

OIG

Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

*Audit Report*

Processing Internal Revenue Service  
Alerts for Supplemental Security  
Income Recipients

*A-03-13-13106 / December 2013*

**OIG** Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

**MEMORANDUM**

**Date:** December 26, 2013

**Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Processing Internal Revenue Service Alerts for Supplemental Security Income Recipients (A-03-13-13106)

The attached final report presents the results of our audit. Our objectives were to determine whether the Social Security Administration was properly processing the Internal Revenue Service's 1099 alerts and appropriately adjusting benefit amounts for Supplemental Security Income recipients.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

# Processing Internal Revenue Service Alerts for Supplemental Security Income Recipients

## A-03-13-13106



December 2013

Office of Audit Report Summary

### Objective

To determine whether the Social Security Administration (SSA) was properly processing the Internal Revenue Service's 1099 alerts and appropriately adjusting benefit amounts for Supplemental Security Income (SSI) recipients.

### Background

The SSI program provides cash assistance to people who are aged, blind, or disabled and whose income and resources are limited. Since SSI eligibility is based on need, SSA must be aware of any changes in recipients' income or resources.

The *Spending Reduction Act of 1984* provides for SSA to receive financial information from the Internal Revenue Service (IRS) to help detect unreported nonwage information, such as security trades, winnings, property sales, and pensions. When IRS records indicate a recipient may have unreported income or resources, SSA systems generate an alert, and annotate the recipient's benefit record. SSA field office staff develops these alerts by verifying the information with the recipient or the financial institution and adjusts or terminates the benefits, if warranted.

### Our Findings

SSA's processing of IRS alerts needs improvement. SSA staff did not develop some cases for SSI recipients with significant income and resources, which made them ineligible for benefits. We determined that 20 of the 50 sample recipients were overpaid \$237,125 because SSA's systems did not post an alert to the Supplemental Security Record for the IRS code assigned. As a result, field office staff was not always aware the recipients had significant income and resources. Projecting these results to our population, we estimate SSA may have overpaid 1,014 SSI recipients about \$12 million in benefits. Although our review was for TY 2010 IRS data, based on our findings, we would expect similar results if we reviewed alerts from other tax years.

Furthermore, SSA did not always develop IRS alerts timely to recover potential overpayments. While SSA had an opportunity to develop cases and assess possible overpayments before administrative finality rules apply, 19,170 (27 percent) of the 70,457 alerts we identified in December 2011 were still pending as of April 2013. Further, SSA coded 1,401 of these pending alerts as high-profile redeterminations, indicating the alerts were more likely to result in overpayments.

### Our Recommendations

We recommend that SSA:

1. Review the 20 sample cases we determined had overpayments and the remaining 2,485 cases from the sample population to ensure benefits are appropriately adjusted.
2. Based on the review of the TY 2010 cases, assess whether the IRS data for TYs 2011 and 2012 should be developed for those cases where there is significant income and resources reported.
3. Review its existing statistical profiling model to determine whether cases with significant income and resources are more likely to lead to an overpayment and should be sent to a field office for development.
4. Revise the profiling criteria for SSI couples with income above the tolerance to allow these cases to be included as part of the profiling model to determine the probability of an overpayment.

SSA agreed with our recommendations.

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## ABBREVIATIONS

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
HEP	High Error Profile
IRS	Internal Revenue Service
OQP	Office of Quality Performance
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
SSR	Supplemental Security Record
TY	Tax Year
U.S.C.	United States Code

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) was properly processing the Internal Revenue Service's (IRS) 1099 alerts and appropriately adjusting benefit amounts for Supplemental Security Income (SSI) recipients.

## BACKGROUND

SSA administers the SSI program under title XVI of the *Social Security Act*.<sup>1</sup> SSI provides cash assistance to people who are aged, blind, or disabled with limited income and resources.<sup>2</sup> Since SSI eligibility is based on need, SSA must be aware of any changes in recipients' income or resources. The *Spending Reduction Act of 1984*<sup>3</sup> provides for SSA to receive financial information from the IRS to help detect unreported non-wage information, such as interest, security trades, winnings, property sales, and pension income.<sup>4</sup>

