



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 (OIG). The OIG 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 provide information on our entitlement reviews, the OIG's anti-fraud activities, our biennial review of user fee charges, and our debt management activities.

Finally, the *Other Accompanying Information* section concludes with the *Improper Payments Information Detailed Report*. In this section, we provide general information demonstrating our commitment to reducing improper payments. We also describe our efforts in reducing improper payments for our Old-Age, Survivors, and Disability Insurance and Supplemental Security Income benefit programs and administrative payments.

IG STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES



SOCIAL SECURITY

November 8, 2012

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) 2012, we continued our focus on most of the management and performance challenges from the previous year, but we added one additional challenge and deleted another. Specifically, we added "Strengthen Strategic and Tactical Planning" and deleted "Implement the *American Recovery and Reinvestment Act of 2009* Effectively and Efficiently." The challenges are listed below.

- Reduce the Hearings Backlog and Prevent its Recurrence
- Invest in Information Technology Infrastructure to Support Current and Future Workloads
- Improve the Timeliness and Quality of the Disability Process
- Strengthen the Integrity and Protection of the Social Security Number
- Reduce Improper Payments and Increase Overpayment Recoveries
- Improve Transparency and Accountability
- Improve Customer Service
- Strengthen Strategic and Tactical Planning

We used multiple sources when determining the status of each of the identified challenges. For example, we used statistics reported by SSA and Office of the Inspector General audits of SSA's operations. We also used the FY 2012 independent auditor's report, which contained the results of SSA's financial statement audit. This year's report concluded that SSA had a material weakness related to its information security and a significant deficiency related to its monitoring activities. These issues are discussed in detail in the enclosure.

My office will continue focusing on these issues in FY 2013. We will also continue assessing SSA's operations and the environment in which SSA operates to ensure our reviews focus on the most salient issues facing the Agency.

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,

A handwritten signature in black ink, appearing to read "Pat O'Carroll Jr.", written in a cursive style.

Patrick P. O'Carroll, Jr.
Inspector General

*Fiscal Year 2012
Inspector General Statement
on the
Social Security Administration's
Major Management and
Performance Challenges*



November 2012

REDUCE THE HEARINGS BACKLOG AND PREVENT ITS RECURRENCE

CHALLENGE: *While the Social Security Administration (SSA) has a plan to eliminate the hearings backlog by 2013, the number of pending cases has increased, and the average processing time remains above the goal of 270 days. In addition, there is a growing concern with administrative law judges' (ALJ) adherence to SSA's policies as well as the variation in their decisional outcomes.*

Hearings Backlog: SSA's first goal in its Fiscal Year (FY) 2008-2013 *Agency Strategic Plan* was to ". . . eliminate our hearings backlog and prevent its recurrence." SSA has directed increased resources to improve hearing timeliness and process more hearings. Since FY 2008, average processing time dropped by about 31 percent, from an average of 514 days in FY 2008 to an average of 353 days at the end of FY 2012. During this time, ALJ productivity increased from 2.30 dispositions per day per ALJ to 2.41.

While timeliness and ALJ productivity have improved, an increased number of applicants has led to an increase in the hearings backlog. By the end of September 2012, the backlog stood at about 817,000 cases, an increase of almost 30,000 cases since the start of the FY. In the *Agency Strategic Plan Fiscal Years 2008-2013*, SSA established a goal to reduce the pending cases to about 466,000 and average processing time to 270 days. In his July 2011 statement to Congress, the SSA Commissioner stated the Agency focus was on the 270-day average processing time, stating, "What matters most to someone waiting for a decision is how quickly we decide his or her case, not how many other people are also waiting for a hearing."

Video Teleconferencing: In our June 2012 report, *Current and Expanded Use of Video Hearings*, we highlighted benefits related to video teleconferencing (VTC) at SSA, while noting that VTC decreased ALJ travel to remote sites. Nonetheless, we noted that the Agency could still take additional steps to expand its use, by placing VTC equipment into field offices, law offices, and government sites. In addition, the relocation of unused equipment and expanded use of desktop video units could increase the available capacity of video hearings.

National Hearing Centers: To eliminate the backlog and prevent its recurrence, the Agency has used automation and implemented a number of business processes to increase adjudicatory capacity and efficiency. One of these initiatives, the video-only National Hearing Centers (NHC), is designed to reduce case processing time by increasing adjudicatory capacity and efficiency with a focus on an electronic hearings process. In our April 2012 audit of *The Role of National Hearing Centers in Reducing the Hearing Backlogs*, we noted that NHCs provided the Agency with additional flexibility by transferring older cases from some of the most heavily backlogged hearing offices, thereby reducing their backlogs and processing times. However, NHCs face their own challenges, including lack of video capacity at claimant locations, scheduling difficulties, and claimants' reluctance to participate in video hearings.

Scheduling Hearings: In our August 2012 report, *Office of Disability Adjudication and Review's Process for Scheduling Hearings When Cases are in "Ready to Schedule" Status*, we identified various obstacles that impacted the hearing office staff's ability to timely schedule hearings. Most notably, staff cited claimant representative availability as the greatest obstacle for timely scheduling hearings. To a lesser degree, hearing office staff cited ALJ availability as another key obstacle.

ALJ Performance: Congress continues to express concerns about ALJ adherence to the Agency's policies and procedures while demonstrating good stewardship of taxpayer dollars. In our February 2012 report, *Oversight of Administrative Law Judge Workload Trends*, we identified ALJs who were significant outliers in terms of their productivity or decisional allowance rates and noted the Agency needed to ensure outlier ALJs were monitored and their underlying work processes were periodically reviewed. In a related March 2012 report, *The Social Security Administration's Review of Administrative Law Judges Decisions*, we noted that while SSA has the authority to review ALJ decisions, the Agency must work within legal restrictions when conducting its reviews.

AGENCY ACTIONS

The Agency continues to implement the Commissioner's plan to eliminate the backlog by

- expanding the list of diseases and conditions covered under compassionate allowances;
- increasing adjudicatory capacity through additional hiring 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.

In FY 2012, SSA hired 147 new ALJs and adjudicated approximately 37,000 cases using the senior attorney adjudication program. The Agency held almost 154,000 video hearings nationwide in the FY, an increase of almost 24,000 video hearings when compared to FY 2011.

IMPROVE THE TIMELINESS AND QUALITY OF THE DISABILITY PROCESS

CHALLENGE: *SSA needs to address millions of initial disability and reconsideration claims and it continues to have backlogs of initial disability claims and continuing disability reviews (CDR).*

Disability Claims Backlog: Over the past 2 years, SSA has received a large influx of initial and reconsideration claims. More specifically, it received over 3.3 million initial and 836,000 reconsideration claims in FY 2011. In addition, it received about 3.2 million initial and over 832,000 reconsideration claims in FY 2012. In addition, SSA has a large number of initial claims pending completion. In 2012, SSA had over 707,000 initial disability claims pending, similar to the 720,000 initial disability claims that were pending at the end of FY 2011.

DDS Personnel Issues: 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. With hiring freezes, DDSs are not allowed to replace the lost staff. As of September 2012, four States were still furloughing DDS employees (Nevada, New York, Oregon, and Washington).

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 had the medical CDRs in the backlog been conducted by State DDSs when they became due. SSA had a backlog of 1.3 million medical CDRs at the end of FY 2012.

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 of 525,000 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 provided funding for States to hire additional DDS employees. SSA also created centralized units, called Extended Service Teams, in Arkansas, Mississippi, Oklahoma, and Virginia. The Teams assist the States by taking claims from those with the highest pending levels. SSA also increased staffing levels in the Federal disability processing components that support the DDSs—hiring about 237 additional employees.

In total, SSA hired more than 2,600 DDS employees in FYs 2009 and 2010. However, in FY 2011, SSA froze DDS hiring and did only limited critical hiring in FY 2012. As a result, SSA lost over 1,200 DDS employees in FY 2011 and 1,025 additional DDS employees in FY 2012.

With the loss of DDS employees and a high level of initial disability claims receipts anticipated in FY 2013, SSA does not expect to achieve its initial claims pending level goal of 525,000 by FY 2014. In fact, in FY 2013, SSA expects that pending initial disability claims will rise to over 1.1 million. In FY 2013, we plan to initiate a review of the actions SSA is taking to reduce the initial disability claims backlog.

Disability Case Processing System: The Agency is developing a Disability Case Processing System (DCPS), which is 1 common system that will replace the 54 different existing systems that support the DDSs. DCPS will integrate case analysis tools and health information technology (IT). A common case processing system will help SSA to timely distribute policy changes. Per SSA, it will provide consistent case processing abilities between the DDSs, which should have a positive effect on processing times and the consistency of disability decisions. SSA

planned to test the initial version of DCPS in five locations, beginning with the Idaho DDS in September 2012. SSA expects to complete the implementation of DCPS by the end of FY 2016.

Cooperative Disability Investigations: We have continued working with SSA to address the integrity of the disability programs through Cooperative Disability Investigations (CDI). The mission of the 25 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 and Disability Programs and the Office of the Inspector General (OIG). Since its inception in FY 1998 through FY 2012, the program efforts have resulted in \$2.2 billion in projected savings to the Disability Insurance and Supplemental Security Income (SSI) programs and over \$1.4 billion in projected savings to non-SSA programs.

REDUCE IMPROPER PAYMENTS AND INCREASE OVERPAYMENT RECOVERIES

CHALLENGE: *SSA is one of the top Federal agencies with a high amount of improper payments. In FY 2011, the last FY for which data were available, SSA reported about \$8 billion in over- or underpayments, 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 2011:

- The Old-Age, Survivors and Disability Insurance (OASDI) overpayment error was \$2.3 billion or 0.3 percent of program outlays, and the underpayment error was \$1 billion or 0.1 percent of program outlays.
- The SSI overpayment error was \$3.8 billion or 7.3 percent of program outlays, and the underpayment error was \$1 billion or 1.8 percent of program outlays.

For FYs 2012 and 2013, SSA's goal was to maintain OASDI payment accuracy at 99.8 percent for both over- and underpayments; and for SSI, the Agency's goal was to achieve an overpayment accuracy rate of 95 percent and an underpayment accuracy rate of 98.8 percent.

Executive Order 13520 and IPERA: In November 2009, the President issued Executive Order 13520 on reducing improper payments; and in March 2010, the Office of Management and Budget (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-risk programs—those with significant improper payments—are required to intensify their efforts to eliminate payment errors. OMB designated SSA's programs as high-risk.

Overpayment Recoveries: Once SSA determines an individual has been overpaid, it must recover any overpayment. SSA reported that the percent of debt (for example, overpayments) collected decreased from FY 2011 to FY 2012. Specifically, SSA reported that it collected 22.9 percent of debt in FY 2011 and 22.1 percent in FY 2012. Additionally, the percent of debt collected in FY 2012 is lower than the percent collected in each of the previous 4 FYs.

AGENCY ACTIONS

Improper Payment Causes: 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 followup. 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 2012, SSA recovered \$3.7 billion in overpayments 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 \$9 for every \$1 spent on CDRs, including Medicare and Medicaid program effects.

IMPROVE CUSTOMER SERVICE

CHALLENGE: *Many factors challenge SSA's ability to provide quality customer service to the public, including budget constraints, growing workloads, changing customer expectations, an aging workforce, and shifting demographics.*

Increased Workload with Reduced Staff: Each day, almost 182,000 people visit SSA field offices and more than 445,000 people call the Agency for a variety of services, such as filing a claim, updating information, and asking questions. SSA is also receiving increasing numbers of claims. The Agency completed approximately 3.2 million disability claims and 5 million retirement and survivor and Medicare claims in FY 2012.

The projected retirement of its employees continues to present a challenge to SSA's customer service capability. SSA estimates that 45 percent of its employees, including 60 percent of its supervisors, will be eligible to retire by FY 2020. This loss of institutional knowledge may adversely affect SSA's ability to deliver the quality service the public expects.

Changing Customer Expectations: SSA is also finding that technology is rapidly changing and the public expects to complete more business online. Internet services and the use of mobile devices and social media continue to increase. At the same time, the Nation is becoming more diverse. Today, minorities comprise approximately 30 percent of the population, and the Census Bureau estimates that minorities will make up over half of the population by 2050. As SSA enhances its service delivery strategies, it must consider the increasing multilingual and multicultural population it serves.

Budget: SSA stated that the current level of funding would lead to a loss of employees. In FY 2012, it lost over 1,600 employees. Consequently, the Agency projected its national 800-number service will deteriorate significantly because it will not have a sufficient number of employees to answer calls. Busy signals rose from 3 percent in FY 2011 to 4.6 percent in FY 2012. The average speed to answer also increased from 180 seconds in FY 2011 to 294 seconds in FY 2012. Additionally, SSA estimates it will be unable to complete all its post-entitlement work. The Agency believes its inability to handle this work timely could result in improper payments and delays in collecting overpayments. Further, to reduce administrative costs and direct resources to meet growing public service expectations, SSA consolidated 20 field offices in FY 2012. SSA will continue evaluating its facilities to determine whether additional consolidations are necessary.

