDI benefit payments.
Legislative Proposal		
We submitted an FY 2012 President's Budget legislative proposal requiring State and local governments and private insurers to share WC payment information.	Pending	The 112th Congress has not taken action yet.

IMPROPER PAYMENTS IN THE SSI PROGRAM

Table 9 features the improper payment rates for the SSI program for FYs 2008, 2009, and 2010. We calculate the overpayment rate by dividing overpayment dollars by dollars paid and the underpayment rate by dividing underpayment dollars by dollars paid.

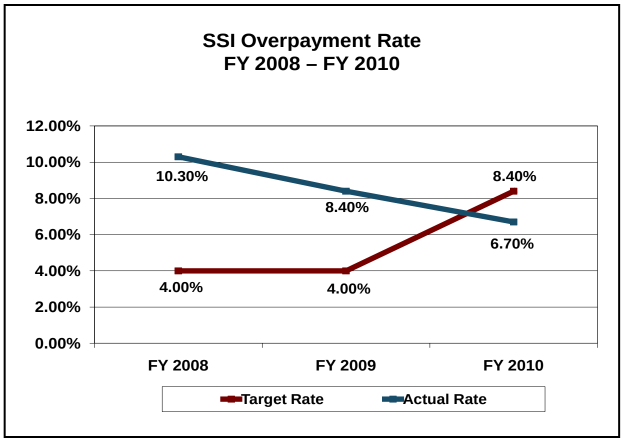
Table 9: SSI Improper Payments Experience
FY 2008 – FY 2010
(dollars in millions)

	FY 2008	FY 2009	FY 2010
Total Federally-Administered Payments			
Dollars	$45,045	$48,294	$50,276
Underpayments			
Dollars	$789	$787	$1,227
Target Rate	≤1.2%	≤1.2%	≤1.2%
Actual Rate	1.7%	1.6%	2.4%
Overpayments			
Dollars	$4,648	$4,040	$3,344
Target Rate	≤4.0%	≤4.0%	≤8.4%
Actual Rate	10.3%	8.4%	6.7%

Notes:

1. Total federally-administered payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. The percentages and dollar amounts presented in Table 9 are correct based on actual numbers used from the source data. However, there may be differences in the calculated overpayment and underpayment rates due to rounding.
3. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2008, ±0.53 percent for underpayments and ±1.46 percent for overpayments; for FY 2009, ±0.03 percent for underpayments and ±1.5 percent for overpayments; and for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments.
4. The increase in the underpayment rate from FY 2009 to FY 2010 is statistically significant. It was mainly due to the following factors:
   - The failure of recipients to report a living arrangement change from "household of another" to "own household"; and
   - The failure to report a stoppage of work or a decrease in the amount of wages received.

Over the last five years (FYs 2006-2010), we paid over $226.5 billion to SSI recipients. Of that total, we project $19.1 billion were overpayments, representing 8.4 percent of outlays. We project that underpayments during this same period were $4.3 billion, the equivalent of 1.9 percent of outlays.



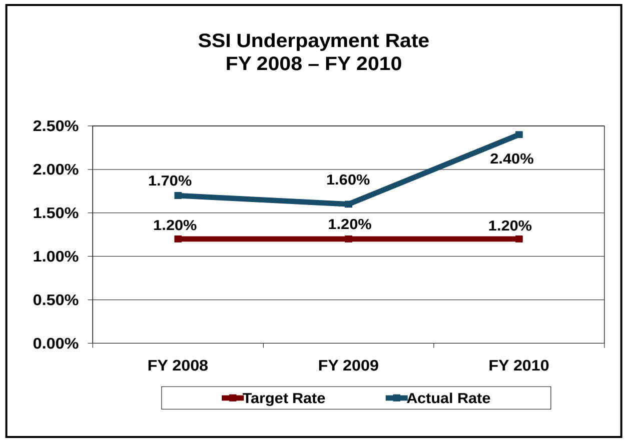


Table 10 presents our target accuracy goals for FYs 2011, 2012, and 2013 for the SSI program.

