



SOCIAL SECURITY
The Deputy Commissioner

NOV 01 2011

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

Dear Mr. Lieberman,

It is my pleasure to submit to you the initial Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we submit to you an annual report on actions taken during the preceding fiscal year to address recommendations on how to mitigate conditions that cause improper payments identified by payment recapture auditors.

We use the program integrity efforts, performed by our employees, as payment recapture audits for the Old-Age, Survivors, and Disability Insurance and Supplemental Security Income programs. Based upon our program integrity reviews, this report describes the conditions that give rise to improper payments and corrective actions.

SSA employees also review the accuracy of our administrative payments, which includes payroll and benefits, payments to State Disability Determination Services, and other payments such as those made to vendors. If we reach agreement with an offeror, we anticipate awarding a contract to a payment recapture auditor early this fiscal year to enhance our internal controls in this area.

Sincerely,

Carolyn W. Colvin

Enclosure

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



SOCIAL SECURITY
The Deputy Commissioner

NOV 01 2011

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

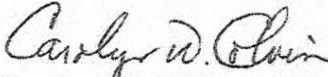
Dear Mr. Issa,

It is my pleasure to submit to you the initial Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we submit to you an annual report on actions taken during the preceding fiscal year to address recommendations on how to mitigate conditions that cause improper payments identified by payment recapture auditors.

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Sincerely,


Carolyn W. Colvin

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



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The Deputy Commissioner

NOV 01 2011

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

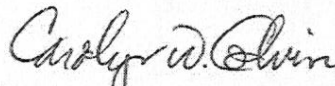
Dear Mr. Cummings,

It is my pleasure to submit to you the initial Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we submit to you an annual report on actions taken during the preceding fiscal year to address recommendations on how to mitigate conditions that cause improper payments identified by payment recapture auditors.

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Sincerely,


Carolyn W. Colvin

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



SOCIAL SECURITY
The Deputy Commissioner

NOV 01 2011

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

Dear Ms. Collins,

It is my pleasure to submit to you the initial Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we submit to you an annual report on actions taken during the preceding fiscal year to address recommendations on how to mitigate conditions that cause improper payments identified by payment recapture auditors.

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Sincerely,

Carolyn W. Colvin

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



SOCIAL SECURITY
The Deputy Commissioner

NOV 01 2011

Mr. Danny I. Werfel
Controller
725 17th Street, N.W.
Washington, D.C. 20503

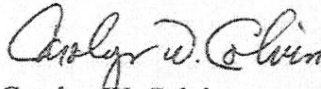
Dear Mr. Werfel,

It is my pleasure to submit to you the initial Annual Report of Payment Recapture Audits in compliance with section 2(h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA requires that we submit to you an annual report on actions taken during the preceding fiscal year to address recommendations on how to mitigate conditions that cause improper payments identified by payment recapture auditors.

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Sincerely,


Carolyn W. Colvin

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

**Social Security Administration (SSA)
Annual Payment Recapture Audit Report
November 2011**

Executive Summary

This report fulfills the requirements of Section 2 (h)(2)(D)(ii) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (P.L. 111-204), which requires agencies to complete an annual report to Congress and the Office of Management and Budget (OMB) describing conditions that cause overpayments, any recommendations identified by payment recapture auditors on how to mitigate conditions that cause overpayments, and any corrective actions the agency took during the preceding fiscal year to address payment recapture auditor recommendations.

As allowed by IPERA and implementing guidance OMB Circular A-123, "*Management's Responsibility for Internal Controls*," our employees conduct payment recapture audits to identify improper payments for the Old-Age, Survivors, and Disability Insurance (OASDI) Program, Supplemental Security Income (SSI) Program, and SSA administrative payments. Our employees also perform corrective actions.

Benefit Payments

Payment Overview

We pay benefits under the OASDI and SSI programs. The OASDI program provides monthly benefits to retired workers, their spouses, and minor and disabled children. In the event of death, we pay survivors benefits to the family of the deceased worker. The Disability Insurance (DI) program provides benefits to people who cannot work because they have a medical condition that prevents them from performing work in the national economy and that is expected to last at least one year or result in death. We also pay dependent benefits to the spouse and minor and disabled children of the disabled worker. In fiscal year (FY) 2010,¹ we paid \$695 billion in OASDI benefits to approximately 53 million beneficiaries. Slightly more than \$2.7 billion, or about 0.4 percent of the benefits, was improper overpayments. About \$1.8 billion, or 0.25 percent of the benefits, was improper underpayments.