Through the IRS interface process, SSA prepares a finder file of recipients who are receiving SSI and submits the file to the IRS. SSA uses the information it obtains from the IRS interface match to detect unreported or incorrectly reported income or resources that may affect an individual's eligibility or payment.<sup>5</sup> SSA uses such established criteria as tolerances and statistical profiling to minimize the burden on field office staff and SSI recipients by reducing the number of unproductive alerts. SSA processes the income and resource information through an interface operation, assigns an IRS code to indicate whether the amount of the income and/or resource is above or below tolerances, and generates an alert.<sup>6</sup> The tolerance is \$61 or more for resources and \$1,001 or more for income (except for an SSI couple).<sup>7</sup> For instance, if a record has income only, and that income is equal to or above the tolerance, the system will assign IRS code B, and an alert will post to the recipient's Supplemental Security Record (SSR). If a record contains income that is below the tolerance, the system assigns IRS code K, and an alert is not generated. If a record contains income for a couple that exceeds the tolerance but has no resource information, the system assigns IRS code R and does not generate an alert.

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<sup>1</sup> *Social Security Act* § 1601 *et seq.*, 42 U.S.C. 1381 *et seq.*; see also 20 C.F.R. § 416.101 *et seq.*

<sup>2</sup> *Social Security Act* § 1611, 42 U.S.C. 1382; see also, SSA, POMS, SI 00501.001 (January 18, 2005).

<sup>3</sup> *Deficit Reduction Act of 1984*, Pub. L. 98-369, Division B – *Spending Reduction Act of 1984, Title VI, Subtitle C*, § 2651, 98 Stat. 494, 1147.

<sup>4</sup> *Id.* See also, JCS-41-84, *General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984* (H.R. 4170, 98<sup>TH</sup> Congress; Public Law 98-369), IV. (B), Prepared by the Staff of the Joint Committee on Taxation, p. 1218 (December 31, 1984).

<sup>5</sup> SSA and the IRS conduct the match three times each year in March, May, and August.

<sup>6</sup> SSA, POMS, SI 02310.045 (May 8, 2012) See Appendix C for a description of the IRS case codes.

<sup>7</sup> *Id.* at A.4 - SSI couple cases are married spouses living in the same household who are both eligible for SSI payments or eligible individuals with ineligible spouses.

SSA then runs records that exceed the tolerances through a statistical profiling module to determine the probability of an overpayment. The system assigns each recipient a score based on the estimated overpayment. Based on the assigned score, the system ranks recipients from highest to lowest risk for an overpayment and assigns a diary (5B or 5H)<sup>8</sup> to the top 25 percent. A 5B diary contains information regarding winnings, prizes, unemployment compensation, interest, dividends, rents, etc., while a 5H diary contains data about pensions, annuities, and individual retirement accounts. SSA field office staff develops the alerts by verifying the information with recipients or financial institutions and adjusting or terminating benefits as warranted.

For recipients ranked in the bottom 75 percent, the system reassigns an IRS code S because of the low profile score, even though they are above the tolerance. When the system reassigns an IRS code S, it does not generate an alert to field office staff for case development. This can result in cases not being alerted that have income or resources exceeding the amount allowable to be eligible under the SSI program.

## **Redeterminations and Limited Issue Reviews**

A redetermination is a review of a recipient or couple's non-medical eligibility factors, such as income, resources, and living arrangements, to determine whether the recipient is still eligible for, and receiving, the correct SSI payment.<sup>9</sup> Using specific case characteristics, SSA categorizes redeterminations as either high-error (HEP), middle-error, or low-error profile depending on the likelihood of an error.<sup>10</sup> Limited issue cases require that SSA staff develop a specific issue or event without conducting a redetermination. SSA processes 5B and 5H diaries as a limited issue or a full redetermination.

## **Administrative Finality and Diligent Pursuit**

The Agency's administrative finality policy prevents recovery of overpayments that occurred more than 2 years earlier unless staff finds that fraud occurred or similar fault applies.<sup>11</sup> Similar fault exists when there is no fraudulent intent and a wide discrepancy exists between new data and the data previously reported by a recipient as well as when other criteria are met.<sup>12</sup> When SSA staff pursues alerts within the established timeframe, the Agency can recover overpayments that occurred up to 2 years before the date of the alert. When staff does not pursue alerts within the established timeframe, SSA can only recover overpayments that occurred 1 year before the

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<sup>8</sup> SSA uses the terms "alerts" and "diaries" interchangeably.