Table 10: SSI Improper Payments Reduction Outlook FY 2011 – FY 2013 (dollars in millions)

	2011 Target		2012 Target		2013 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Federally-Administered Payments	$52,520		$54,876		$57,375	
Underpayments	$630	1.2%	$659	1.2%	$689	1.2%
Overpayments	$3,519	6.7%	$2,744	5.0%	$2,869	5.0%

Notes:

1. Our Annual Performance Plan and Congressional Justification, issued in February 2011, reflect an FY 2011 SSI overpayment target rate of 8.0 percent. Because of the lag in producing actual performance data, we did not receive FY 2010 SSI overpayment accuracy data until June 2011. The increase in our FY 2010 accuracy rate prompted us to revise the FY 2011 SSI overpayment target to 6.7 percent.
2. Total federally-administered SSI payments are estimates consistent with projections for the President's FY 2012 Budget, adjusted to be presented on a constant 12-month per year payment basis.

Major Causes of SSI Improper Payments

Over the last five years, the major causes of overpayments in the SSI program have been:

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

Over the last five years, the major causes of underpayments in the SSI program have been:

- Wages
- Living Arrangement
- In-kind Support and Maintenance (ISM)

Table 11 lists these major causes of improper payments (overpayments and underpayments) in the SSI program using OMB's three categories of error.

Table 11: Major Causes of SSI Improper Payments in FY 2010		
	% of Improper Payments	**Major Types of Errors**
Administrative and Documentation Errors	12%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change
Authentication and Medical Necessity Errors	33%	Existence or changes to living arrangements and ISM
Verification and Local Administration Errors	55%	Detection of unreported financial accounts and wages

Notes:

Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:

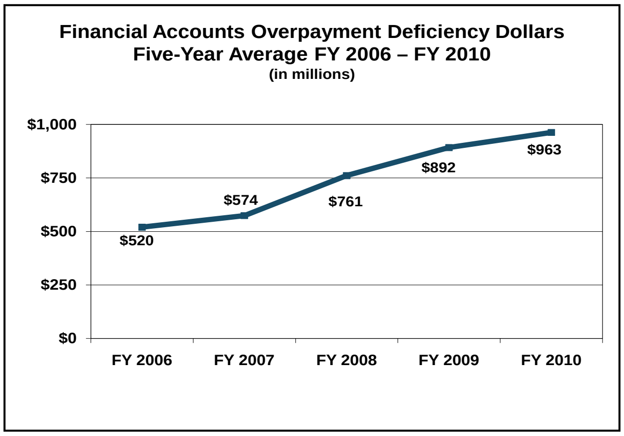
- **Administrative and Documentation Errors** are errors due to the lack of all supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly at the Federal level.
- **Authentication and Medical Necessity Errors** are errors due to being unable to authenticate criteria such as living arrangements or qualifying child through third-party sources, or incorrectly assessing the necessity of a medical procedure.
- **Verification and Local Administration Errors** are errors due to not verifying recipient information including earnings, income, assets, or work status; or inputting, classifying, or processing applications or payments incorrectly by a State agency or third party who is not the beneficiary.

Financial Accounts

Description:

The applicant or recipient (or his or her parent or spouse) has financial accounts that exceed the allowable resource limits ($2,000 individual/$3,000 couple) that may result in periods of SSI program ineligibility.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors related to financial accounts:

Table 12: Financial Accounts – Corrective Actions

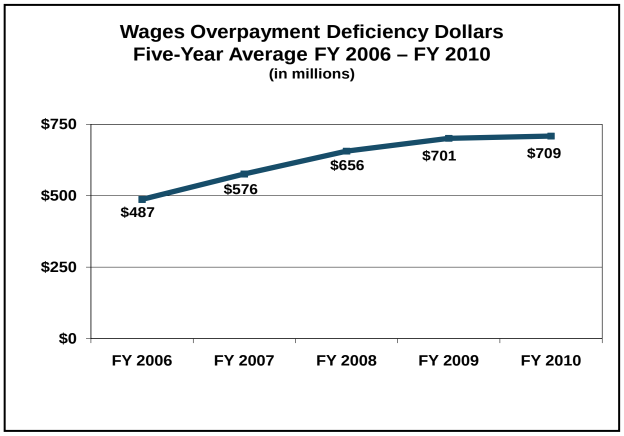
Description	Target Completion	Results
AFI		
We currently use AFI in 50 States, the District of Columbia, and the Northern Mariana Islands. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources in financial accounts.	September 2011	In June 2011, three months earlier than our target date of September 2011, we completed expansion of AFI nationwide. As a result, we can apply AFI procedures to all of our SSI applicants and recipients. In addition, we perform five negative searches for each applicant/recipient.
We will increase the number of transactions received to 500,000.	September 2011	In March 2011, six months ahead of schedule, we completed 552,304 cumulative bank transactions, thus surpassing our FY 2011 goal of 500,000. We completed 2,048,678 cumulative transactions through September 30, 2011.
In FY 2013, we plan to fully implement AFI which will include the following: • Use a $0 tolerance for all SSI initial claims and redeterminations. • Conduct at least five negative searches per applicant/recipient. • Fully integrate AFI with our claims system.	FY 2013	Beginning in FY 2013, when we fully implement AFI, we project roughly $900 million in lifetime program savings for each year we use the fully implemented process. After full implementation, we also estimate we should achieve roughly $20 in total lifetime SSI program savings for every $1 spent on the program.

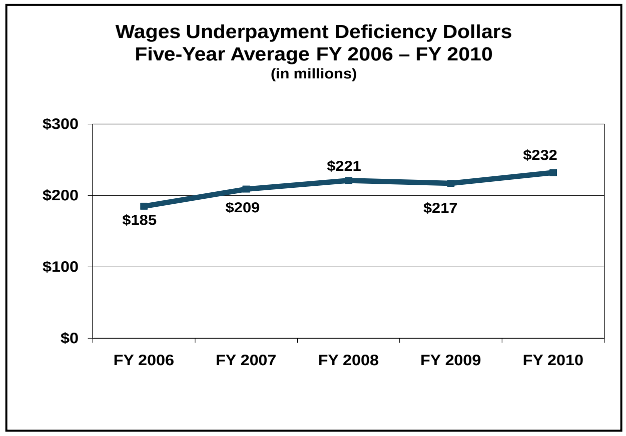
Wages

Description:

The recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate payment.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors related to wages:

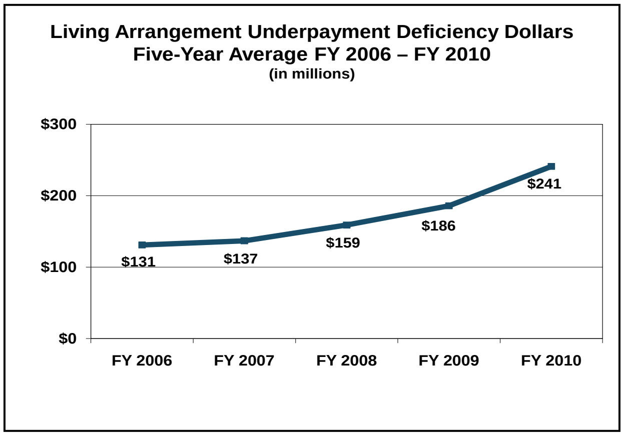
Table 13: Wages – Corrective Actions		
Description	**Target Completion**	**Results**
SSITWR		
In FY 2008, we implemented SSITWR. SSITWR allows recipients (or their parent, spouse, or representative payee) to report their monthly wage amounts via an automated system that ensures the wage amounts post timely.	Ongoing	There were 28,650 successful SSITWR reports in May 2011, thus surpassing our FY 2011 goal of 28,000 monthly reporters. As of September 2011, we had 28,624 monthly reporters.
SSITWR Representative Payee Outreach		
In the first quarter of FY 2011, we mailed notices to a sample of individuals serving as representative payees for working SSI recipients. The notice asked the payee to start using SSITWR to report the individual's wages to us.	Ongoing	Overall, the pilot demonstrates that notice-based outreach can enlist a significant number of individuals (about 14,000) to SSITWR-based reporting. In the future, we plan to conduct a mailing to the entire SSI population.

