

Social Security Administration Annual Payment Recapture Audit Report November 2014

Introduction

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

Despite budget constraints, we remain steadfast in our commitment to be good stewards of our benefit programs and support activities. We have a robust payment recapture audit program to prevent, detect, and recover improper payments. As prescribed by IPERA and guidance in OMB Circular A-123, *Management's Responsibility for Internal Controls*, our employees serve as payment recapture auditors by performing program integrity work for our Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. Our employees also review the payment accuracy of our administrative payments. In addition to our employee-performed administrative payment audits, in fiscal year (FY) 2012, we awarded a contract to a vendor to perform an independent payment recapture audit of our administrative payments to further strengthen our internal controls over these payments. We discuss the results of the independent payment recapture audit in this report.

Benefit Payments

Payment Overview

We disburse benefit payments under the OASDI and SSI programs. OASDI provides monthly benefits to retired or disabled workers, their spouses, and minor or disabled children. In the event of a worker's death, we pay survivors' benefits to the worker's surviving spouse and minor or disabled children. The OASDI accuracy rates have remained high for several years. One of the leading causes of improper payments occurs when disability beneficiaries perform substantial gainful activity (SGA).¹ Improper payments can occur when beneficiaries fail to report earnings timely or when we do not withhold their monthly benefit payments after we learn of work activity performed after disability their onset. In FY 2013, projected OASDI benefit payments from our

¹ SGA is the level of an individual's work and earnings that can affect benefit payments. Generally, earnings averaging more than \$1,070 a month (in 2014) demonstrate an individual's ability to perform SGA. This amount is subject to modifications and exceptions based on other statutory incentives designed to encourage work, such as impairment-related work expenses and subsidies.

stewardship review were \$824.2 billion.² Projected overpayments were \$1.9 billion or 0.2 percent, and underpayments were \$1.1 billion or 0.1 percent.

SSI is a means-tested program that provides cash assistance to blind or disabled adults and children and to the elderly. SSI is a complex program to administer because eligibility and monthly payment amounts fluctuate based on monthly income, resources, and living arrangements. Improper payments can occur if recipients or their representative payees (persons who receive SSI payments on behalf of recipients who cannot manage their own payments) fail to report changes in resources, an increase or decrease in wages and other income, and/or changes in living arrangements promptly. The primary cause of overpayment and underpayment errors is the failure of recipients or their representative payees to report changes in resources or wages promptly. Failure to report resources or wages has been a persistent problem since the inception of the SSI program. In FY 2013, our projected SSI payments from our stewardship review were \$55.4 billion.³ Projected overpayments were \$4.2 billion or 7.6 percent, and underpayments were \$0.9 billion or 1.7 percent.

Payment Recapture Audits Business Process

We have a two-pronged approach for conducting OASDI and SSI payment recapture audits:

Stewardship Reviews - To measure accuracy, each month, our program specialists perform stewardship reviews of sample OASDI and SSI payments. Our stewardship reviewers have expert knowledge in our programs, business processes, applied statistics and statistical models, and business analytics. For each sampled payment, we interview the beneficiary or representative payee, make collateral contacts to verify allegations, and redevelop all non-medical eligibility and payment factors to assess payment accuracy. We use this data to identify the major causes of payment errors and target our resources to preventative and corrective actions that yield the highest return on investment.

Program Integrity Reviews - Our field offices, processing centers, and State disability determination services (DDS) conduct a variety of program integrity reviews to verify continued program eligibility and the correct payment amount. We conduct:

- Medical continuing disability reviews (CDR) periodically to determine if individuals still meet our definition of disability;
- Work CDRs to determine if a disabled individual's earnings preclude eligibility to a payment; and
- SSI redeterminations to review non-medical eligibility factors (e.g., income and resources).

² FY 2013 data are the most recent available. In mid-November 2014, we will publish our annual FY 2014 Agency Financial Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. [Our FY 2014 Agency Financial Report will be available at www.socialsecurity.gov/finance.](http://www.socialsecurity.gov/finance)

³ Ibid.