<sup>9</sup> SSA, POMS, SI 02305.001-A (October 4, 2007).

<sup>10</sup> SSA, POMS, SI 02305.013 B.2 (June 14, 2010).

<sup>11</sup> SSA, POMS, SI 04070.010F.4 (September 9, 2011).

<sup>12</sup> SSA, POMS, SI 04070.020B.1 (March 2, 2012) discusses other criteria needed to establish similar fault.

date of the alert for any reason, and 2 years if for good cause, unless the case involved fraud or similar fault.<sup>13</sup>

## Internal Revenue Service Data

In Tax Year (TY) 2010, the IRS reported that approximately 685,000 SSI recipients received about \$3.4 billion in income and resources. The IRS reported that these recipients received income and resources ranging from \$1 to \$1.5 billion (see Table 1). SSA did not generate alerts for about 615,000 (90 percent) recipients with possible income and resources totaling about \$2.8 billion. However, the Agency did generate alerts for about 70,000 (10 percent) recipients with income and resources totaling about \$610 million. The IRS reported that these recipients received income and resources ranging from \$61 to \$62 million. The average amount of the income and resources was \$8,700, and the median was \$362.

**Table 1: TY 2010 IRS Data**

Alerts Generated	Recipients	Percent	Income (millions)	Resources (millions)	Total (millions)
No	614,489	90	\$413	\$2,418	\$2,831
Yes	70,457	10	112	499	611
<b>Total</b>	<b>684,946</b>	<b>100</b>	<b>\$525</b>	<b>\$2,917</b>	<b>\$3,442</b>

## Methodology

To meet our objective, we identified 2,535 recipients who may have received \$100,000 or more in income and resources, totaling about \$2.6 billion, in TY 2010. We randomly selected a sample of 50 of the 2,535 recipients with income and resources totaling about \$13.7 million. The IRS reported that the recipients received income and resources ranging from \$100,000 to about \$1.3 million. We reviewed SSA's records and LexisNexis to determine whether SSA staff resolved the alerts and posted overpayments accordingly. If staff had not developed the alerts, we determined the potential overpayments that occurred from January 2010 through January 2013. (See Appendix A for our scope and methodology.)

## RESULTS OF REVIEW

SSA's IRS alert process needs improvement. Our sample results indicated that SSA did not develop some cases for SSI recipients with significant income and resources reported in TY 2010, which made them ineligible for benefits. We determined that 20 of the 50 sample recipients were overpaid \$237,125 because the IRS code SSA assigned did not post an alert to the SSR. As a result, field office staff was not always aware the recipients had significant income and resources. Projecting these sample results to our population, we estimate that SSA

<sup>13</sup> SSA, POMS, SI, SI 04070.010 F.4 (September 9, 2011).

may have overpaid about \$12 million in benefits to 1,014 SSI recipients.<sup>14</sup> Although our review was for TY 2010 IRS data, based on our findings, we would expect similar results if we reviewed alerts from other TYs.

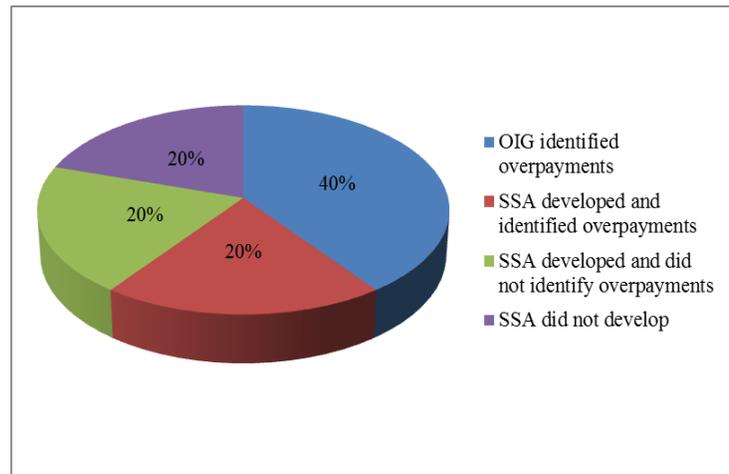
Furthermore, SSA did not always timely develop IRS alerts to recover potential overpayments. While SSA had an opportunity to develop cases and assess possible overpayments before administrative finality rules applied, 19,170 (27 percent) of the 70,457 alerts we identified in December 2011 were still pending as of April 2013. Further, SSA had coded 1,401 of these pending alerts as high-profile redeterminations, indicating the alerts were more likely to result in overpayments.