The SSI program is a means-tested program for the elderly, as well as blind or disabled adults and children. SSI is a complex program to administer because eligibility and monthly payment amounts are highly sensitive to fluctuations in monthly income, resources, and living

¹FY 2010 data is the most recent available. In mid-November 2011, we will publish our annual FY 2011 Performance and Accountability Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. This report will be available on-line at www.socialsecurity.gov.

arrangements. Improper payments can occur if recipients, or their representative payees, fail to timely report changes in any of these factors; e.g., a change in resources or an increase or decrease in wages. Failure to report these payment-affecting changes is the primary cause for both overpayment and underpayment errors and has been a perennial problem since the inception of the SSI program. In FY 2010, we paid \$50.3 billion in SSI benefits to approximately 7.8 million recipients.² Improper overpayments, for this same period, were \$3.3 billion, or 6.7 percent, and underpayments were \$1.2 billion, or 2.4 percent.

Payment Recapture Audits Business Process

We have a multi-pronged approach to conduct payment recapture audits for our OASDI and SSI programs. Our employees follow an internal review process to determine OASDI and SSI payment accuracy. We perform stewardship reviews, which measure the accuracy of payments to beneficiaries and recipients. Each month, we review a sample of OASDI 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 nonmedical factors of eligibility and payment amount for the review period that affects the sample month. We use these data to identify payment accuracy strengths and weaknesses, from which we target our resources to take corrective actions that yield the highest return on investment.

In our field offices, processing centers, and disability determination services (DDS) operational areas, employees conduct reviews for ongoing eligibility. Medical continuing disability reviews (CDR) are periodic reevaluations to determine if beneficiaries still meet our definition of disability. A work CDR is a review of the eligibility requirements regarding a DI beneficiary's ability to perform substantial gainful activity in a job. SSI redeterminations are periodic reviews of nonmedical factors of eligibility, such as income and resources.

CDRs and redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue benefit payments. We estimate that every dollar spent on medical CDRs yields at least \$10 in lifetime program savings including savings accruing to Medicare and Medicaid, and every dollar spent on SSI redeterminations yields more than \$7 in program savings over 10 years, including savings accruing to Medicaid.

We exceeded our FY 2011 program integrity goal by completing 345,492 medical CDRs (105 percent of the goal of 329,000) and 2,456,830 redeterminations (114 percent of the goal of 2,142,000), which will result in estimated program savings of roughly \$6 billion over 10 years, including Medicare and Medicaid savings.

To support this activity, we specifically request funding through the normal budget process. The number of CDRs and redeterminations we can conduct each year depends on the level of resources appropriated to the agency. Our statistical predictive models help us prioritize the CDRs and redeterminations we work annually. We first address those CDRs and redeterminations that will likely result in the greatest savings.

² Nearly 2.7 million SSI recipients also receive OASDI benefits.

Payment Recapture Audits Results

We conduct stewardship reviews by specialists with extensive expertise in our benefit programs and business processes; design and operation of evaluations; applied statistics and statistical models; surveys; and business analytics.

We determined that most overpayments in the OASDI program occur when a disability beneficiary performs substantial gainful activity. The two major causes of overpayments in the SSI program are financial accounts that exceed the allowable resource limits and excess wages.

The FY 2010 payment accuracy rate was 99.6 percent for OASDI overpayments and 99.7 percent for underpayments; we continue to seek ways to improve. For the second straight year, we increased our SSI payment accuracy. In FY 2008, SSI overpayment accuracy was 89.7 percent and we increased to 91.6 percent in FY 2009 and 93.3 percent for overpayments in FY 2010. The FY 2010 underpayment accuracy rate was 97.6 percent.