Payment Recapture Audit Results

While our FY 2013 OASDI payment accuracy rate of 99.8 percent for overpayments and 99.9 percent for underpayments was high, we continue to seek improvements. Through our stewardship reviews, we have determined that the major causes of OASDI improper payments are:

- Disabled beneficiaries performing SGA; and
- Computation errors.

Computation errors occur when we incorrectly calculate beneficiaries' benefit amounts because they fail to report payment-affecting changes, we receive inaccurate information from the beneficiaries, or we make administrative mistakes (e.g., we incorrectly determine age, earnings history, or the type of benefit awarded).

The FY 2013 SSI payment accuracy rate was 92.4 percent for overpayments and 98.3 percent for underpayments. To improve our SSI payment accuracy, we are pursuing several initiatives, dependent upon resource availability, that address the following major causes of overpayments:

- Financial accounts that exceed the allowable resource limits;
- Wages that exceed allowable income limits and failure to report fluctuations in wages; and
- In-kind support and maintenance (i.e., unearned income in the form of food or shelter).

CDRs and SSI redeterminations are our most effective payment recapture audit tools to identify cases where we should discontinue or change the monthly payment amounts. On average, we estimate about \$10 in lifetime program savings per dollar spent on medical CDRs, including Medicare and Medicaid program effects. We also estimate, on average, about \$4 to \$5 of net program savings per dollar spent on SSI non-medical redeterminations, with savings from overpayments partly offset from the cost for underpayments.

We exceeded our FY 2014 CDR program integrity workload goal by completing 525,875 medical CDRs (103.1 percent of the goal of 510,000). We completed 247,215 work CDRs in FY 2014. We also exceeded our SSI redetermination program integrity workload goal by completing 2,627,518 redeterminations in FY 2014 (100.2 percent of the goal of 2,622,000).

Corrective Actions from Payment Recapture Audits

Based on findings from our audits, we developed and implemented several program integrity initiatives to identify and prevent improper payments. These initiatives include (but are not limited to):

Access to Financial Institutions (AFI) - AFI helps us address the leading cause of SSI overpayments. By automatically verifying applicants', recipients', and deemors' reported financial accounts and searching for unreported accounts, we prevent and reduce the occurrence

of overpayments by promptly identifying excess resources.⁴ We currently use AFI in all 50 states, the District of Columbia, and the Northern Mariana Islands. In March 2012, we integrated electronic requests for financial information into our SSI automated processing system for most initial claims and redeterminations. In October 2013, we further reduced the AFI threshold to verify liquid financial resources and increased undisclosed bank account searches. We are currently evaluating the effect of reducing the AFI threshold and increasing the undisclosed bank account searches, and plan to issue a report in April 2015.

SSI Telephone Wage Reporting (SSITWR) - Wages continue to be a major source of SSI payment error because we do not always receive accurate or timely monthly wage information. To facilitate timely reporting, we established a dedicated telephone number to allow recipients, deemors, and representative payees to report prior monthly gross wages by using a combination of touch-tone entry and voice-recognition software.

A successful wage report via the SSITWR system automatically enters the telephone-reported wage data into our SSI system. This process is more efficient than having the SSI recipient visit a field office where we manually enter the wage data. The improved SSITWR efficiency allows us to process wage reports earlier and adjust the next monthly SSI payment, thereby preventing improper payments. The total number of reporters has been trending upward since SSITWR implementation in November 2012. We received more than 35,300 successful SSITWR reports in September 2014.

SSI Mobile Wage Reporting (SSIMWR) Smartphone Application - Mobile wage reporting allows SSI recipients (or their parents, spouses, or representative payees) to use their smart phones to report prior monthly gross wages, using a free application available from Google Play and Apple App stores. Beginning in December 2012, we conducted an initial pilot of the SSIMWR application in 50 field offices, which was successful. Therefore, we expanded to nearly 270 field offices in March 2013. The expansion of the pilot was also successful, resulting in submission of more than 9,000 wage reports using the smart phone application.

Based upon the successes of the initial and expanded pilots, we implemented the use of SSIMWR nationally on August 1, 2013. We received over 29,000 successful wage reports through the SSIMWR application in September 2014.