Living Arrangement

Description:

We paid the recipient as if he or she were living with someone else when the recipient actually qualified for a higher payment level, such as for those who live alone.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors stemming from living arrangement information:

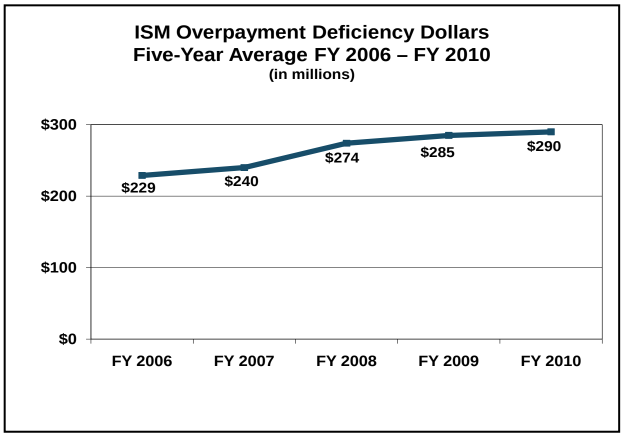
Table 14: Living Arrangement – Corrective Actions		
Description	**Target Completion**	**Results**
Redetermination Funding		
In the FY 2012 President's Budget proposal, we requested funding to perform 200,000 more redeterminations than our FY 2011 target of 2.422 million. This increase, consistent with the *Budget Control Act*, will reduce the number of underpayments owed to recipients by identifying living arrangement changes earlier.	Pending	The 112th Congress has not taken action yet.

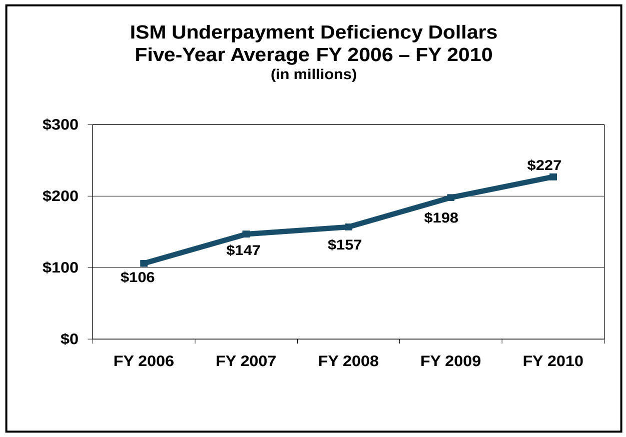
In-Kind Support and Maintenance

Description:

ISM is unearned income in the form of food or shelter received, with underpayments occurring when the recipient's amount of ISM is less than the amount used to calculate payment. Overpayments can also occur when the recipient fails to report ISM. Studies show that many of the errors attributed to ISM are due to the complexity of the statutory policies for the program. These policies are difficult for SSI recipients to understand, making it problematic for them to report changes to us in a timely manner. This complexity also means that seemingly small changes in a recipient's household can result in an overpayment or an underpayment. The following charts display the five-year average of ISM overpayment and underpayment deficiency dollars.

Historical Figures:





Corrective Actions:

The following table shows our actions to reduce errors stemming from ISM information:

Table 15: ISM – Corrective Actions

Description	Target Completion	Results
Statutory, Regulatory, Policy and Procedure Review		
We review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	We issue reminders and policy clarifications on a regular basis, and will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

Other Initiative to Reduce SSI Improper Payments

In FYs 2011 and 2012, we are piloting a program to investigate non-home real property informational leads via several web-based commercial sources. The purpose of this pilot is to determine the accuracy and reliability of property information available on the leading commercial websites and assess the cost-effectiveness of using this information to identify undisclosed property for SSI beneficiaries and applicants. We will use the study results to develop a methodology to reduce improper SSI payments caused by undisclosed property ownership.