Direct Deposit: SSA uses direct deposit for 94 percent of Social Security benefits and 83 percent of SSI payments. In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had redirected benefit payments away from the beneficiaries' bank accounts. As of the end of FY 2012, we had received over 22,000 reports concerning direct deposit changes to a Social Security beneficiary's record.

Representative Payment 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. Based on data from SSA's Representative Payee System, there were approximately 5.9 million representative payees as of December 2011. The Office of Research and Statistics reports these payees served approximately 8.4 million beneficiaries and managed about \$72 billion in annual benefit payments.

Our reviews continue to identify problems with SSA's Representative Payment Program. We found SSA did not always take appropriate actions for individual representative payees who misused benefit payments. For example, SSA did not document negligence decisions, refer instances of misuse to the OIG, follow policy regarding the retention of payees who misuse beneficiary funds, or record misuse-related data accurately in its system.

We continue finding problems with representative payees who do not properly use and account for benefits. For example, we identified an organizational representative payee who improperly transferred about \$800,000 from beneficiary accounts into its own business operating account to cover its cash flow shortages. Additionally, we

identified large-volume, fee-for-service representative payees who did not always have the resources, procedures, and controls in place to ensure they fulfilled their representative payee responsibilities.

AGENCY ACTIONS

SSA has implemented various initiatives to improve customer service, such as developing a customer service plan, clarifying correspondence, expanding the use of online services, improving telephone and field office services, and improving the Representative Payment Program.

Customer Service Plan: In FY 2012, SSA published its *Customer Service Plan*, which outlines its strategy to improve service delivery quality, speed, and efficiency. The plan highlights the Agency's video hearings initiative, which uses technology to minimize costs and expand customer access. Along with video technology, the Agency plans to improve its telephone and walk-in services, enhance online services, and enhance security for Internet access to personalized information.

Correspondence: SSA mails approximately 200 million notices to the public each year, making it one of the Agency's most common forms of service delivery. SSA intends to improve its notices to ensure they are clear, concise, and easily understood. For example, SSA plans to revise its SSI post-eligibility notices to show the new payment amount and eliminate duplicate charts.

Online Services: One of SSA's priorities is to provide the public more service options through a wide range of online services. In FY 2012, SSA released an online Spanish retirement application and a new online version of the Social Security Statement, which provides eligible workers access to their Social Security earnings and benefit information. SSA also enhanced electronic services for claimant representatives, such as improving the online appeals application (iAppeals). According to SSA, each online application saves about 15 minutes. Further, starting in April 2012, individuals applying for disability benefits were able to electronically sign and submit an authorization to disclose medical information, which will help process claims faster. SSA reports, on average, this should reduce the disability application process by 9 days per claim.

SSA continues expanding its nation-wide marketing campaign for its Internet services through public service announcements on television, radio, billboards, and buses as well as in airport terminals to promote online services. The Agency also uses social media, such as Facebook, Twitter, and YouTube, to direct the public to its online service options.

In FY 2012, SSA reported that 44 percent of initial Social Security disability, retirement, spouses, and Medicare claims were filed online. According to the *American Customer Satisfaction Index*, SSA has the two highest-rated electronic services in the Government. Further, three of SSA's online services outperformed or tied Amazon, the highest-scoring electronic retail Website.

Telephone Services: SSA serves over 60 million people per year over the telephone. SSA is replacing its national 800-number infrastructure with a new system, the Citizen Access Routing Enterprise Through 2020. SSA reports the new technology will help eliminate lengthy navigation menus, better forecast call volumes, anticipate staffing needs, and distribute incoming calls across the network so callers can reach an agent more quickly. It will also offer callers the opportunity to hang up and receive a return call from SSA when wait times exceed 3 minutes.

Video Services: SSA is expanding its video services for individuals living in rural areas or places without public transportation. Video services enable the Agency to provide service to people at such sites as hospitals, libraries, community centers, American Indian Tribal centers, and homeless shelters. Video services also increase service availability and help reduce travel costs and lost work hours.

Direct Deposit: SSA performs integrity reviews on direct deposit transactions processed in its program applications. In reaction to recent fraudulent activity in the direct deposit area, SSA has moved from a monthly to a weekly review of direct deposit integrity reviews.

Representative Payee Program: SSA piloted a new program in FY 2012 to ensure individuals convicted of committing or attempting to commit certain crimes do not serve as a representative payee. To increase the number of representative payees who submit timely wage reports, the Agency mailed notices to certain representative payees for working SSI recipients and encouraged the representative payees to report wages via an automated telephone wage reporting system. Further, SSA stated it issued reminders to its employees to follow representative payee program policy, and agreed to work with problem payees to correct deficiencies identified during audits.

INVEST IN INFORMATION TECHNOLOGY INFRASTRUCTURE TO SUPPORT CURRENT AND FUTURE WORKLOADS

CHALLENGE: *SSA faces major challenges to mitigate a material weakness in its logical access controls, provide additional electronic services to meet the growing needs of its customers, and strategically plan to modernize its systems.*

SSA faces the challenge of how best to use technology to meet its increasing workloads with limited budgetary and human resources. Further, 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 have concerns regarding the Agency's IT physical infrastructure; logical access controls and security of sensitive information; development of electronic services, and strategic IT planning.

IT Physical Infrastructure: SSA's National Computer Center (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. Increased workloads and growing telecommunication services have strained the NCC's ability to support the Agency's business. SSA's primary IT investment over the next few years is the replacement of the NCC. However, the Agency has projected that its new facility will not be operational until 2016.

Logical Access Controls and Security of Sensitive Information: 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. Although SSA had taken some steps to address these issues, the FY 2012 Financial Statement Audit raised the deficiency to a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls.

Development of Electronic Services: SSA must provide additional electronic services to meet its customers' growing needs. 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 2012, the Agency planned to increase the percentage of claims filed online to 42 percent. At the end of FY 2012, 44 percent of claims was filed electronically.

In FY 2013, the Agency plans to increase its online filings to 48 percent. 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. SSA's performance plan for FY 2013 is 2 percentage points fewer than what the Commissioner stated. Additionally, SSA has a customer service plan, but this plan does not include long-term strategies to develop and implement electronic services.

Strategic IT Planning: Under the current budget environment, it is crucial for SSA to ensure its IT investments are properly guided by its strategic planning and investment control processes to help ensure the Agency receives the full functionality and cost savings as expected and prevents duplication of efforts or waste. SSA must develop and maintain an Information Resources Management (IRM) Strategic Plan that supports the Agency's Strategic Plan. In addition, the strategic IT planning process should drive performance improvements to save money and avoid cost through collaboration, reuse, productivity enhancements, and elimination of redundancy.

Our prior audit work in this area found that although SSA had a 5-year IRM plan, SSA's IT planning process only spans 2 years. In addition, the IRM did not provide a clear IT blueprint, define IT resource requirements, and address all critical future challenges. Furthermore, SSA did not have a strategic plan to convert its legacy application programs to a more modernized programming language. Moreover, we believe SSA's IRM for FYs 2012 through 2016 is still tactical in nature and does not provide a clear vision of the IT infrastructure that will

be needed to support the Agency's programs 5 to 10 years in the future. Lastly, we believe the IRM lacks any tangible or measurable goals.

SSA's *Strategic Human Capital Plan* for FYs 2008 through 2013 and its *Human Capital Implementation Plan Fiscal Year 2012* did not provide a projection of future IT Specialist requirements. For example, SSA has not strategically planned for the loss of IT expertise needed to maintain or improve its legacy systems.

In addition, SSA should explore opportunities for savings, such as moving appropriate services to an external cloud as part of its IT strategic planning.

AGENCY ACTIONS

IT Physical Infrastructure: SSA has taken steps to address its IT infrastructure challenge. The Agency continues taking actions to address the NCC's sustainability through 2016. For example, SSA conducts recurring inspections of its infrastructure—performing hourly, daily, and weekly tours of the buildings and facility equipment as well as an “annual building walk-around” with technical experts to determine repairs or future replacement projects for the building, grounds, and equipment.

In February 2009, SSA received \$500 million in *American Recovery and Reinvestment Act* (Pub. L. No. 111-5) funding to replace its NCC. The General Services Administration (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. In January 2012, GSA and SSA awarded a contract for the design and construction of a new data center. This was 2 months ahead of GSA's revised project management plan. The planned completion of construction 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.

SSA also has a Second Support Center that the Agency occupied 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.

Logical Access Controls and Security of Sensitive Information: SSA stated that it issued and implemented several policies and procedures related to logical access controls and the security of sensitive information. In addition, SSA stated that it has implemented a Web-based tool for automating SSA's review process for access to sensitive information. SSA stated that it plans to use this tool for the Agency's triennial certification for access to sensitive information and the periodic review of security access content. SSA plans to complete this Agency-wide rollout of the tool in October 2012. Additionally, SSA stated that it assembled a workgroup to address the access control weaknesses identified as a significant deficiency in past years, which was elevated to a material weakness in FY 2012.

Development of Electronic Services: To address this challenge and reduce the workload in field offices, SSA offers 30 electronic services. Further, SSA has researched Internet authentication solutions to secure online initiatives, such as Ready Retirement, replacement Social Security number (SSN) cards, and other automated services. In May 2012, SSA introduced a new Internet process to register and authenticate members of the public who wish to use the Agency's online applications. The public can use this new authentication process when logging into the Agency's Webpage called MySocialSecurity. The MySocialSecurity Webpage allows the public to request a Social Security Statement online. The “electronic access” provides a secure, convenient, and user-friendly method for the public to register and gain access to SSA's online services to conduct business with the Agency instead of visiting the local servicing office or requesting information over the telephone. In December 2012, the Agency plans to incorporate its Internet Benefit Verification, Direct Deposit, Change of Address, and Check Your Benefit applications to its MySocialSecurity Webpage.

Strategic Planning: SSA issued its Agency Strategic Plan (ASP) in February 2012 that documents its missions, strategic goals, and strategies for FYs 2013 through 2016. The ASP outlines the Agency's goals and provides a snapshot of how SSA plans to achieve them. It also highlights key measures the Agency will use to monitor progress.

SSA issued its IRM in May 2012 for FYs 2012-2016. The IRM provides direction for the Agency to effectively prioritize and manage its investments in IT and information management toward the achievement of SSA's mission and business outcomes. The IRM focuses on SSA's IT governance efforts and its primary IT infrastructure domains. The IRM briefly discusses SSA's current IT state and provides high-level plans for each domain areas, such as Data Management, Software/Applications, Business Intelligence, Computing Platforms, Network Infrastructure, and Storage Infrastructure. The Agency recognizes it is facing a challenging budgetary environment and increasingly difficult choices for new investments.

Finally, SSA's *Strategic Human Capital Plan* for FYs 2008 through 2013 identified the IT Specialist job series (2210) as mission-critical as well as the competencies needed for this job series to enable SSA to develop its workforce and improve its retention strategies.

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 2012, SSA completed approximately 5.5 million original and 11 million replacement SSN cards and recorded approximately \$585 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 SSN integrity and eligible individuals receive the full benefits due them.

SSN Use: The SSN is heavily relied on as an identifier and is valuable as an illegal commodity. Accuracy in recording workers' earnings is critical because SSA calculates future benefit payments based on the earnings an individual accumulates over his/her lifetime. As such, properly assigning SSNs only to those individuals authorized to obtain them, protecting SSN information once the Agency assigns the numbers, and accurately posting the earnings reported under SSNs are critical SSA missions.

SSN Misuse: To its credit, SSA has implemented numerous improvements in its SSN assignment, or enumeration process. However, given the preponderance of SSN misuse and identity theft in U.S. society, we continue to believe protection of this critical number is a considerable challenge for SSA, as well as its millions of customers. Unfortunately, once SSA assigns an SSN, it has no authority to control the collection, use, and protection of these numbers by other entities. Our audit and investigative work have shown that the more SSNs are unnecessarily used, the higher the probability that they could be used to commit crimes throughout society. The Federal Trade Commission estimated that as many as 9 million Americans have their identities stolen each year.

We remain concerned about SSN misuse by noncitizens who are not authorized to work in the United States, as well as the misuse of children's SSNs for work and identity theft purposes. As such, our planned 2013 audits will address these issues and certain SSA enumeration processes.

Death Master File: In May 2012, the Inspector General testified before the Subcommittees on Oversight and Social Security, Committee on Ways and Means, regarding ways to improve SSN protection and guard against misuse, identity theft, and tax fraud. As mentioned in his testimony, the SSNs of deceased individuals are also vulnerable to misuse. As such, the public release of SSA's Death Master File (DMF) raises concerns. Each DMF record usually includes a deceased individual's SSN, full name, date of birth, and date of death. The file contains about 86 million records, and it adds about 1.1 million records each year. While the DMF has important and productive uses, our investigations show that individuals can use available death data to obtain SSNs and commit fraud. To the extent possible, we believe SSA should limit public access to the DMF to only what is required by law and take all steps to ensure its accuracy.