Corrective Actions from Payment Recapture Audits

We have several program integrity efforts underway that include (but are not limited to) the following:

- Conducting additional CDRs and redeterminations.
- Access to Financial Institutions (AFI) – AFI helps us address the leading cause of overpayments in the SSI program, excess resources. By automatically checking an applicant's known bank accounts, and by selectively checking for unknown accounts with financial institutions in a given area, we have reduced overpayments by promptly identifying excess resources. As of June 2011, AFI became available in all 50 states, the District of Columbia, and the Northern Mariana Islands. Once AFI is fully implemented, we estimate achieving \$20 in total lifetime SSI program savings for every \$1 spent on the program, which is roughly \$900 million in lifetime program savings for each year we use the process.
- SSI Telephone Wage Reporting (SSITWR) - This system is another helpful tool to prevent SSI payment errors due to wage reporting. SSI stewardship findings for FY 2010 show that seven percent of all wage deficiency dollars were due to inaccurate or incorrect reports, reinforcing the notion that more frequent wage reporting results in greater payment accuracy. SSITWR allows SSI recipients to report their monthly wages over the telephone and these reports are highly accurate. Our front-line employees continue to recruit new monthly reporters and promote the use of this tool for wage reporting.

Administrative Payments

Payment Overview

In FY 2010,³ we issued three types of administrative payments:

1. **Payroll and Benefits:** We spent \$6.0 billion to fund payroll and benefits for approximately 68,880 SSA employees.
2. **State DDS Expenses:** Payments to DDSs for making medical determinations in our disability programs totaled \$2.2 billion in FY 2010. We pay for all of the costs incurred in making disability determinations, including overhead and salaries for almost 18,000 DDS employees. The DDS also plays a large role in processing CDRs to determine continued eligibility for beneficiaries.
3. **Other Administrative Expenses:** In FY 2010, other administrative expenses totaled approximately \$3.0 billion. These expenses included travel and vendor payments and are typical costs associated with operating a large public support operation.

Payment Recapture Audits Business Process

Currently, our employees perform an in-house payment recapture audit of our administrative payments. To further strengthen our internal controls, we issued a Request for Quote to perform payment recapture audit services of our administrative payments. If we reach an agreement with an offeror on the contract terms, we anticipate awarding a contract in early FY 2012 and will report on any auditor findings in next year's annual Payment Recapture Audit report.

Payroll and benefits account for a majority of total administrative expenses. We extracted 26 prior period adjustment records from the biweekly payroll files and analyzed that data to determine the reasons for and the 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.

For DDSs, our 10 regional offices review amounts drawn against preapproved spending plans. For payment accuracy, we rely upon OIG's audits of DDSs and further use those findings to enhance payment controls.

³ FY 2010 data is the most recent available. In mid-November 2011, we will publish our annual FY 2011 Performance and Accountability Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. This report will be available on-line at www.socialsecurity.gov.

For all other administrative payments, including payments to vendors, our in-house recovery audit program uses a number of tools to detect improper payments, including an automated query system to identify potential duplicate payments. We established numerous internal controls to reduce the risk of vendor overpayments, including review and approval of invoice payments by contracting officer technical representatives and project officers. In addition, our funds control system minimizes the risk of overpayments by restricting payments to a particular vendor to the amount of the contract or purchase order award. Our in-house audit program not only tracks the recovery of identified improper payments, but also analyzes recoveries to determine invoice type and cause. For the year under review, invoices for purchase orders accounted for the largest number of improper payments, and the most common cause for improper payments was selection of the incorrect vendor payment location.

In FY 2010, our employees identified improper overpayments of \$1.4 million, or approximately 0.09 percent of total other administrative payments. Of the improper overpayments identified, we collected all but \$41,000 and did not waive any of this debt. Our successful efforts validate our existing controls for prevention, detection, and collection of administrative improper payments. Results from the audit program and quality review process continue to confirm that administrative payments are well below the OMB-determined threshold for reporting improper payments. When deficiencies are uncovered, we correct and mitigate future improper payments by revising operating policies and procedures and conducting employee training.

Conclusion

The programs we administer, along with administrative support functions, demand stewardship that is worthy of our promise of economic security. We are firmly committed to sound management practices, including evaluating our programs' integrity and taking appropriate action to mitigate future improper payments. Properly managing our resources and program dollars is critical to that success. Equally important to our success is having adequate and sustained funding to carry out all of our work.