Medical Aspects of the DI and SSI Programs

DDSs are responsible for completing the medical determinations at the initial, reconsideration, and CDR stages of the disability process. Table 16 highlights the initial allowance, denial, and overall accuracy rates for FYs 2009 and 2010. We determine these rates by our quality assurance review of a sample of pre-effectuated initial claims. We base accuracy rates not only on the number of deficient cases but also on whether the cited deficiency resulted in a change in the original DDS determination on the case. For FY 2010, the combined allowance and denial goal for net accuracy was 98.1 percent.

Table 16: DDS Initial Claim Net Accuracy		
Initial Claim Net Accuracy	**FY 2009**	**FY 2010**
Allowance	99.1%	99.2%
Denial	95.5%	97.4%
Combined	96.8%	98.1%
Note: The overall change from FY 2009 to FY 2010 is 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., PER. We use a logistic regression methodology to profile initial and reconsideration allowances. Cases falling within the established cutoff score constitute the PER sample. We review all sampled determinations and return deficient cases to the adjudicating DDS for correction. For FY 2009, PER in the OASDI program saved an estimated $488 million in lifetime OASDI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of $11 saved for every dollar spent.

The *Social Security Act* also includes an extension of the PER review of favorable adult disability decisions to the SSI program. We are required to review 50 percent of adult allowances in the SSI program. For FY 2009, SSI PER saved an estimated $69 million in lifetime SSI and Medicaid payments, with a benefit/cost ratio of $8 saved for every dollar spent. Combined, the two PER reviews result in an estimated $558 million in lifetime savings.

Use of Predictive Modeling in the OASDI Process

We developed a predictive model that more effectively identifies DI beneficiaries at risk of the highest overpayments due to earnings. We designed this model to identify those cases with the highest potential for overpayment based on work activity.

In FY 2011, we completed the following:

- Implemented a pilot study to test the predictive model. We are currently evaluating its performance; and
- Expanded the pilot to two additional sites.

In FY 2012, we plan to complete the following:

- Complete a performance evaluation of the pilot study including all three piloted sites; and
- Based on the results of the pilot, consider national implementation of the model.

Use of Predictive Modeling in the SSI Redetermination Process

We do not have the resources to conduct an annual redetermination on every SSI recipient each year; therefore, we use a statistical scoring model to target annual SSI redeterminations. This statistical model, which has been in place for nearly two decades, uses various income, resource, and living arrangement variables obtained from our SSI payment and claim processing systems to predict likely SSI overpayments and underpayments. Each year we identify claims for review based on the likelihood of error and prioritize the reviews based on allocated funds. The SSI redetermination scoring model is a highly effective tool for ensuring that the selection of SSI redeterminations is efficient and cost effective. In FY 2010 alone, our SSI redeterminations resulted in prevention and recovery of about $3.8 billion in SSI overpayments. The agency would have prevented and recovered only $2.4 billion if we used random selection instead of the model.

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

We collected $3.20 billion in OASDI and SSI benefit overpayments in FY 2011. To recover overpayments, we use internal debt collection techniques (i.e., payment withholding, billing, and follow-up), as well as the external collection techniques authorized by the *Debt Collection Improvement Act of 1996* for OASDI debts and the *Foster Care Independence Act of 1999* for SSI debts.

Table 17: Programmatic Debt Overpayments – Detections and Recoveries
(dollars in millions)

Recovery Method	Amount Identified FY 2011	Amount Recovered FY 2011	Amount Identified FY 2010	Amount Recovered FY 2010	Cumulative Amount Identified FY 11 + 10	Cumulative Amount Recovered FY 11 + 10
Detections	$5,666.8		$5,238.7		$10,905.5	
Reestablished	$229.7		$233.0		$462.7	
Remittances		$719.3		$712.1		$1,431.4
Offsets Intra-Program		$2,333.1		$2,286.8		$4,619.9
Offsets Cross-Program		$149.4		$141.9		$291.3
Total	$5,896.5	$3,201.8	$5,471.7	$3,140.8	$11,368.2	$6,342.6

Notes:

1. We use multiple methods to detect overpayments; for example, data sharing, self-reporting by our beneficiaries, and systems computations. However, we are unable to identify all the debt detection sources by activity. In addition, detected overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
2. This chart contains identified and recovered program overpayments. However, we do not consider every overpayment improper according to the definition contained in IPIA.