The Continuing Disability Review Enforcement Operation (CDREO) Predictive Model - The CDREO is an automated process that matches current Disability Insurance (DI) beneficiaries with their Internal Revenue Service reported earnings and flags the records of DI beneficiaries with potentially uninvestigated earnings. Each year, our technicians screen approximately 500,000 records that contain potential earnings; of those, more than 300,000 require a work CDR. We refer to these as CDREO Alerts.

The predictive model identifies DI beneficiaries at risk of large earnings-related overpayments. From October 2010 through May 2013, we conducted a pilot that applied a predictive model to a

⁴ Deemors are individuals whose income and resources are considered in determining an applicant's or recipient's eligibility and payment. Examples of individuals who may be deemors are a recipient's spouse, parent, essential person, or sponsor of an alien.

portion of the CDREO alerts and prioritized them by highest-scoring cases. Based on the successful results of the pilot, which showed a reduction in the amount of work-related overpayments, we applied the predictive model to all CDREO alerts released in June 2013. In the first 6 months after full implementation, we ceased the payment of benefits to nearly 8,200 beneficiaries and processed the resulting overpayments. Of those, we ceased about 44 percent within the first 90 days, compared to only 30 percent ceased within the first 90 days without application of the predictive model.

Coordination of the Automated Earnings Reappraisal Operation (AERO) and the CDREO - The AERO process automates an increase in benefit payments based on additional earnings in the prior year. If the work CDR results in the suspension of the beneficiary monthly payments due to working above SGA, the beneficiary receives an overpayment notice. Processing the AERO recomputation first would have resulted in issuance of an inaccurate underpayment amount. In October 2012, we piloted a new process, which utilized a predictive model for AERO cases with a pending work CDR. We delayed benefit increases resulting from an AERO recomputation for six months for disability beneficiaries with a pending work CDR. The six-month delay allowed us time to complete the pending work CDR and determine if benefits were still due before releasing the higher benefit payment. Following the success of the October 2012 pilot, we drew a larger sample of cases in October 2013 that again resulted in promising findings. We selected a new sample in October 2014, and we will analyze the data 90 days after the pilot ends in April 2015.

Administrative Payments

Payment Overview

We issue three types of administrative payments:⁵

1. Payroll and benefits: In FY 2013, we spent about \$6.3 billion to fund payroll and benefits for over 61,000 agency employees.
2. DDS expenses: Payments to DDSs for making medical determinations on our initial disability claims and medical CDRs totaled about \$2 billion in FY 2013. We pay all costs incurred in making disability determinations, including overhead and salaries for over 15,000 DDS employees.
3. Other administrative expenses: In FY 2013, other administrative expenses totaled approximately \$3 billion. These expenses included rent, vendor payments, travel, and other typical support costs associated with operating a large public program.

⁵ FY 2013 data is the most recent available. In mid-November 2014, we will publish our annual FY 2014 Agency Financial Report that contains a detailed report on our payment outlays and improper payments prevention, detection, and collection activities. [Our FY 2014 Agency Financial Report will be available at www.socialsecurity.gov/finance.](http://www.socialsecurity.gov/finance)

Payment Recapture Audits Business Process

Currently, we perform an in-house payment recapture audit of our administrative payments for payroll and benefit, DDS expenses, and other administrative expenses, which we describe below.

In addition, we review automated workload processes to ensure proper internal controls and separation of duties. In November 2011, to strengthen our internal controls, we awarded a payment recapture audit contingency contract for review of our administrative payments. In August 2013, the payment recapture audit concluded, and we describe the results below.

Payroll and benefits - Payroll and benefits account for a majority of total administrative expenses. We conduct annual payment accuracy reviews.

DDS expenses - Our 10 regional offices review amounts drawn against pre-approved DDS spending plans. For payment accuracy, we rely upon the Office of the Inspector General's (OIG) audits of DDSs and further use those findings to enhance payment controls. [For more information on OIG's audit findings, please refer to its website at: oig.ssa.gov/audits-and-investigations/audit-reports/all](http://oig.ssa.gov/audits-and-investigations/audit-reports/all).