Earnings: Properly posting earnings ensures eligible individuals receive the full retirement, survivors, and/or disability benefits due them. SSA's programs depend on earnings information to determine whether an individual is eligible for benefits and to calculate the amount of benefit payments. If employers report earnings information incorrectly or not at all, SSA cannot ensure all individuals entitled to benefits are receiving the correct payment amounts.

SSA spends scarce resources correcting earnings data when employers report incorrect information. The Earnings Suspense File (ESF) is the Agency's repository of wage reports on which wage earners' names and SSNs fail to match SSA's records. Per the latest available data, the ESF had accumulated about \$993 billion in wages and 313 million wage items for Tax Years 1937 through 2009. In Tax Year 2009 alone, 7.7 million wage items representing \$73 billion were posted to the ESF.

AGENCY ACTIONS

SSA has implemented numerous improvements in its SSN assignment, or enumeration process. Some of SSA's more notable recent enumeration improvements include

- establishing enumeration centers in some States—most recently, the Manhattan Social Security Card Center—that focus exclusively on assigning SSNs and issuing SSN cards;
- implementing a new SSN assignment methodology called SSN Randomization; and
- addressing internal control weaknesses we identified in the Agency's process for issuing SSN Printouts.

These actions include implementing a pilot study in three SSA offices and one card center in which applicants must provide stringent, more reliable identity documents before obtaining an SSN Printout. Additionally, the Agency is implementing improved monitoring tools to track the SSN Printout workload.

Social Security Number Verification Service: SSA has taken steps to reduce the size and growth of the ESF. The Agency offers employers the ability to verify the names and SSNs of their employees using the Agency's Social Security Number Verification Service, which is an online verification program, before reporting wages to SSA. In FY 2012, approximately 40,000 registered employers submitted about 102 million verifications.

E-Verify: SSA also supports the Department of Homeland Security in administering the E-Verify program, which assists employers in verifying the employment eligibility of newly hired employees. As of FY 2012, over 404,000 employers had enrolled to use E-Verify, and these employers had submitted almost 23 million queries during this period. Additionally, about 84,500 transactions were processed through the E-Verify Self-Check Service, which is an Internet-based application that allows U.S. workers to check their own employment eligibility.

While SSA cannot control all the factors associated with erroneous wage reports, it may be able to 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 the 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.

IMPROVE TRANSPARENCY AND ACCOUNTABILITY

CHALLENGE: *SSA faces a number of challenges ensuring accountability, including concerns over its internal controls, systems security, and administrative cost allocations. SSA continues to lack a full set of performance indicators that measure whether the Agency is meeting all its strategic goals.*

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, OMB issued the Open Government Directive, which requires Federal agencies to 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.

Federal Managers' Financial Integrity Act: OMB Circular A-123, Revised, *Management's Responsibility for Internal Control*, defines internal control as "...tools to help program and financial managers achieve results and safeguard the integrity of their programs." The Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) (Pub. L. No. 97-255). FMFIA encompasses accounting and administrative controls, including program, operational, and administrative areas as well as accounting and financial management.

In the FY 2012 Independent Auditor's Report, the auditors reported a material weakness and a significant deficiency in internal control. The full text of the report can be found in SSA's *Performance and Accountability Report*. We summarize the two control weaknesses below.

Monitoring Activities and Overall Control Environment: The Agency faces a challenge in monitoring its activities and the overall control environment. This challenge is the aggregate of several issues that can be summarized into two categories—lack of timeliness and lack of appropriate documentation. SSA lacked timeliness in completion of quality review feedback forms, follow-up on Comprehensive Integrity Reviews Process System reviews, and consideration and resolution of prior year audit findings. SSA's lack of appropriate documentation includes areas of disability reviews, various approvals for certain transactions, and overpayment detection and associated waivers. Many of these areas are recurring issues that have accumulated over the past three Financial Statement Audits. However, there has not been meaningful improvement in resolving the issues. The FY 2012 Financial Statement Audit testing continued to identify monitoring activities and the overall control environment to be a concern.

Information Security: For the past 2 years, the auditor reported a significant deficiency in SSA's internal control over information security in its *Opinion on Management's Assertion about the Effectiveness of Internal Control*. The auditors have escalated the deficiency this year and have determined there is a material weakness in internal control related to information security in the areas of monitoring, logical access, and configuration controls. Specifically, SSA lacked monitoring controls related to policy on configuration of information; policy on content on SSA's Intranet Webpage; and high-risk programs operating on the mainframe. In addition, SSA lacked appropriate controls to identify high-risk programs; prevent programmer access to the production environment; and create a comprehensive profile and access recertification program. Lastly, the vulnerability testing conducted by the Agency was determined to be insufficient for the identification of critical weaknesses in the IT environment. Each deficiency listed above represents a serious information system security risk; the combination of all these control deficiencies raises the risk to the level of a material weakness.

Administrative Cost Allocation: We also believe SSA can bring greater accountability to its administrative cost allocation. The *Social Security Act* (Pub. L. No. 74-271) authorizes SSA to allocate administrative costs to the four Trust Funds for which it provides administrative support: Retirement and Survivors, Disability, Hospital, and

Supplementary Medical Insurance. 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.

In FY 2012, our contractor completed a series of audits that examined SSA's CAS. Our contractor found CAS has certain risks that SSA needs to address to ensure it provides viable calculations of SSA's administrative costs. For example, SSA had 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.

AGENCY ACTIONS

SSA has taken steps to implement the Open Government Directive, which is focused on increasing transparency within the Government. SSA released its first Open Government Plan in 2010 and an updated Plan in 2012. SSA has continued updating its Open Government Website. SSA had also released 41 different datasets on Data.gov as of the end of FY 2012. These datasets are accessible by the public.

SSA has also increased access to information through online applications. For example, in May 2012, the Commissioner announced the release of an online version of the Social Security Statement. The new online Statement provides eligible workers with secure and convenient access to their Social Security earnings and benefit information.

In response to this report, SSA reported to us the following.

The Comprehensive Integrity Review Process (CIRP) system selects approximately 440,000 cases for review in a given year. Over the years, the agency has steadily improved our timeliness of integrity reviews. In FY 2010, we timely certified approximately 94.5 percent of integrity reviews, with 99.5 percent completed within 60 days. In FY 2011, we timely certified 95.4 percent of CIRP cases selected for review, with 99.5 percent completed within 60 days. For FY 2012, we timely certified 95.9 percent of integrity reviews, with 99.5 percent completed within 60 days. Operational counterparts, in consultation with the Office of Information Security, send reminders to Regional Centers for Security & Integrity (CSI) staff emphasizing the importance of completing CIRP reviews in a timely manner. CSI staff, in turn, notifies offices with overdue integrity reviews. CIRP pending reports are also monitored closely to ensure that integrity reviews are certified timely.

Although SSA provided us with this information, we have not audited CIRP. Our financial statement auditors performed a limited review of CIRP, but were unable to determine the average number of days CIRPs were outstanding, how long it took to move CIRPs into investigation, or the completion rate.

STRENGTHEN STRATEGIC AND TACTICAL PLANNING

CHALLENGE: While SSA has plans to address its operations in the next 4 to 5 years, it does not have strategic or tactical plans that address how the Agency will operate beyond 5 years. While near-term planning is important, SSA needs long-range plans that address long-term challenges, including a rising workload, a decrease in experienced staff, overly complex program policies, and a rising need to provide more services electronically.

Rising Workload: The number of individuals filing for benefits has increased, and SSA predicts it will continue to increase by the millions. The Agency estimates that 80 million individuals, most from the baby boomer generation, will file for benefits over the next 20 years. The population applying for benefits will expect SSA to provide a greater number of services electronically. SSA realizes that it needs to rely more on technology not only to meet customer expectations but to keep up with a rising workload.

Fewer Experienced Staff: As workloads rise, a greater proportion of SSA's workforce will become eligible to retire; 19 percent of SSA's employees are eligible. In FY 2015, 33 percent of SSA's employees will be eligible to retire, and by FY 2020, this number will increase to 45 percent. While not every employee retires as soon as he/she is eligible to do so, SSA predicts that 28 to 36 percent of its workforce will retire over the next 10 years. Given the expectation of leaner future budgets, SSA needs to plan to meet its mission with fewer resources.

Social Security Advisory Board Report: At a time when SSA needs to plan to do more with less, SSA lacks long-term plans in a number of critical areas. In its report, *The Social Security Administration: A Vision of the Future*, the Social Security Advisory Board concluded that SSA needed to develop an innovative service delivery plan that reflected the service options currently available and anticipate those that will emerge in the next 10 years. It recommended that SSA take multiple steps to ensure success in 2020, including rethinking its service delivery strategy, performing a comprehensive review of program policy to reduce complexity, establishing a Systems Modernization Plan, and developing a Human Capital Plan.

Information Technology Strategic Planning: In our report, *The Social Security Administration's Information Technology Strategic Planning*, we stated that SSA did not have a comprehensive Agency Information Infrastructure Plan to meet potential processing needs for the next 20 years or that would allow the Agency to recover quickly if one or more major components of its processing infrastructure failed or was destroyed. While SSA has an IT planning process, the process is decentralized, and SSA officials agreed that it needed to be strengthened.

Customer Service Delivery Planning: In our report, *The Social Security Administration's Customer Service Delivery Plan*, we concluded SSA did not have a long-term customer service delivery plan. We noted that SSA must develop such a plan that serves as a roadmap for ensuring the Agency is technologically and structurally prepared with appropriate staff to operate its program in the future. The plan should also describe how the Agency is preparing to address increased workloads and service delivery in an electronic environment. The plan must identify what the service delivery environment will be in the future, including what services customers will expect and how they will want to receive services.

AGENCY ACTIONS

SSA has produced multiple planning documents, including those required by *GPRA* and the *GPRA Modernization Act of 2010*. These laws mandate that Federal agencies draft strategic and annual performance plans to help improve service delivery by requiring that Federal managers plan to meet program objectives.

The Agency has FY 2008 through 2013 and FY 2013 through 2016 strategic plans and an *Information Resources Management Strategic Plan*. These plans cover periods of 4 to 5 years. SSA also has a *Strategic Human Capital Plan*. This plan does not define the timeframe it addresses, but it states that it is aligned with the Agency's Strategic Plan. The most current Agency Strategic Plan addresses a 4-year period. While planning for the next few years is important, SSA needs a longer-term vision to ensure the Agency has the programs, processes, staff, and infrastructure required to provide needed services in the future.

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
Information Systems Controls	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

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	

Entitlement Reviews and Office of the Inspector General 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 2008	FY 2009	FY 2010	FY 2011	FY 2012
% of State DDS decisions to allow or continue not returned to the DDSs for correction	97.7%	98.3%	98.6%	98.4%	98.5%
No. of cases reviewed	32,292	34,378	32,451	32,807	32,262
No. of cases returned to the DDSs due to error or inadequate documentation	729	601	445	524	476

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 2012, the following table shows that 97.4 percent of the decisions made on Title II preeffectuation reviews are accurate.

Title II Preeffectuation Reviews					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
% of State DDS decisions to allow or continue not returned to the DDSs for correction	97.3%	97.9%	97.8%	97.4%	97.4%
No. of cases reviewed	338,440	356,956	378,712	390,480	362,250
No. of cases returned to the DDSs due to error or inadequate documentation	9,203	7,481	8,506	10,246	9,414

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 2012, the following table shows that 97.9 percent of the decisions made on Title XVI preeffectuation reviews are accurate.