## Sample Results

Of the 50 randomly sampled cases with a total of about \$13.7 million in income and resources, we found the following.

- In 20 cases (40 percent), recipients may have been overpaid \$237,125 in SSI because their income and resources made them ineligible. The overpayments ranged from \$1,519 to \$25,262.
- In 10 cases (20 percent), SSA did not develop the cases, but we determined about \$2.7 million in income and resources was excluded because the amounts did not count in determining eligibility and payment amount<sup>15</sup> or did not belong to the recipients.
- In 10 cases (20 percent), SSA developed the cases and assessed \$90,021 in overpayments. The IRS reported the recipients received about \$3.3 million in income and resources.
- In 10 cases (20 percent), SSA developed the cases and determined that about \$2.5 million in income and resources was excluded or did not belong to the recipients.

**Figure 1: Sample Results**



As shown in Table 2, the 20 recipients with overpayments received about \$5.1 million in income and resources by selling securities and real property<sup>16</sup> as well as with gambling winnings, prizes, rental income, and partnership shares. SSA did not develop 19 of the 20 cases because the

<sup>14</sup> See Appendix B for our sample results.

<sup>15</sup> SSA, POMS, SI 00810.007 (September 26, 2011) and SI 01110.210 (December 15, 2008).

<sup>16</sup> The sale was for investment property, which is countable toward the income limit.

system assigned IRS codes that did not generate an alert even though the income and resources reported by the IRS for the recipients exceeded \$100,000. Specifically, 17 cases were assigned IRS code S, which indicated that the income and resources were above the tolerance, but the score received during the profiling module was low. Two cases were assigned IRS code R, which indicated that the couples had income that exceeded the tolerance, but no resources were reported. One case was assigned an IRS code G, which indicated that resources exceeded the tolerance, but income was below the tolerance. We discuss the IRS coding process in the next section.

**Table 2: Type of Income and Resources**

Type of Income or Resources	IRS Code S	IRS Code R	IRS Code G	Total Income and Resource Amount
Security trades	9		1	\$3,447,267
Prizes and winnings	3	2		993,108
Property sales	3			425,000
Partnership shares	1			152,898
Rent	1			39,505
<b>Total</b>	<b>17</b>	<b>2</b>	<b>1</b>	<b>\$5,057,778</b>

Below are examples of cases where the system did not post an alert, and SSA staff had not assessed any overpayments before our audit.

- A recipient’s spouse received \$141,000 in gambling winnings from a casino. The name, Social Security number (SSN), and address shown on the tax form used to report the gambling winnings matched the SSR. Because SSA’s system assigned an IRS code R, it did not post an alert to the recipient’s SSR. SSA records showed staff conducted a redetermination in 2011; however, the recipient did not self-report the gambling winnings and continued receiving benefits. We estimated a \$6,600 overpayment.
- A recipient received about \$500,000 for the sale of securities. The name, SSN, and address on the tax form matched the SSR. The system assigned IRS code S to this case so it did not post an alert to the recipient’s SSR. SSA records showed staff conducted a redetermination in 2011; however, the recipient did not inform the Agency about his resources and continued receiving benefits. We estimated a \$15,800 overpayment.

SSA did not fully develop the case assigned IRS code G, which indicated the resources exceeded the tolerance. SSA confirmed with the recipient that he received \$227,746 from the sale of securities, and the Agency suspended his benefits. However, the Agency did not assess an overpayment. We determined the recipient was overpaid \$6,100.

During our audit, we requested that SSA review the 20 cases we identified as having overpayments. Agency staff informed us that because of critical workload priorities, limited resources, and diminishing staff, they could not review the cases but would consider any recommended case reviews at the conclusion of the audit. Therefore, we are recommending that the Agency review the 20 cases to confirm whether the recipients were overpaid benefits.

Based on our findings from TY 2010 IRS data, we would expect similar results if we reviewed alerts from other TYs. Therefore, we recommend SSA review subsequent IRS TY data to identify recipients with significant reported income and resources. The Agency should review these cases and assess any overpayments recoverable under its administrative finality rules.