From their inception through September 2011, our external collection techniques have yielded $3.832 billion in benefits recovered through a combination of overpayment recovery and prevention improvements. Table 18 provides a description of each of our key debt management initiatives and a summary of the results since their inception.

We developed a system to handle the Treasury Offset Program (TOP), credit bureau reporting, and Administrative Wage Garnishment (AWG). Because the system covers more than TOP, and will be the basis for any future collection interfaces with agencies or entities outside our agency, we call it the External Collection Operation system.

To further improve our debt collection program, we will continue with the implementation of the External Collection Operation Enhancements project by implementing Phase II, which will allow us to collect delinquent debts by offsetting Federal payments through TOP beyond the current 10-year statute of limitations, as authorized by Public Law 110-246 and 31 United States Code 3716. Phase I, implemented in July 2010, enabled us to collect delinquent SSI debts from a population of debtors previously excluded from the automated External Collection Operation selection process. As resources permit, we will also pursue implementation of Phase III to collect delinquent debts by offsetting applicable State payments through TOP.

We will also continue to seek the resources to expand the Non-Entitled Debtor (NED) program and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, the use of private collection agencies, and interest charging or indexing a debt to reflect its current value.

Table 18: Cumulative Programmatic Debt Recovery Methods Through FY 2011 (dollars in billions)					
Recovery Method	**Inception**	**Description**	**OASDI**	**SSI**	**TOTAL**
TOP	1992	TOP is a debt collection program sponsored by the Department of the Treasury (Treasury) that allows us to collect delinquent debt by Tax Refund Offset, Administrative Offset, and Federal Salary Offset. We collected $165.8 million in FY 2011 through these initiatives.	$1.193	$0.788	$1.981
Credit Bureau Reporting	1998	We report delinquent debts owed by former OASDI beneficiaries and SSI recipients to credit bureaus. Credit bureau reporting contributed to the recovery of $60.1 million in FY 2011.	$0.372	$0.275	$0.647 *
Cross Program Recovery	2002	Cross Program Recovery recovers OASDI overpayments from SSI underpayments, and SSI overpayments from monthly OASDI benefit payments and OASDI underpayments.	$0.116	$0.648	$0.764
NED	2005	NED is an automated system used to control recovery activity for debts owed by debtors who are not entitled to benefits, such as representative payees who receive overpayments after the death of a beneficiary. We used the NED system to recover $3.5 million in FY 2011.	$0.022	N/A	$0.022 **
AWG	2005	AWG allows us to recover delinquent OASDI and SSI overpayments by ordering a debtor's employer to garnish up to 15 percent of the debtor's private sector disposable pay. We collected $19.0 million through this process during FY 2011.	$0.076	$0.017	$0.093
Automatic Netting – SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" $129.2 million in FY 2011.	N/A	$0.994	$0.994
Total			$1.385	$2.447	$3.832

Notes:

*Credit bureau reporting is a subset of TOP collections, and, therefore, is not included in the overall total at the bottom of the chart.

**NED is a subset of TOP and AWG collections, and therefore, is not included in the overall total at the bottom of the chart.

Program Recovery Targets

IPERA guidance requires that agencies establish annual targets for their payment recapture audit programs that will drive their annual performance. The targets represent the rate of recovery (i.e., amount of improper overpayments recovered divided by the amount of improper overpayments identified). We are currently exploring, with OMB, methodologies to identify appropriate recovery targets for SSI and OASDI.

IMPROPER ADMINISTRATIVE PAYMENTS

We evaluated our FY 2010 administrative expenses, and determined that they were not susceptible to significant improper payments as defined by IPIA.

Risk Assessment: Administrative Payments

IPERA requires agencies to review administrative payments as part of their annual risk assessment process. If these risk assessments determine that payments are susceptible to significant improper payments, then agencies are required to establish an annual improper payment measurement related to administrative payments.

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

Table 19: FY 2010 Administrative Expenses (dollars in millions)	
Payroll and Benefits	$6,037
State DDS	$2,114
American Recovery and Reinvestment Act*	$471
Other Administrative Expenses**	$2,964
Total Administrative Expenses	$11,586

Notes:

*Includes mostly Payroll Expenses.