Title XVI Preeffectuation Reviews					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
% of State DDS decisions to allow not returned to the DDSs for correction	98.1%	98.3%	98.4%	97.9%	97.9%
No. of cases reviewed	105,203	114,645	124,045	124,401	116,681
No. of cases returned to the DDSs due to error or inadequate documentation	2,018	1,900	2,023	2,612	2,430

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 2008	FY 2009	FY 2010	FY 2011	FY 2012
Overall Accuracy	96.6%	97.7%	97.8%	97.7%	97.9%
Continuance Accuracy	97.6%	98.6%	98.4%	98.3%	98.6%
Cessation Accuracy	93.2%	94.8%	96.0%	96.0%	95.8%

OASI AND SSI QUALITY ASSURANCE REVIEWS

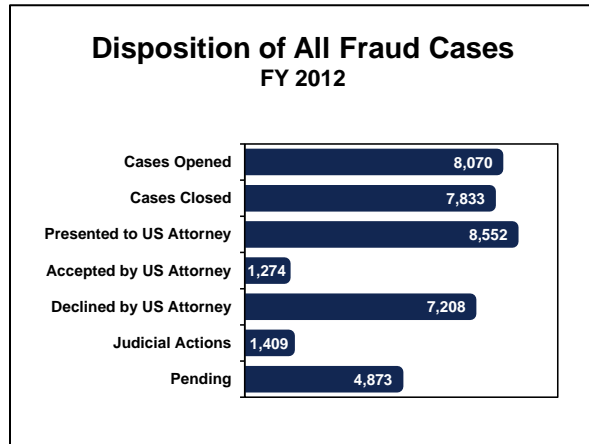
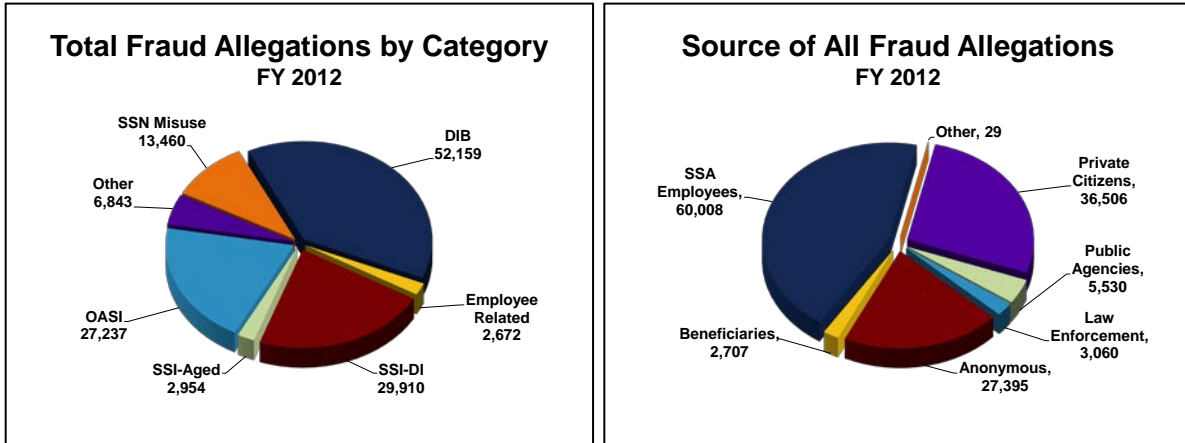
One of our four *Government Performance and Results Act* Strategic Goals is “preserve the public’s trust in our programs.” One of the ways in which we achieve this goal is by performing OASI and SSI quality assurance reviews. We present a detailed discussion on the results of these reviews in the *Performance Section* of this report on pages 81-84.

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 of non-medical factors to ensure that a recipient is still eligible for SSI payments and that we have and will continue to pay the recipient the correct amount. We set a goal for the number of SSI redeterminations we would process in FY 2012. We present a detailed discussion on SSI redetermination performance in the *Performance Section* of this report on page 79.

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

In FY 2012, 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, as part of our fraud detection and prevention program for safeguarding the agency's assets. 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 \$424 and \$373 million in FY 2011 and FY 2012, respectively, accounted for less than 1 percent of SSA's total financing sources. We derive over 74 percent of user fee revenues from agreements with 22 States and the District of Columbia to administer some or all of the States' supplemental SSI benefits. During FY 2012, we charged a fee of \$10.94 per payment for the cost of administering State supplemental SSI payments. This fee will increase to \$11.12 for FY 2013. 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 2012, we identified changes in costs that affect current fees and agency activities. A review of these changes did result in a uniform standard fee structure for non-programmatic workloads. SSA is planning to perform another review of these fees during FY 2014.

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 FY 2012 Quarterly Debt Management Activities Programmatic and Administrative Activity table. For more information on our agency's effort to curb overpayments, please refer to the *Improper Payments Information Detailed Report* immediately following this section.

We identified a system limitation in the processing of Title II Overpayment recordation. In July 2011, the Government Accountability Office (GAO) issued an audit report on the Disability Insurance Program entitled, "*Disability Insurance: SSA Can Improve Efforts to Detect, Prevent, and Recover Overpayments.*" In that audit, GAO identified a Title II system limitation concerning long-term withholding agreements that extend past the year 2049. When we detect overpayments, we often find that disabled beneficiaries lack the means to repay us immediately. In many of these cases, we establish long-term repayment plans and withhold a portion of individuals' monthly benefits. We often withhold minimal amounts to avoid imposing undue hardships, and some repayment plans extend beyond 2049. We do so recognizing that a portion of this debt will prove uncollectible because some plans exceed beneficiaries' expected lifetimes.

The following tables do not include the amounts related to post 2049 debt. Therefore, the Total New Receivables and Total Write-offs are understated. This system limitation prevents us from tracking what we estimate to be approximately \$110 million in accounts receivable in the current fiscal year. We are working to address the system limitation and have determined that the estimated \$110 million in post-2049 debt is uncollectible and total accounts receivable are correctly reflected in the financial statements and the tables that follow.

Debt Management Activities Programmatic and Administrative Activity					
<u>Dollar Totals (in millions)</u>	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total receivables	\$14,913	\$15,000	\$15,212	\$15,854	\$16,588
New receivables	5,615	5,818	5,736	6,102	5,955
Total collections	(3,366)	(3,561)	(3,650)	(3,633)	(3,663)
Adjustments	(580)	(1,093)	(888)	(809)	(536)
Total write-offs	(1,010)	(1,077)	(986)	(1,018)	(1,022)
- Waivers	(443)	(475)	(497)	(546)	(502)
- Terminations	(567)	(602)	(489)	(472)	(520)
Non delinquent debt	11,176	11,030	11,055	11,190	11,589
Total delinquent debt	\$3,737	\$3,970	\$4,157	\$4,664	\$4,999
<u>Percentage Analysis</u>					
% of outstanding debt:					
- Non delinquent	74.9%	73.5%	72.7%	70.6%	69.9%
- Delinquent	25.1%	26.5%	27.3%	29.4%	30.1%
% of debt estimated to be uncollectible¹	27.1%	27.5%	27.7%	27.8%	27.3%
% of debt collected	22.6%	23.8%	24.0%	22.9%	22.1%
% change in collections from prior FY	13.3%	5.8%	2.5%	-0.5%	0.8%
% change in delinquencies from prior FY	6.5%	6.3%	4.7%	12.2%	7.2%
Clearances as a % of total receivables	29.3%	30.9%	30.5%	29.3%	28.2%
- Collections as a % of clearances	76.9%	76.8%	78.7%	78.1%	78.2%
- Write-offs as a % of clearances	23.1%	23.2%	21.3%	21.9%	21.8%
<u>Other Analysis</u>					
Cost to collect \$1	\$0.07	\$0.06	\$0.07	\$0.08	\$0.07
Average number of months to clear receivables:					
- OASI	18	18	16	15	15
- DI	40	42	45	38	49
- SSI	36	34	35	35	36

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

FY 2012 Quarterly Debt Management Activities Programmatic and Administrative Activity				
Dollar Totals (in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables	\$15,976	\$16,041	\$16,478	\$16,588
New receivables	1,216	2,697	4,449	5,955
Total collections	(854)	(1,796)	(2,674)	(3,663)
Adjustments	(3)	(210)	(382)	(536)
Total write-offs	(237)	(504)	(769)	(1,022)
- Waivers	(112)	(249)	(376)	(502)
- Terminations	(125)	(255)	(393)	(520)
Aging schedule of debts:				
- Non delinquent debt	10,873	11,187	11,589	11,589
- Delinquent debt				
- 180 days or less	1,447	1,203	1,237	1,252
- 181 days to 10 years	3,380	3,364	3,340	3,410
- Over 10 years	276	287	312	337
- Total delinquent debt	\$5,103	\$4,854	\$4,889	\$4,999

Definitions:

- 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.
- 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.
- 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.
- 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

Our Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) program integrity workloads are critical to ensuring effective programs and accurate payments. As good stewards of the programs entrusted to us, it is our duty to pay people the correct amount. 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 OASI, DI, and 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:

- Errors when computing the payment;
- Not obtaining or taking action on available information affecting the payment;
- A beneficiary's failure to report an event; or
- A beneficiary's incorrect report.

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

The information presented in this report complies with the guidance provided in IPIA, OMB Circular No. A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. The report provides general information demonstrating our commitment to reducing improper payments. It also contains descriptions of our efforts in reducing improper payments for our OASDI and SSI benefit programs and administrative payments.

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 ninth consecutive year, we reviewed our administrative payments, including payroll disbursements and vendor payments. 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.

RISK ASSESSMENT: BENEFIT PAYMENTS

To comply with IPERA risk assessment requirements, we conduct an annual stewardship review of our OASDI and SSI payments. 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.

STATISTICAL SAMPLING

We use stewardship reviews to measure the accuracy of payments to beneficiaries. Each month, we review a sample of OASI, DI, 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.

When we compute accuracy rates for monthly payments, we use case error dollars. Case error dollars refers to an incorrect payment made to a case as a whole, with an overpayment or underpayment occurring when we pay 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 OASDI beneficiaries and SSI recipients. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI.

IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

EXPERIENCE AND OUTLOOK

Table 1 features the improper payment rates for the OASI and DI programs for fiscal years (FY) 2009, 2010, and 2011. 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 2009 – FY 2011
(dollars in millions)**

	FY 2009		FY 2010		FY 2011	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Benefit Payments	\$544,478		\$572,569		\$588,865	
Underpayment Error	\$428	0.08%	\$527	0.09%	\$468	0.08%
Overpayment Error	\$841	0.15%	\$1,878	0.33%	\$653	0.11%
DI						
Total Benefit Payments	\$115,087		\$122,899		\$128,086	
Underpayment Error	\$191	0.17%	\$1,261	1.03%	\$479	0.37%
Overpayment Error	\$1,706	1.48%	\$844	0.69%	\$1,624	1.27%
OASDI						
Total Benefit Payments	\$659,565		\$695,469		\$716,951	
Underpayment Error	\$619	0.09%	\$1,788	0.25%	\$946	0.13%
Underpayment Target		≤0.20%		≤0.20%		≤0.20%
Overpayment Error	\$2,547	0.37%	\$2,722	0.39%	\$2,277	0.32%
Overpayment Target		≤0.20%		≤0.20%		≤0.20%

Notes:

- Total benefit payments for FY 2009 and FY 2010 are actual cash outlays. Total benefit payments for FY 2011 represent estimated cash outlays while conducting the payment accuracy reviews and may vary from actual cash outlays. OASDI totals may not equal the sum of OASI and DI amounts due to rounding.
- There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
- OASI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, ±0.05 percent for underpayments and +0.15 percent and -0.17 percent for overpayments; for FY 2010, ±0.03 percent for underpayments and +0.32 percent and -0.35 percent for overpayments; and for FY 2011, +0.07 percent and -0.08 percent for underpayments and ±0.08 percent for overpayments.
- DI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, +0.16 percent and -0.17 percent for underpayments and ±1.33 percent for overpayments; for FY 2010, +0.88 percent and -0.87 percent for underpayments and +0.68 percent and -0.72 percent for overpayments; and for FY 2011, +0.36 percent and -0.49 percent for underpayments and ±1.21 percent for overpayments.
- Changes in the OASDI error rates from FY 2010 to FY 2011 are not statistically significant. For FY 2009 to FY 2010, the changes in the DI error rates 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 2007-2011), we paid approximately \$2.7 trillion to OASI beneficiaries. Of that total, we project \$4.6 billion are overpayments, representing 0.17 percent of outlays. We project that underpayments during this same period were \$2.3 billion, the equivalent of 0.09 percent of outlays.

Applying the same analysis to the DI program, we project that we paid \$567.9 billion to DI beneficiaries over the last five years (FYs 2007-2011). Of that total, we project \$6.2 billion are overpayments, representing 1.1 percent of outlays. We project underpayments during this same period totaled \$2.3 billion, the equivalent of 0.4 percent of outlays.

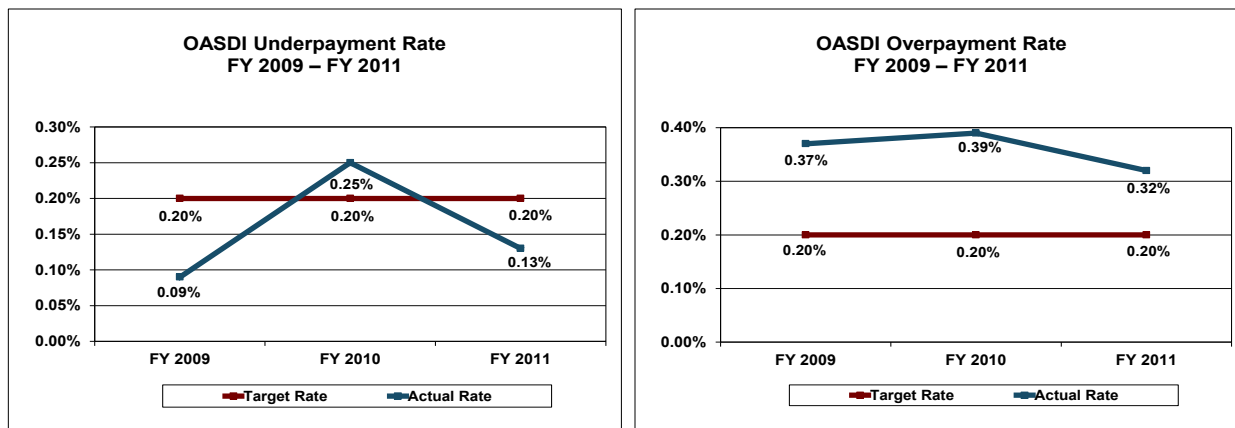


Table 2 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the OASDI programs. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments.