### *Internal Revenue Service Code S*

As part of the statistical profiling module, SSA assigns weights to certain data elements to compute a score that identifies recipients who are most likely to be overpaid. Agency officials informed us that SSA first implemented this profile in Fiscal Year 1996. The data elements include Federal living arrangements, Federal payment amount, unearned income, overpayments, and the number of completed redeterminations. The purpose of the statistical profiling module is to increase the cost-effectiveness of the IRS alert process while reducing the amount of field office resources required to develop unproductive alerts. SSA ranks the scores from highest to lowest and assigns IRS code S to cases ranked in the bottom 75 percent. This code indicates the income and resources are below the tolerance and prevents the system from generating an alert even though the amount exceeds that allowable for SSI eligibility. Because the system does not generate an alert, field office staff was not always aware SSI recipients with significant income and resources were receiving benefits for which they were ineligible.

In TY 2010, SSA systems assigned IRS code S to 203,614 SSI recipients. The IRS reported that these individuals received about \$2.7 billion in income and resources. The income and resources ranged from \$61 to about \$1.5 billion.<sup>17</sup> As shown in Table 3, the IRS reported that 5,742 of the 203,614 recipients received over \$25,000 in income and resources. Furthermore, the 203,614 SSI recipients derived a significant amount of the income and resources from winnings, prizes, rents, and security trades. Specifically, the IRS reported that 46,900 recipients received at least \$305 million for winnings, prizes, rents, and security trades.

**Table 3: IRS Code S**

Monetary Range	Recipients	Percent	Income and Resource Amount	Percent
\$ 61 - 1,000	120,779	59.3	\$ 24,244,404	0.9
1,001 - 5,000	58,390	28.7	132,984,491	4.9
5,001 - 25,000	18,703	9.2	189,899,436	7.0
25,001 - 50,000	2,579	1.3	90,055,568	3.3
50,001 - 100,000	1,502	0.7	105,889,935	3.9
100,001 - 1,500,000,000	1,661	0.8	2,174,204,440	80.0
<b>Totals</b>	<b>203,614</b>	<b>100</b>	<b>\$ 2,717,278,274</b>	<b>100</b>

<sup>17</sup> We reviewed the case involving approximately \$1.5 billion in resources and found the resources were not legitimate. An individual falsely reported to the IRS and SSA that he received billions in wages, capital gains, and dividends in TY 2010. SSA took steps to remove the erroneous wages from its records.

We agree SSA must profile IRS cases to efficiently manage this workload. However, our sample results show that SSA may need to review cases assigned IRS code S because they could result in overpayments. Of our 50 sample cases, 17 recipients assigned IRS code S were overpaid \$221,732 in benefits because they received about \$4.5 million in income and resources. As stated previously, the SSI recipients derived the income and resources from the sale of securities and real property as well as gambling winnings, prizes, rental income, and partnership shares. Because many of these were one-time payments (that is, gambling winnings and prizes), SSA needed to pursue these cases within the established timeframe to avoid missing the opportunity to collect overpayments. Based on our sample results, we believe SSA needs to review its profiling criteria to determine whether it should alert cases with significant income and resources as likely to lead to an overpayment and send them to a field office for development.

### *Internal Revenue Service Codes for Couples*

As part of the initial IRS code assignment, SSA considers all SSI couples as below the income tolerance regardless of the amount of income. For these cases, the system will assign either IRS code R or X and does not generate alerts. IRS code R indicates a couple has income that exceeds the tolerance but not resources, and IRS code X indicates a couple has resources below the tolerance, but income is present. In TY 2010, there were 5,363 SSI couples with income and resources exceeding \$3,000, the amount in resources that can cause a recipient with a spouse to be ineligible for SSI payments.<sup>18</sup> As shown in Table 4, the IRS reported that these SSI couples received approximately \$67 million in income and resources. The income and resources ranged from \$3,001 to \$781,000.