Other administrative expenses - Our in-house payment recapture audit program uses a number of tools to detect improper payments including an automated query system to identify potential duplicate payments. We established numerous internal controls to reduce the risk of vendor overpayments, including the review and approval of invoice payments by contracting officer technical representatives and project officers. In addition, our funds-control system minimizes the risk of overpayments by restricting payments to a particular vendor for the amount of the contract or purchase order award. Our in-house audit program not only tracks the recovery of identified improper payments, but also analyzes recoveries to determine invoice type and cause. For FY 2013, invoices for purchase orders accounted for the largest number of improper payments, and the most common cause for improper payments was incorrect amounts paid, including duplicate payments.

Payment recapture audit contingency contract - The contract required the auditors to examine our administrative payments made during FYs 2008 through 2010. The contractor audited expenditures for DDSs, grants, employee travel, employee payroll, utilities, and other vendor and contractual payments. Although IPERA does not require we include employee salaries and benefits in the scope of our payment recapture audit, we included these payments because they are our largest administrative expenditure.

Payment Recapture Audit Results and Corrective Actions

In-house payment recapture audit - In FY 2013, through our in-house payment recapture audits of payroll and benefit payments, we found approximately \$3.3 million in payroll overpayments out of \$6,282 million total payroll payments, which yielded a 0.05 percent improper-payment rate. Thus far, we collected over \$1.8 million of the \$3.3 million improper payments or about 55 percent. Through our in-house vendor and travel payment recapture audits, we identified improper payments of \$0.856 million or approximately 0.03 percent of other administrative payments. We collected nearly \$0.828 million of the \$0.856 million

improper payments, or about 97 percent. Our successful efforts validate our existing controls for prevention, detection, and collection of administrative improper payments.

Results from the audit and quality reviews continue to confirm that administrative payments are well below the OMB-determined threshold for reporting improper payments. When we uncover deficiencies, we correct and mitigate future improper payments by revising operating policies and procedures and providing employee training.

One example of our corrective actions for duplicate payments is the enhancement of the Office of Disability and Adjudicative Review's Case Processing and Management System (CPMS), which electronically transmits obligations and invoice information from our hearings offices directly into our centralized accounting system. CPMS electronically transmits and matches an invoice against each obligation for goods and services, allowing a vendor to be paid only for services recorded and certified in CPMS, thereby eliminating duplicate payments. We fully implemented the CPMS enhancement in all hearing offices and National Hearing Centers in December 2012. This enhancement has eliminated duplicate payments for expert services in our hearings operation significantly. Because of the time lag between scheduling hearings and paying the respective invoices for services rendered at those hearings, we did not see the full benefit of the enhancement until this fiscal year. The CPMS system has an effect on two types of invoices we process. In FY 2013, these invoice types accounted for 60 percent of the improper payments reported. In FY 2014, because of the CPMS enhancement, there were zero improper payments from those two types of invoices.

Payment recapture audit contingency contract - The independent auditors completed the payment recapture audit in August 2013. The auditors reviewed \$23.282 billion in payments and identified improper payments totaling \$29,191, or approximately 0.00013 percent of the payments reviewed. We confirmed their findings in May 2014. By June 2014, we collected 100 percent of the improper payments identified for recovery. In accordance with the contract, by July 2014, we reimbursed the independent auditors 18.5 percent, or \$5,400, of the amount collected. In compliance with IPERA, we returned all amounts recovered and charged the auditor's fee against the original appropriations from which the overpayments were made.

The independent auditors determined the major cause of improper payments identified during the payment recapture audit resulted from incorrect amounts paid (duplicate payments).

Because we accurately paid 99.99 percent (dollar amounts) of the administrative payments reviewed by the independent auditors, we determined there would be no cost benefit to pursuing additional corrective actions. Our established internal controls, policies, and procedures optimally prevent or identify improper payments.

Conclusion

The programs we administer demand stewardship that is worthy of their promise of economic security from generation to generation. We are firmly committed to sound management practices, including evaluating our programs' integrity and taking appropriate actions to prevent improper payments. Properly managing our resources and program dollars is critical to our success. Equally important to our success is having adequate and sustained funding to carry out all of our work.