Table 2: OASDI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)						
	2012 Target		2013 Target		2014 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI						
Total Benefit Payments	\$767,542		\$814,846		\$861,650	
Underpayments	\$1,535	0.20%	\$1,630	0.20%	\$1,723	0.20%
Overpayments	\$1,535	0.20%	\$1,630	0.20%	\$1,723	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 2012 data will not be available until April 2013; therefore, the rates shown are targets (goals).
3. Total benefit payments for FYs 2012-2014 are estimates consistent with projections for the President's FY 2013 Budget.

MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

Table 3 lists the 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 2011		
	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	64%	Non-verification of earnings, income, or work status (e.g., in relation to Substantial Gainful Activity (SGA) and Government Pension Offset (GPO)); inputting, classifying, or processing applications or payments incorrectly
Administrative and Documentation Errors	35%	Incorrect computations, onset dates, and earnings history
Authentication and Medical Necessity Errors	1%	Relationship/dependency errors and failure to report cessation of full-time attendance for students
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> • 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. • 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. 		

From our stewardship findings over the last five years, the major causes of overpayments in the OASDI program have been errors or omissions in the following:

- SGA;
- Computations;
- Earnings History; and
- GPO.

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

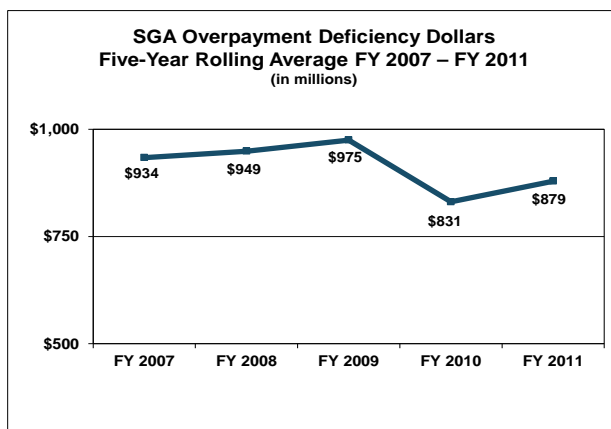
- Computations;
- Earnings History; and
- Workers' Compensation (WC).

Substantial Gainful Activity

Description:

When disability beneficiaries work, a number of factors determine whether they 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 rolling average of SGA overpayment deficiency dollars.

Historical Figures:



Corrective Actions:

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

Table 4: SGA – Corrective Actions		
Description	Target Completion	Status
Priority Alerts		
We are conducting the Continuing Disability Reviews (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 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.
We prioritized the systems enforcement alerts we use to identify unreported earnings and then work the cases with highest earnings first to minimize overpayments.	Ongoing	In our regional offices not involved in our predictive model pilot study discussed immediately above, we now prioritize the CDR enforcement alerts used to identify unreported earnings, and complete the cases with highest earnings first to minimize overpayments.

Table 4: SGA – Corrective Actions

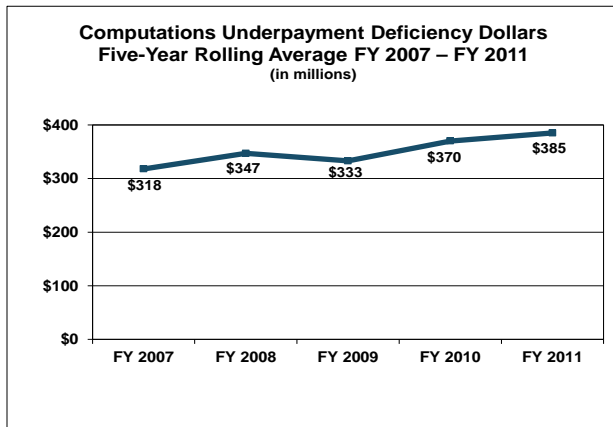
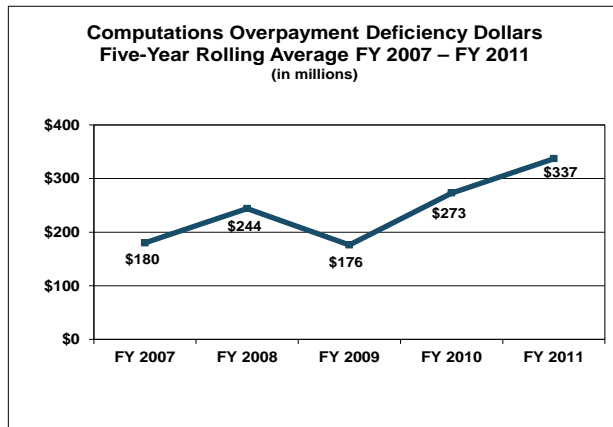
Description	Target Completion	Status
<u>Priority Alerts</u>		
We are conducting the Automated Earnings Reappraisal Operation (AERO) Pilot.	To be determined based on study results	In this pilot, we are coordinating two earnings related processes: benefit recomputations and the identification of DI beneficiaries with unreported earnings. Our goal is to prioritize and review cases with unreported earnings before we compute and issue any benefit increase.
<u>Wage Reporting</u>		
We revised work activity report forms.	February 2012	We 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 need for a signature. OMB approved our forms, and we incorporated them into our systems. We also updated our policies to streamline our follow-up procedures when beneficiaries do not respond to our requests for information.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal that would reauthorize our demonstration authority to conduct a Work Incentives Simplification Pilot (WISP). Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under DI Demonstration Authority/WISP.	Pending	No Congressional action to date.
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Computations

Description:

The law requires 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 many causes for computation errors. For the FY 2007 through FY 2011 period, approximately 53 percent of the computation errors resulted in underpayments, with the leading causes being primary insurance amount, the Windfall Elimination Provision (WEP), and the recalculation of benefits due to updated/new information received after our initial calculation of an individual's benefit amount. (Note: [A definition of WEP is available at: www.socialsecurity.gov/pubs/10045.html](http://www.socialsecurity.gov/pubs/10045.html).) For FY 2007 through FY 2011, errors involving WEP were the leading cause of computational deficiency dollars. Overpayments often result when we do not receive timely pension information and, therefore, do not offset benefits appropriately. Over 40 percent of the overpayment computational deficiency dollars for the FY 2007 through FY 2011 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	Status
<u>Civil Service Retirement System (CSRS) Match</u>		
We conduct an ongoing match with the Office of Personnel Management (OPM) to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated almost 11,000 WEP alerts.
<u>Missed Entitlements</u>		
We are correcting payments to mothers who were not properly converted to widows benefits when they attained full retirement age.	September 2012	Of the nearly 6,000 cases identified, we have completed about 99 percent and issued over \$16 million in underpayments.
We are referring veterans receiving SSI to the U.S. Department of Veteran's Affairs (VA) when we determine they may be entitled to veteran's benefits.	September 2012	These cases require manual development before referral to VA. From over 7,200 cases identified for possible referral, we have referred over 5,700 cases.
We are taking claims on SSI individuals who are insured on their own or another individual's record (survivor or living auxiliary) for Social Security or Medicare.	January 2013	We identified over 6,200 cases where the SSI recipient may be eligible for Social Security benefits. We are currently developing a corrective action plan for implementation.
<u>AERO Project</u>		
In FY 2011, we initiated the Automated Correction Expert System (ACES) to automatically address AERO cases that require manual completion. AERO is an annual operation that reexamines records of every individual entitled to OASDI to determine if increased benefits are due based upon earnings. ACES improves accuracy by reducing the number of manual computations, which are more error prone.	Ongoing	In FYs 2011 and 2012, we automated the completion of about 26,000 AERO cases using ACES. We issued about \$14 million in underpayments. We will continue to use ACES for the AERO workload.

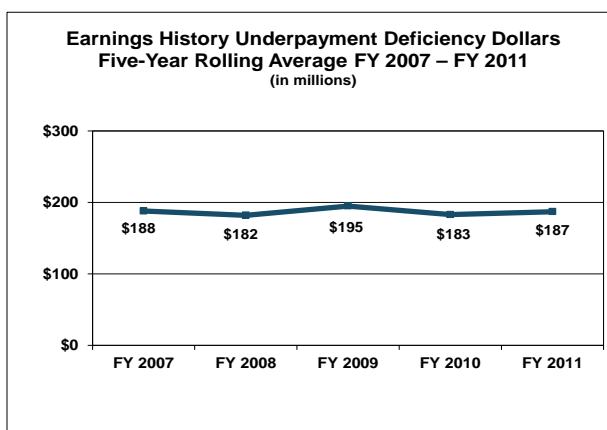
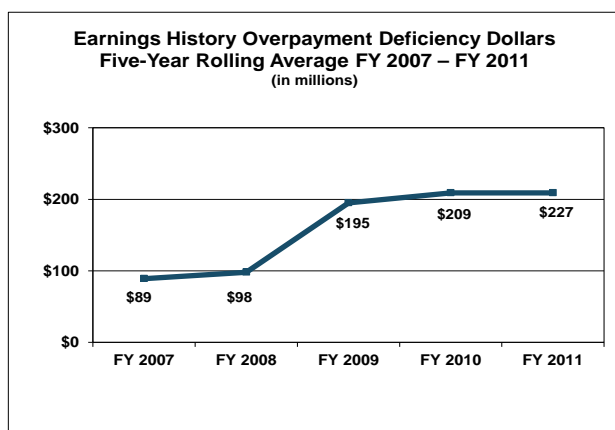
Earnings History

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 2007 through FY 2011, OASDI errors based on earnings history are 45 percent underpayment and 55 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 6: Earnings History – Corrective Actions		
Description	Target Completion	Status
<u>Emphasize Corrected Earnings</u>		
In FY 2009, we modified our instructions to clarify evidence needed for correcting earnings and eliminated development not affecting the accuracy of the earnings record.	June 2013	We are performing additional studies that will help determine the effect of our modified instructions.
<u>Earnings Alert System</u>		
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.	June 2013	We are performing additional studies that will help determine the effect of our modified Earnings Alert System.

Table 6: Earnings History – Corrective Actions

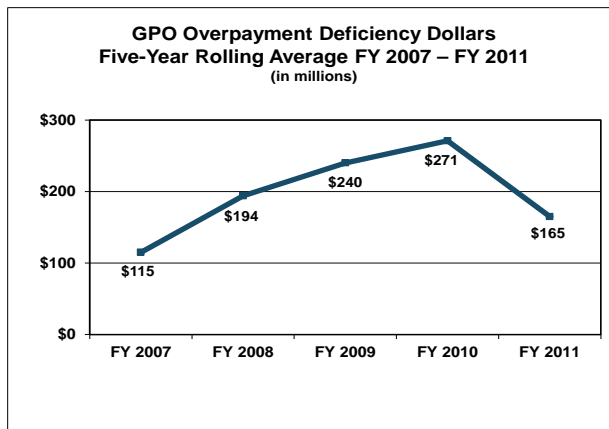
Description	Target Completion	Status
<u>Legislative Proposal</u>		
The President’s FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Government Pension Offset

Description:

We offset OASDI benefits for spouses or surviving spouses if they receive 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 receiving these types of pensions, or we fail to take appropriate action on reported pension information. The following chart displays the five-year rolling average of GPO overpayment deficiency dollars. (Note: [definition of GPO is available at: www.socialsecurity.gov/pubs/10007.html](http://www.socialsecurity.gov/pubs/10007.html).)

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce improper payments caused by government pensions:

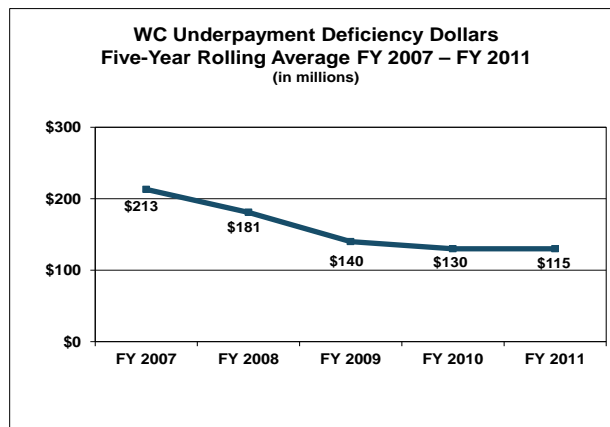
Table 7: GPO – Corrective Actions		
Description	Target Completion	Status
<u>CSRS Match</u>		
We conduct an ongoing match with OPM to identify Federal retirees receiving a CSRS pension.	Ongoing	For FY 2012, the OPM match generated over 15,000 alerts.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal for automated data exchanges. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under WEP and GPO.	Pending	No Congressional action to date.