**Other Administrative Expenses includes Vendor, Travel, Transportation, Rents, Communications and Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land and Structure, Grants, Subsidies and Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest and Dividends, and Insurance Claims and Indemnities.

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

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

We demonstrate that our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

PAYMENT RECAPTURE AUDIT PROGRAM: ADMINISTRATIVE PAYMENTS

To further strengthen our internal controls, we issued a Request for Quote, soliciting 52 contractors from the General Services Administration schedule to perform payment recapture audit services of our administrative payments. Offerors submitted proposals, and we are currently negotiating final acceptable terms with the offerors. Final award is contingent upon agreement to the contract terms. If an agreement is reached, we anticipate awarding a contract in early FY 2012.

This contract requires the examination of our administrative payment processes to identify overpayments made during FYs 2008 thru 2010. The contractor will:

- Identify funds lost due to overpayments;
- Define the reason for the overpayment;
- Notify us of any overpayments identified; and
- Develop recommendations for preventing future overpayments.

Because we have not yet awarded this contract, no results or corrective actions have been identified. We expect to report on our corrective actions in next year's *Improper Payments Information Detailed Report.* At that time, we will also report on our disposition of recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and travel payments. In response to OMB Guidance, our in-house recovery audit program employs a number of tools to aid in the detection and recovery of improper overpayments, including:

- An automated query system to identify payments made to the same vendor, with the same invoice date, and for the same amount. This helps identify payments that represent a higher risk of being duplicate payments.
- A report to identify duplicate payments made through the third-party draft payment system and the accounts payable system.
- A risk assessment of administrative payment systems and recovery of any overpayments identified in this process.

This program addresses issues related to recovering and limiting improper payments resulting from duplicate payments and overpayments. Results from the 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 our existing controls for the prevention, detection, and collection of improper vendor and travel payments.

According to OMB guidance, reviewing payments to employees to identify improper payments is optional. However, because our payroll and benefits account for a major portion of our administrative costs, we conduct annual payment accuracy reviews.

Program Scope

For FY 2010, the internal recovery audit program included a review of $1.500 billion in vendor and travel payments out of $1.674 billion subject to review. We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Incomplete cost-type contracts where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and conditions of the contract.
- Cost-type contracts that were completed, subjected to final contract audit, and prior to payment of the contractor's final invoice.

We identified total improper overpayments of $1.4 million, which equates to approximately 0.09 percent of total payments subject to review for *FY 2011 Performance and Accountability Report* reporting. Of the overpayments identified, only $41,000 remains uncollected as of the end of FY 2010. The remaining receivable balance reflects the timing of when we issued the request for overpayment refund; we consider all vendor and travel overpayments 100 percent collectible. Vendor and travel overpayments recovered and reported are for FY 2010 or prior. These overpayments were from discretionary accounts appropriated before enactment of IPERA (i.e. July 22, 2010) and, as such, do not fall under the requirements of Appendix C of OMB Circular No. A-123 Part 1(15) Disposition of Recovered Amounts. Therefore, we return all amounts recovered to the original appropriation from which the overpayment was made. We recognize IPERA allows further disposition of recovered funds and are evaluating how to implement this provision of the law.

Although the number and amount of overpayments are minimal and immaterial, duplicate payments are the primary cause of vendor overpayments. To ensure identification and recovery of these payments, we designed, developed, and deployed a predictive analytics program to detect and recover these improper payments. Additionally, we developed and implemented internal controls to minimize improper payments.

Payroll and benefits account for a majority of total administrative expenses. Using the broadest definition of improper payments, we extracted all 26 prior period adjustment records from the biweekly payroll files and analyzed that data to determine the reasons for and amount of adjustments to payments that were due to or collected from our employees. For FY 2010, we found approximately $3.0 million in improper payroll overpayments out of $6,375 million total payroll payments, which yielded a 0.05 percent improper overpayment rate.

These results further validate our existing controls to prevent, detect, and collect administrative improper payments.