Workers' Compensation

Description:

If individuals receive both WC and Social Security DI benefits, the total amount of these benefits cannot exceed 80 percent of their average current earnings before becoming disabled. (Note: [A definition of WC is available at: www.socialsecurity.gov/pubs/10018.html](http://www.socialsecurity.gov/pubs/10018.html).) If the total WC and DI benefits exceed the worker's average earnings before becoming disabled, we reduce DI benefits to the 80 percent threshold. Underpayments occur when WC benefits decrease or cease, and we do not increase the DI benefit. The following chart displays the five-year rolling average of WC underpayment deficiency dollars.

Historical Figures:



Corrective Actions:

Table 8: WC – Corrective Actions		
Description	Target Completion	Status
<u>Instructions Update</u>		
We updated national operating instructions, incorporating regional instructions where appropriate. We also created the WC Resource Page to provide a centralized resource for analysts and technicians that process WC/Public Disability Benefits (PDB) workloads.	Ongoing	Our policy instructions now provide expanded information and guidance for developing WC evidence and technical guidance on new software to improve the overall accuracy of the WC workload. The new website provides links to resources and tools to assist with the adjudication of WC/PDB cases which we continuously update with new resources and tools.
<u>Automated Processing</u>		
In February 2011, we developed and implemented an automated process to ensure the agency systematically and routinely follows up on cases where we have already awarded DI benefits to a claimant, but a claim for WC/PDB is still pending.	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 DI benefit payments.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal requiring State and local governments and private insurers to share WC payment data. Please refer to the Statutory and Regulatory Barriers section for a complete description of the proposal under "Workers' Compensation."	Pending	No Congressional action to date.

IMPROPER PAYMENTS IN THE SSI PROGRAM

EXPERIENCE AND OUTLOOK

Table 9 features the improper payment rates for the SSI program for FYs 2009, 2010, and 2011. 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 2009 – FY 2011 (dollars in millions)			
	FY 2009	FY 2010	FY 2011
Total Federally-Administered Payments			
Dollars	\$48,294	\$50,276	\$51,654
Underpayments			
Dollars	\$787	\$1,227	\$947
Target Rate	≤1.20%	≤1.20%	≤1.20%
Actual Rate	1.63%	2.44%	1.83%
Overpayments			
Dollars	\$4,040	\$3,344	\$3,791
Target Rate	≤4.00%	≤8.40%	≤6.70%
Actual Rate	8.36%	6.65%	7.34%
Notes:			
<ol style="list-style-type: none"> Total federally-administered payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays. 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. SSI statistical precision is at the 95 percent confidence level for all rates shown. Confidence intervals are: for FY 2009, ±0.03 percent for underpayments and ±1.5 percent for overpayments; for FY 2010, ±0.66 percent for underpayments and ±1.05 percent for overpayments; and for FY 2011, ±0.38 percent for underpayments and ±1.08 percent for overpayments. The increase in the underpayment rate from FY 2009 to FY 2010 is statistically significant. It was mainly due to the following factors: <ul style="list-style-type: none"> 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 2007-2011), we paid over \$237.8 billion to SSI recipients. Of that total, we project \$19.7 billion were overpayments, representing 8.4 percent of outlays. We project that underpayments during this same period were \$4.4 billion, the equivalent of 1.9 percent of outlays.

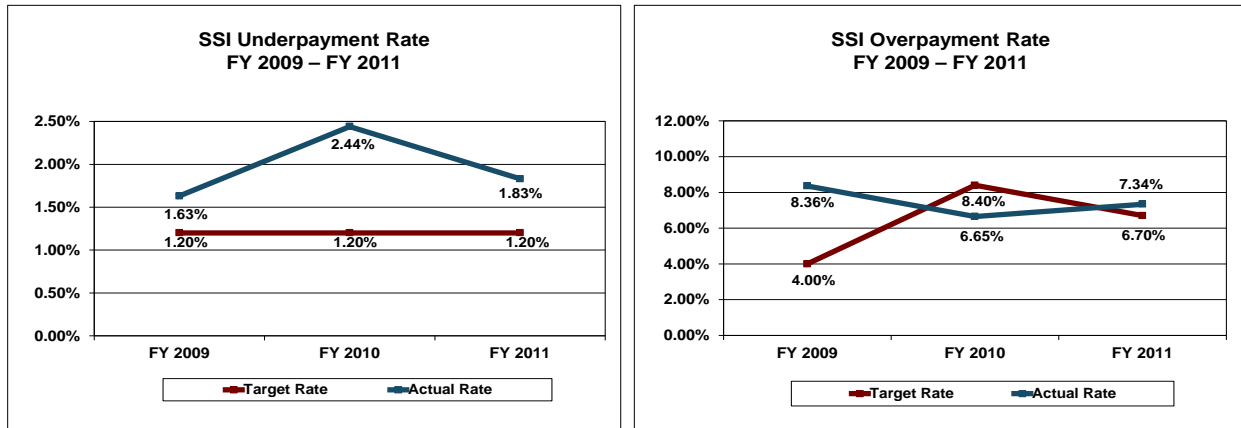


Table 10 presents our target accuracy goals for FYs 2012, 2013, and 2014 for the SSI program.

Table 10: SSI Improper Payments Reduction Outlook FY 2012 – FY 2014 (dollars in millions)						
	2012 Target		2013 Target		2014 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Federally-Administered Payments	\$55,254		\$57,875		\$60,351	
Underpayments	\$663	1.20%	\$695	1.20%	\$724	1.20%
Overpayments	\$2,763	5.00%	\$2,894	5.00%	\$3,018	5.00%

Note:

- Total federally-administered SSI payments are estimates consistent with projections for the President's FY 2013 Budget, adjusted to be presented on a constant 12-month per year payment basis.

MAJOR CAUSES OF SSI IMPROPER PAYMENTS

Table 11 lists 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 2011		
	% of Improper Payments	Major Types of Errors
Verification and Local Administration Errors	56%	Detection of unreported financial accounts and wages
Authentication and Medical Necessity Errors	29%	Existence or changes to living arrangements and In-Kind Support and Maintenance (ISM)
Administrative and Documentation Errors	15%	Incorrect computations, misapplication of an income or resource exclusion, and wrong month of change
<p>Notes:</p> <p>Beginning in 2009, OMB required us to categorize improper payments in our programs into one of three categories as defined below:</p> <ul style="list-style-type: none"> • 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. • 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. • 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. 		

From our stewardship findings over the last five years, the major causes of overpayments in the SSI program have been errors or omissions in the following:

- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.);
- Wages; and
- Other Real Property (i.e., ownership of non-home real property).

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

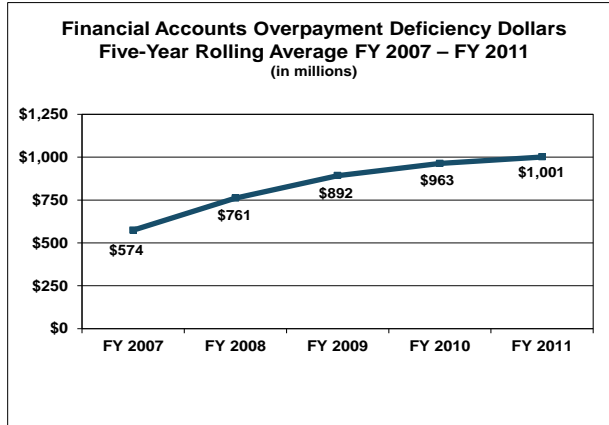
- ISM;
- Living Arrangements; and
- Wages.

Financial Accounts

Description:

Financial accounts, in excess of the allowable resource limits, are the leading cause of SSI overpayment errors. When an applicant or recipient (or his or her parent or spouse) has financial accounts that exceed the allowable resource limits, it may result in periods of SSI program ineligibility. The total value of the individuals’ resources may include money held in accounts owned by their ineligible parent or spouse.

Historical Figures:



Corrective Actions:

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

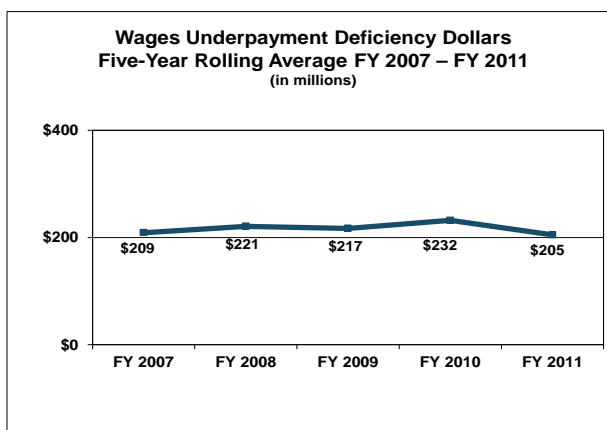
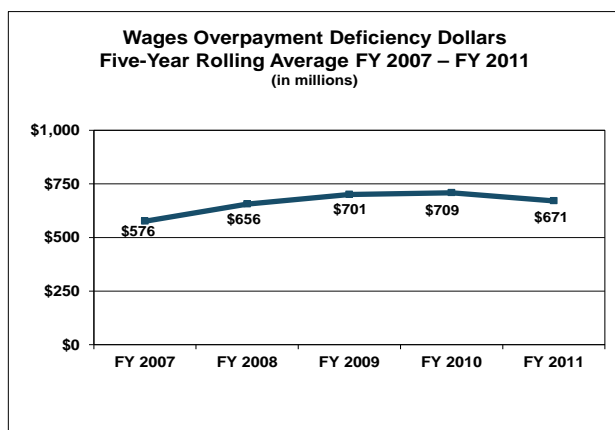
Table 12: Financial Accounts – Corrective Actions		
Description	Target Completion	Status
Access to Financial Institutions (AFI)		
We currently use AFI in 50 States, the District of Columbia, and the Northern Mariana Islands. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources in financial accounts held by SSI applicants and recipients.	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.
In FY 2012, we integrated the AFI process into our SSI claims process.	March 2012	For most SSI initial claims and redeterminations, we integrated electronic requests for financial information into our Modernized SSI Claims System.
In FY 2013, we anticipate performing more rigorous checks of alleged assets.	September 2013	Because of limited resources, and the necessity to carefully balance our claims applications and program integrity workloads, we delayed full implementation of our AFI project. We plan to further improve AFI depending on resource availability.

Wages

Description:

For more than a decade, wages have been one of the leading causes of overpayment and underpayment errors. These discrepancies occur when the recipient (or his or her parent or spouse) has actual wages that differ from the wage amount used to calculate the SSI 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	Status
Supplemental Security Income Telephone Wage Reporting System (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 to the individual's record. We have several outreach initiatives to recruit new SSITWR reporters.	Ongoing	There were over 36,000 successful SSITWR reports in September 2012, surpassing our FY 2012 goal of 31,486 monthly reports.
SSITWR Representative Payee Outreach		
In FY 2011, we piloted a process and mailed notices to about 1,000 individuals serving as representative payees for working SSI recipients. The notice asked the representative payee to start using SSITWR to report the SSI recipient's wages to us.	September 2012	Overall, the first pilot demonstrated that notice-based outreach is an effective way of recruiting representative payees to report an SSI recipient's wages using SSITWR. On September 21, 2012, we conducted the second pilot of this process and mailed over 32,000 recruitment notices to the representative payees of working SSI recipients.

Table 13: Wages – Corrective Actions

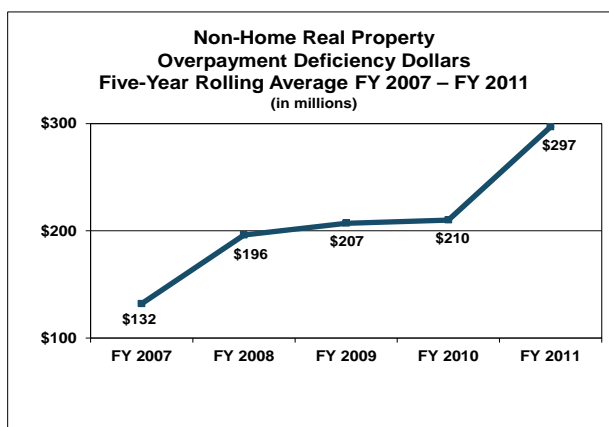
Description	Target Completion	Status
<u>Payroll Provider</u>		
Award a contract with a national payroll provider for individual wage verifications.	June 2012	We awarded a contract in June 2012 with The Work Number, a national payroll provider. Beginning July 2012, our field offices have instant access to wage information through The Work Number.
<u>Smartphone</u>		
Beginning in December 2012, SSI recipients (or their parent, spouse, or representative payee) can use their Android or iPhone to report their monthly wage amounts. This application is an extension of the SSITWR automated system that ensures the wage amounts post timely to the individual's record. This initiative will serve as a research and development project as we work towards using mobile devices to interact with our customers.	Beginning December 2012	Application development began in May 2012, and we are currently on track to implement our gradual rollout in December 2012. During the rollout, we will evaluate the user feedback to determine our rate of expansion towards national implementation.
<u>Legislative Proposal</u>		
The President's FY 2013 Budget includes a proposal to revert to quarterly wage reporting. The proposal would not affect reporting on self-employment. Increasing the timeliness of wage reporting would enhance tax administration and improve program integrity for our OASDI and SSI programs.	Pending	No Congressional action to date.

Other Real Property

Description:

Undisclosed non-home real property is a growing cause of improper overpayments in the SSI program. SSI ineligibility may result if the recipient is the owner of real property other than his or her principal place of residence. The objective of our corrective actions discussed below is to identify undisclosed property owned by the recipient.

Historical Figures:



Corrective Actions:

The following table shows our actions to reduce errors related to non-home real property:

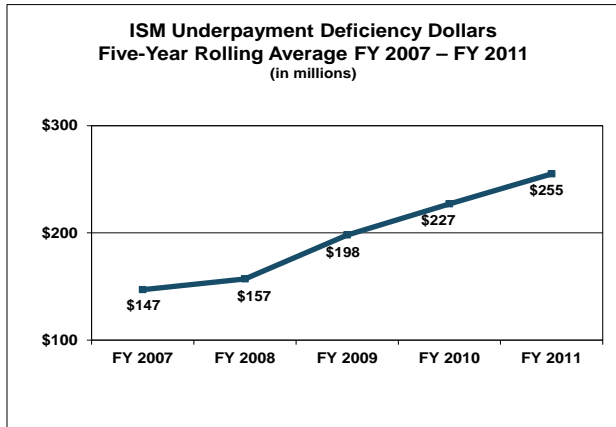
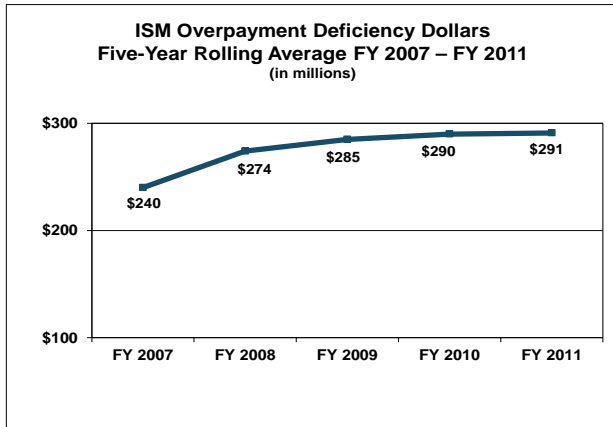
Table 14: Other Real Property – Corrective Actions		
Description	Target Completion	Status
We conducted a study to investigate non-home real property informational leads via a web-based commercial database source. The purpose of the study was to determine the accuracy and reliability of property information available and assess the cost-effectiveness of using this information to identify undisclosed property for SSI applicants and recipients.	February 2012	The study concluded in February 2012 and verified that a web-based tool is reliable.
We are developing a method to determine if a predictive model is feasible for limited issue SSI redeterminations that are focused on real property owned by SSI recipients.	December 2012	If we determine the predictive model is effective by December 2012, we will implement the automated process at a future date.
We are developing a pilot in our field offices to identify undisclosed real property owned by SSI recipients.	March 2013	If the pilot is successful and cost effective in identifying undisclosed real property, we will consider expanding the pilot to additional field offices.

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 ISM amount 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 rolling 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:

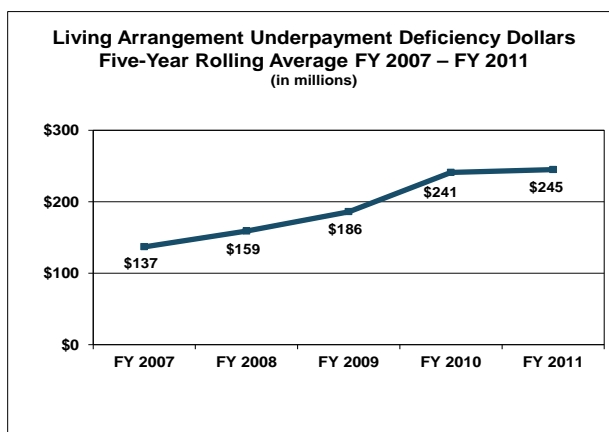
Table 15: ISM – Corrective Actions		
Description	Target Completion	Status
<u>Statutory, Regulatory, Policy and Procedure Review</u>		
We review our ISM-related operating instructions and related statutes and regulations to try to simplify our processes.	Ongoing	We issue reminders and policy clarifications on a regular basis and will continue to work with Congress and other stakeholders to identify possible statutory/regulatory changes.

Living Arrangement

Description:

Over the past five years, living arrangement deficiencies have been the second leading cause of SSI underpayment error. These deficiencies occur when we pay the recipient based on a living arrangement with a lower payment rate when the recipient should have been paid based on a living arrangement with a higher payment rate.

Historical Figures:



Corrective Actions:

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

Table 16: Living Arrangement – Corrective Actions		
Description	Target Completion	Status
Redetermination Funding		
We enhanced our SSI redeterminations statistical predictive model to better capture the effect of living arrangement changes on SSI payments.	December 2011	This enhancement will help reduce underpayments caused by incorrect living arrangement information.

USE OF PREDICTIVE MODELING IN THE SSI REDETERMINATION PROCESS

We conduct periodic, non-disability evaluations of SSI recipient’s income and resources, also known as redeterminations, to ensure that they are still eligible for monthly payments. Redeterminations are one of our most powerful program integrity tools. We estimate that every dollar spent on SSI redeterminations yields about \$6 in lifetime program savings, including Medicaid program effects. We have steadily increased the number of redeterminations we conduct each year since FY 2007. In FY 2012, we completed over 2.624 million redeterminations. Generally, the number of redeterminations we complete positively affects the accuracy of the SSI program.

We do not have the resources to conduct an annual redetermination on every SSI recipient, 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 cases 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 2011 alone, our SSI redeterminations resulted in prevention and recovery of about \$3.2 billion in SSI overpayments. The agency would have prevented and recovered only \$1.8 billion if we had used random selection instead of the statistical scoring model.

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

In addition to our efforts to prevent and detect improper payments, we also have a comprehensive debt collection program. We collected \$3.26 billion in OASDI and SSI benefit overpayments in FY 2012 at an administrative cost of \$0.07 for every dollar collected, and \$15.49 billion over a five-year period (FYs 2008-2012). 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.

Since 2004, our cumulative recoveries are \$24.20 billion for OASDI and SSI benefit overpayments. We suspend or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards. Generally, when the debtor cannot repay, we are unable to locate the debtor, or the cost of collection is likely to be more than the amount recovered, we terminate or suspend collection action. Even though we terminate collection action by stopping our internal efforts, we continue to use our external collection techniques. Termination of collection action is a temporary or conditional write-off in that the debt remains on the person's record. If the debtor becomes reentitled to benefits, we will collect the debt by appropriate and available methods in the future.

From inception through September 2012, our external collection techniques have yielded \$4.264 billion in benefits recovered through a combination of overpayment recovery and prevention improvements. Table 17 provides a description of each of our key debt management initiatives and a summary of the results.

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

In May 2012, we enhanced ECO to collect delinquent debts through TOP beyond the current 10-year statute of limitations, as authorized by Public Law 110-246. Continued improvement in our debt collection program is also underway. As resources permit, we will implement additional changes to our systems that will enable us to collect our delinquent debts by offsetting applicable State payments through TOP, expand the Non-Entitled Debtors (NED) program, and implement the remaining debt collection tools authorized by the *Debt Collection Improvement Act of 1996*. These tools include charging administrative fees, penalties, and interest or indexing of debt to reflect its current value. In addition, we will assess the use of private collection agencies in debt collection.

Table 17: Cumulative Programmatic Debt Recovery Methods Through FY 2012
(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 that allows us to collect delinquent debt by Tax Refund Offset, Administrative Offset, and Federal Salary Offset. We collected \$176.6 million in FY 2012 through these initiatives.	\$1.303	\$0.855	\$2.158
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 \$68.7 million in FY 2012.	\$0.414	\$0.301	\$0.715*
Cross Program Recovery	2002	Cross Program Recovery collects OASDI overpayments from monthly SSI payments and SSI underpayments, and SSI overpayments from monthly OASDI benefit payments and OASDI underpayments.	\$0.148	\$0.732	\$0.880
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 2012.	\$0.026	N/A	\$0.026**
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 \$20.3 million through this process during FY 2012.	\$0.093	\$0.020	\$0.113
Automatic Netting SSI	2002	This program automatically nets SSI overpayments against SSI underpayments. Using this program, we "netted" \$119.0 million in FY 2012.	N/A	\$1.113	\$1.113
Total			\$1.544	\$2.720	\$4.264

Notes:

*Credit bureau reporting is a subset of TOP collections.

**NED is a subset of TOP and AWG collections.

Refer to the *Debt Management* section for information on our programmatic and administrative debt activity.

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

In our field offices, processing centers, and Disability Determination Services (DDS) operational areas, employees conduct reviews for ongoing eligibility. Medical CDRs 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 SGA in a job. SSI redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources. 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.

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue benefit payments. 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.

PAYMENT RECAPTURE AUDIT REPORTING

OMB Circular No. A-136, *Financial Reporting Requirements*, requires agencies that have programs or activities that are susceptible to significant improper payments to report on their payment recapture audit activities. For our OASDI and SSI benefit payments, we are unable to segregate our improper payments from our total overpayment universe. Not all overpayments are improper. Certain overpayments are unavoidable, and not improper, if the payment is required by statute, regulation, or court order, such as continued payments required by due process procedures. Tables 18-20 contain OASDI and SSI overpayment experience, inclusive of improper payments.

Type of Payment	OASDI	SSI
Amount Subject to Review for Current Year (CY) Reporting ²	\$10,943.8	\$9,382.0
Actual Amount Reviewed and Reported CY ²	\$10,943.8	\$9,382.0
Amount Identified for Recovery CY ²	\$10,943.8	\$9,382.0
Amount Recovered CY ³	\$2,059.8	\$1,202.2
Percent of Amount Recovered out of Amount Identified CY	19%	13%
Amount Outstanding CY ⁴	\$8,884.0	\$8,179.8
Percent of Amount Outstanding out of Amount Identified CY	81%	87%

**Table 18: FY 2012 Payment Recapture Audit Reporting
Benefit Payments
(dollars in millions)**

Type of Payment	OASDI	SSI
Amount Determined Not to be Collectable CY ⁵	\$611.8	\$407.2
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	6%	4%
Amounts Identified for Recovery Prior Years (PY) ⁶	\$7,934.3	\$7,333.2
Amounts Recovered PYs ³	\$2,059.8	\$1,202.2
Cumulative Amounts Identified for Recovery (CY + PYs) ²	\$10,943.8	\$9,382.0
Cumulative Amounts Recovered (CY + PYs) ³	\$2,059.8	\$1,202.2
Cumulative Amounts Outstanding (CY + PYs) ⁷	\$8,884.0	\$8,179.8
Cumulative Amounts Determined Not to be Collectable (CY + PYs) ⁵	\$611.8	\$407.2

Notes:

1. This table comprises all identified and recovered benefit program overpayments for the specified fiscal year. Overpayments identified or recovered in a specified year include debt that was established in prior years.
2. The amounts reported are debt available for recovery in the specified fiscal year. These include debts identified in previous fiscal years that have not been recovered or determined to be uncollectible. Debts identified in FY 2012 were \$3,009.5 million for OASDI and \$2,048.8 million for SSI.
3. The amounts reported are FY 2012 recoveries from debt we had available for recovery in FY 2012, which include debts identified in PYs.
4. The amounts reported equal the "Amount Identified for Recovery CY" minus the "Amount Recovered CY."
5. The amounts reported are uncollectible debt in the CY and include debts identified in PYs.
6. The amounts reported are outstanding debt we had available for recovery prior to the CY, which include debts identified in PYs.
7. The amounts reported equal the "Cumulative Amounts Identified for Recovery (CY+PYs)" minus the "Cumulative Amounts Recovered (CY+PYs)."

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). Our payment recapture recovery targets for FYs 2013 - 2015 are based on our FY 2012 experience. For several reasons, we do not plan to achieve OMB's annual payment recapture target rate of 85 percent. The current budgetary environment affects our ability to address all of our workloads, including pursuit of benefit overpayments. Budget reductions caused us to impose an agency-wide hiring freeze. At the same time, we are losing subject matter experts due to retirement. Consequently, we must prioritize the use of our resources with the demands of our workloads.

Finally, factors beyond our control influence our payment recapture recovery targets. For example, the state of the economy has an impact on availability of employment. When jobs are plentiful and more former OASDI and SSI recipients are working, we generally experience greater collections from our external debt collection tools.