Table 20: FY 2010 Payment Recapture Audit Reporting Administrative Payments
(dollars in millions)

Type of Payment	Payroll and Benefits	Vendor and Travel
Amount Subject to Review for Current Year (CY) Reporting	$6,375	$1,674
Actual Amount Reviewed and Reported CY	$6,375	$1,500
Amount Identified for Recovery CY	$2.983	$1.424
Amount Recovered CY	$1.465	$1.383
Percent of Amount Recovered out of Amount Identified CY	49.11%	97.14%
Amount Outstanding CY	$1.518	$0.041

Table 20: FY 2010 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)		
Type of Payment	**Payroll and Benefits**	**Vendor and Travel**
Percent of Amount Outstanding out of Amount Identified CY	50.89%	2.86%
Amount Determined Not to be Collectable CY	$0.178	$0.0
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	5.97%	0.0%
Amounts Identified for Recovery Prior Years (PY)	N/A	$7.366
Amounts Recovered PYs	N/A	$7.359
Cumulative Amounts Identified for Recovery (CY + PYs)	$2.983	$8.790
Cumulative Amounts Recovered (CY + PYs)	$1.465	$8.742
Cumulative Amounts Outstanding (CY + PYs)	$1.518	$0.048
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	$0.178	$0.0

Notes:

1. The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2010 but could have occurred in a prior year.
2. The amount subject to review for current year reporting includes $338 million in payroll expenses attributable to the *American Recovery and Reinvestment Act.*
3. For Payroll and Benefits we did not include "amounts identified for recovery in prior years" and "amounts recovered in prior years" since this is the first year we are reporting such overpayments. Therefore, all totals requiring current year plus prior year data contain current year data only.

Administrative Payments Recovery Targets

Similar to the OASDI and SSI programs, IPERA guidance requires that agencies establish annual targets for administrative payment recapture audit programs. We strive to recover all administrative overpayments, and established 100 percent as a target as required by OMB Circular A-123, Part II B (3) Payment Recapture Targets for Audit Programs. We selected this recovery rate based on our in-house recovery rate over the past three fiscal years. We incur a small amount of administrative overpayments; mainly from former agency employees and duplicate payments to vendors. We utilize various tools for collection including offset of subsequent vendor payments and TOP, which includes AWG.

Table 21: FY 2010 Payment Recapture Audit Targets
Administrative Payments
(dollars in millions)

Type of Payment	FY 2010 Amount Identified	FY 2010 Amount Recovered	FY 2010 Recovery Rate (Amount Recovered / Amount Identified)	FY 2011 Recovery Rate Target	FY 2012 Recovery Rate Target	FY 2013 Recovery Rate Target
Payroll and Benefits	$2.983	$1.465	49.11%	100%	100%	100%
Vendor and Travel	$1.424	$1.383	97.14%	100%	100%	100%

Note:

The payroll and benefits amounts include overpayments from current and separated employees. The amounts for current employees include overpayments that we identified in FY 2010 but could have occurred in a prior year.

Table 22: FY 2010 Aging of Outstanding Overpayments
Administrative Payments
(dollars in millions)

Type of Payment	FY 2010 Amount Outstanding (0 – 6 Months)	FY 2010 Amount Outstanding (6 Months to 1 Year)	FY 2010 Amount Outstanding (Over 1 Year)
Payroll and Benefits	$0.7521	$0.1765	$0.0
Vendor and Travel	$0.0205	$0.0274	$0.0

Note:

The payroll and benefits aging amounts do not include amounts for current employees.

Table 23: Administrative Debt Overpayments – Detections and Recoveries (dollars in millions)						
Administrative Debt Overpayments	**Amount Identified FY 2011**	**Amount Recovered FY 2011**	**Amount Identified FY 2010**	**Amount Recovered FY 2010**	**Cumulative Amount Identified FY 11 + 10**	**Cumulative Amount Recovered FY 11 + 10**
Total	$2.5	$2.3	$2.6	$1.4	$5.1	$3.7

Notes:

1. The totals include all detected and recovered overpayments for the given fiscal year.
2. Detected overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. This chart contains identified and recovered program overpayments. However, we do not consider every overpayment improper according to the definition contained in IPIA.