**Table 19: FY 2012 Payment Recapture Audit Targets
Benefit Payments
(dollars in millions)**

Type of Payment	FY 2012 Amount Identified	FY 2012 Amount Recovered	FY 2012 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2013 Recovery Rate Target	FY 2014 Recovery Rate Target	FY 2015 Recovery Rate Target
OASDI	\$10,943.8	\$2,059.8	19%	19%	19%	19%
SSI	\$9,382.0	\$1,202.2	13%	13%	13%	13%

Note:

- The recovery rate target is based on FY 2012 and prior years experience and the anticipated growth of our benefit payments in FYs 2013 - 2015.

Table 20 contains the aging schedule for outstanding overpayments in the OASDI and SSI programs.

**Table 20: FY 2012 Aging of Outstanding Overpayments
Benefit Payments
(dollars in millions)**

Type of Payment	FY 2012 Amount Outstanding (0 – 6 Months)	FY 2012 Amount Outstanding (6 Months to 1 Year)	FY 2012 Amount Outstanding (Over 1 Year)
OASDI	\$739.2	\$296.3	\$928.1
SSI	\$512.7	\$338.6	\$2,182.0

Note:

- The aging of outstanding overpayments begins when the overpayment is delinquent, generally when no voluntary payment has been made 30 days after the latest of the following dates:
 - The debt was established on our system for OASDI; or
 - The initial overpayment notice for a debt established on the SSI system; or
 - The last voluntary payment; or
 - An installment arrangement; or
 - A decision on an individual's request to reconsider the existence of the overpayment; or
 - A waiver denial.

IMPROPER ADMINISTRATIVE PAYMENTS

We evaluated our FY 2011 administrative expenses and determined that they were not susceptible to significant improper payments as defined by IPIA.

RISK ASSESSMENT

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, 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.

Payroll and Benefits	\$6,759
State DDS	\$2,288
American Recovery and Reinvestment Act*	\$54
Other Administrative Expenses**	\$3,008
Total Administrative Expenses	\$12,109
Notes:	
*Includes approximately \$5 million in 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 current internal control structure we have in place to prevent, detect, and recover improper administrative payments.

We demonstrate that, other than what is required in our annual *Performance and Accountability Report*, our administrative payments do not meet the criteria for further improper payment reporting to Congress or OMB.

STATISTICAL SAMPLING

For FY 2011, the internal recovery audit program included a review of \$1.479 billion in vendor and employee travel payments out of \$1.695 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; and
- 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 \$2.8 million, approximately 0.16 percent of total payments subject to review. As of the end of FY 2011, about \$305,000 remained uncollected, which included amounts identified for recovery in prior years. The remaining receivable balance reflected the timing of when we issued the request for overpayment refund. We consider all vendor and travel overpayments 100 percent collectible. We return all amounts recovered to the original appropriation from which the overpayment was made.

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. For FY 2011, we found approximately \$2.8 million in improper payroll overpayments out of \$6,764 million total payroll payments, which yielded a 0.04 percent improper overpayment rate.

MAJOR CAUSES

The major causes of improper administrative payments (overpayments and underpayments) include:

- Payment at incorrect unit cost or rate (e.g., a vendor performed a service and billed us at a rate different from specified in the contract, or a vendor billed us for merchandise at a higher price than specified in the contract or purchase order);
- Duplicate payments to vendors; and
- Time and attendance records processed before actual data are available. To ensure that we pay our employees timely, several times a year our business processes (e.g., operational and systems processing schedules) require that we process employees' time and attendance records before actual data are available (i.e., early payroll close-out). Subsequently, this action can result in an improper payment.

Corrective actions include:

- The preventative measure to ensure we pay vendors at the correct unit cost or rate is the incorporation of installment completion notices (ICN). The ICN includes details of the goods or services provided. If the ICN details match the task/subtask orders in our acquisition system, the contracting officer's representative (COR) signs the ICN and gives the vendor authorization to invoice. Once invoiced, the COR compares the invoice details to the ICN and then compares unit costs/rates on the invoice to the task/subtask order in our acquisition system. If the unit cost/rates agree, the COR certifies the invoice for payment;
- The preventive measure for duplicate invoices moving forward is the implementation of the Case Processing and Management System (CPMS) for administrative payments. CPMS will electronically communicate invoice information (e.g., total amount of invoice, invoice number, vendor name, etc.) from field offices directly into the agency's centralized accounting system. This system will allow a service provider to submit only one invoice for a service rendered during a hearing (e.g., testimony from medical

or vocational experts, transcription services, etc.), and will send duplicate invoices back to the service provider. We are currently piloting CPMS in several field offices and one national hearing center. We expect to fully implement CPMS in all field offices and national hearing centers by January 2013; and

- The corrective action for improper payments caused by early processing of our time and attendance records is as follows:
 - Agency personnel, including employees, timekeepers, and certifiers, identify corrective actions the following pay period; and
 - Timekeepers are then responsible for recording the appropriate adjustments in the agency's Time and Attendance System.

PAYMENT RECAPTURE AUDIT PROGRAM: ADMINISTRATIVE PAYMENTS

To further strengthen our internal controls in FY 2012, we awarded a contract to a vendor to perform a payment recapture audit of our administrative payments.

This contract requires the examination of our administrative payment processes to identify overpayments made during FYs 2008 through 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.

The auditors have not completed the payment recapture audit and, therefore, we have identified no results or corrective actions. 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 the status of any recaptured funds.

In addition to the external audit, we use an existing in-house recovery audit program for vendor and employee travel payments, which contains a number of tools to aid in the detection and recovery of improper overpayments, including:

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

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. Results from the audit program and quality review process continue to confirm that administrative payments are well below the OMB threshold for reporting improper payments.

PAYMENT RECAPTURE AUDIT REPORTING

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

Table 22: FY 2011 Payment Recapture Audit Reporting Administrative Payments (dollars in millions)		
Type of Payment	Payroll and Benefits ¹	Vendor and Travel
Amount Subject to Review for CY Reporting	\$6,764	\$1,695
Actual Amount Reviewed and Reported CY	\$6,764	\$1,479
Amount Identified for Recovery CY	\$2,761	\$2,841
Amount Recovered CY	\$1,489	\$2,584
Percent of Amount Recovered out of Amount Identified CY	54%	91%
Amount Outstanding CY	\$1,272	\$0.257
Percent of Amount Outstanding out of Amount Identified CY	46%	9%
Amount Determined Not to be Collectable CY	\$0.250	\$0.0
Percent of Amount Determined Not to be Collectable out of Amount Identified CY	9%	0.00%
Amounts Identified for Recovery PYs	\$2,983	\$9,088
Amounts Recovered PYs	\$1,465	\$9,040
Cumulative Amounts Identified for Recovery (CY + PYs)	\$5,744	\$11,929
Cumulative Amounts Recovered (CY + PYs)	\$2,954	\$11,624
Cumulative Amounts Outstanding (CY + PYs)	\$2,790	\$0.305
Cumulative Amounts Determined Not to be Collectable (CY + PYs)	\$0.428	\$0.0
Notes:		
<ol style="list-style-type: none"> 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 2011 but could have occurred in a prior year. 2. The amount subject to review for current year reporting for payroll and benefits includes about \$5 million in payroll expenses attributable to the <i>American Recovery and Reinvestment Act</i>. 3. We may compromise, suspend, or terminate collection activity in accordance with the authority granted by the United States Code and the Federal Claims Collection Standards based on the following criteria: <ul style="list-style-type: none"> • The cost of collection does not justify the enforced collection of the full amount; • The debtor is unable to repay the debt considering age and health, present and potential income, and availability of assets realized; • The debt has been discharged in bankruptcy; or • The debtor has requested a waiver or review of the debt and the agency determines that such request is credible. 		

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 a 100 percent target as required by OMB Circular No. A-123, Part II B (3) *Payment Recapture Targets for Audit Programs*. We selected this recovery rate based on our in-house recovery experience for the past three fiscal years. We incur a small amount of administrative overpayments, mainly from former agency employees and duplicate payments to vendors. We use various tools for collection including offset of subsequent vendor payments and TOP, which includes AWG.

**Table 23: FY 2011 Payment Recapture Audit Targets
Administrative Payments**
(dollars in millions)

Type of Payment	FY 2011 Amount Identified	FY 2011 Amount Recovered	FY 2011 Recovery Rate (Amount Recovered/ Amount Identified)	FY 2012 Recovery Rate Target	FY 2013 Recovery Rate Target	FY 2014 Recovery Rate Target
Payroll and Benefits	\$2.761	\$1.489	54%	100%	100%	100%
Vendor and Travel	\$2.841	\$2.584	91%	100%	100%	100%

Note:

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 2011 but could have occurred in a prior year.

**Table 24: FY 2011 Aging of Outstanding Overpayments
Administrative Payments**
(dollars in millions)

Type of Payment	FY 2011 Amount Outstanding (0 – 6 Months)	FY 2011 Amount Outstanding (6 Months to 1 Year)	FY 2011 Amount Outstanding (Over 1 Year)
Payroll and Benefits	\$1.002	\$0.314	\$0.0
Vendor and Travel	\$0.061	\$0.232	\$0.012

Note:

1. The payroll and benefits aging amounts for amounts outstanding over one year do not include amounts for current employees.

Table 25: Administrative Debt Overpayments – Detections and Recoveries
(dollars in millions)

Administrative Debt Overpayments	Amount Identified FY 2012	Amount Recovered FY 2012	Amount Identified FY 2011	Amount Recovered FY 2011	Cumulative Amount Identified FY 2012 and 2011	Cumulative Amount Recovered FY 2012 and 2011
Total	\$2.5	\$1.3	\$2.5	\$2.5	\$5.0	\$3.8

Notes:

1. The totals mainly include identified and recovered overpayments from sources other than our in-house recovery audit program for vendor and employee travel payments and our payment accuracy reviews for payroll and benefits payments, which are discussed in the Payment Recapture Audit: Administrative Payments section.
2. Identified overpayments in a given fiscal year represent identified debt that can span multiple fiscal years.
3. We do not consider every overpayment improper according to the definition contained in IPIA.

AGENCY EFFORTS TO REDUCE IMPROPER PAYMENTS

We focus on achieving our goals to reduce improper payments. Below, we address our efforts to reduce improper payments in the following areas:

- Internal controls;
- Human capital to support improper payment workloads;
- Information systems;
- Other infrastructure; and
- Statutory and regulatory barriers.

INTERNAL CONTROLS

We have a well-established, agency-wide management control 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;

OTHER ACCOMPANYING INFORMATION

- Financial management systems are in conformance with Governmentwide requirements; and
- Internal controls over financial reporting are 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*. In addition, we include the auditor's report in the *Auditor's Reports* section of this *Performance and Accountability Report*.

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

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 2011. Even with our reduced FY 2012 funding, our CDR and SSI redetermination goals increased for FY 2012. In FY 2012, we completed over 2.624 million SSI redeterminations and about 443,233 full medical CDRs. We estimate that every dollar spent on full medical CDRs yields at least \$9 in lifetime program savings; every dollar spent on SSI redeterminations yields about \$6 in program savings over 10 years, including savings accruing to Medicaid. We completed about 287,650 work CDRs in FY 2012.

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 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 2013, the funding adjustment authorized is \$751 million. If appropriated, the total amount of \$1.024 billion would enable us to complete 650,000 periodic medical CDRs, an increase of 215,000 from our FY 2012 target, and to continue handling 2.622 million SSI redeterminations, resulting in significant savings of taxpayer dollars.

Effective FY 2012, as required by IPERA, we are 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.

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, the reviewer looks 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 disability determinations allowances made by the State DDSs. In FY 2010, we initiated PERs of DDS allowances for OASDI benefits and initial and reconsideration allowances for the SSI program. We return deficient cases to the DDSs for corrective action. We estimate that the prevention of incorrect allowances and continuances of FY 2010 cases will result in lifetime savings (after all appeals) of:

- \$366 million in OASDI benefit payments;
- \$60 million in SSI Federal payments;
- \$199 million in Medicare benefits; and
- \$2 million in the Federal share of Medicaid payments.

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 continue to 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 2013 Budget includes several legislative proposals that could help simplify our programs and better identify and prevent improper payments. We discuss some of these proposals in the following paragraphs.

DI Demonstration Authority/Work Incentives Simplification Pilot

This proposal would reauthorize our demonstration authority for five years. This authority 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, WISP would test important improvements in our return-to-work rules. We believe that WISP has the potential to 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 the development and implementation of 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 WEP and GPO applicable.

Workers' Compensation

Under this proposal, we would develop and implement a system to collect information on 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 the receipt or amount of WC payments.

Quarterly Federal Wage Reporting

This proposal would restructure the Federal wage reporting process by requiring employers to report wages quarterly instead of annually. The proposal would facilitate the implementation of automating enrollment of employees in existing workplace pensions. It may also improve program integrity because more frequent reporting could provide more timely information and quality control over federally-administered, income-tested programs. Finally, increasing the frequency of wage reporting could enhance tax administration and reduce the amount of items added to the earnings suspense file, because we would discover discrepant employee identifiers more quickly.