**Table 4: IRS Couples Cases with Significant Income**

IRS Code	Number of Recipients	Income Amount	Resource Amount	Total Income and Resource	Lowest Amount	Highest Amount
R	4,861	\$59,794,909		\$59,794,909	\$3,001	\$781,000
X	502	7,200,010	\$19,920	7,219,930	\$3,002	\$450,012
<b>Total</b>	<b>5,363</b>	<b>\$66,994,919</b>	<b>\$19,920</b>	<b>\$67,014,839</b>		

Our review of the couple case with \$781,000 in reported income for TY 2010 showed the individual received gambling winnings from a casino but did not report the winnings to SSA. In 2011, the recipient won an additional \$7,100 from gambling, and the system generated an alert because it assigned IRS code B. SSA determined the recipient had been overpaid \$508 based on the 2011 gambling winnings but did not assess an overpayment for the 2010 winnings. Had SSA developed this case, it would have determined the recipient was overpaid an additional \$13,400. In addition, there were two couples cases included in our sample population coded with IRS

<sup>18</sup> SSA, POMS, SI 01110.003 A.2 (December 8, 2010).

code R. For these two cases, the income received related to gambling winnings at casinos, and in these cases, we determined the recipients were overpaid about \$7,000 and \$3,000, respectively.

We asked Agency staff why the system assigned a code that did not generate an alert for SSI couples who had reported income that exceeded the tolerance. Staff reviewed policy and requirement documentation as well as conducted a case-level review but could not explain why the system did not generate an alert for these cases. Based on our sample cases, we believe excluding income for SSI couples results in the Agency not identifying overpayments. Therefore, SSA should revise the criteria for SSI couples with income above the tolerance to allow these cases to be included as part of the profiling model.

## Timeliness of Developing IRS Alerts

Because of administrative finality, SSA can only recover overpayments that occur more than 2 years before an alert is generated if the Agency finds that fraud occurred or similar fault applies.<sup>19</sup> We found that SSA had developed and closed 51,287 (73 percent) of the 70,457 IRS alerts that were generated before December 2011. However, as of April 2013, 19,170 (27 percent) of these alerts were still pending. These alerts had been pending for a minimum of 16 months. If SSA does not develop these alerts timely, it could miss an opportunity to identify and collect overpayments because of the Agency’s administrative finality rules. As depicted in Table 5, the IRS reported that the 19,170 recipients with pending alerts received about \$251 million in income and resources. Further, 6,017 of these recipients received more than \$2,000 in income and resources. The reported income and resources ranged from \$2,001 to \$32 million for each recipient.

**Table 5: Pending IRS Alerts**

Status of Alert	Range of Income and Resources	Total Recipients	Percent	Total Income and Resources	Lowest	Highest
Open	\$2,000 or less	13,153		\$6,563,356	\$61	\$2,000
	Greater than \$2,000	6,017		244,622,998	\$2,001	\$32,085,984
	<b>Total</b>	<b>19,170</b>	<b>27</b>	<b>\$251,186,354</b>		
Closed	\$2,000 or less	38,633		16,931,754	\$61	\$2,000
	Greater than \$2,000	12,654		342,698,523	\$2,001	\$61,595,071
	<b>Total</b>	<b>51,287</b>	<b>73</b>	<b>\$359,630,277</b>		
Total	\$2,000 or less	51,786		23,495,110	\$61	\$2,000
	Greater than \$2,000	18,671		587,321,521	\$2,001	\$61,595,071
	<b>Total</b>	<b>70,457</b>	<b>100</b>	<b>\$610,816,631</b>		

<sup>19</sup> SSA, POMS, SI 04070.010 F.4 (September 9, 2011).

As previously discussed, SSA develops the IRS alerts as a limited issue or a full redetermination. We found that 2,040 of the cases had incomplete redeterminations. As shown in Table 6, SSA systems coded 1,401 cases with an IRS alert as a Profile C HEP redetermination, which represents cases with the highest risk of likely overpayments. In our report on *Supplemental Security Income High-error Profile Redeterminations*, we noted that SSA over-selected Profile C redeterminations and therefore did not expect to complete all of them.<sup>20</sup> We found that in 2011, the Agency selected about 1.6 million Profile C HEP redeterminations but completed approximately 1.4 million. We estimated that had SSA completed the remaining 201,000 Profile C HEP redeterminations, it could have identified about \$228.5 million in additional improper payments, both over- and underpayments. We recommended that SSA continue increasing the number of Profile C redeterminations completed each year as resources allow.

**Table 6: High Profile Redeterminations**

HEP Redetermination Codes	Number of Cases
1	1
C	1,401
E	4
M	14
S	1
<b>Total</b>	<b>1,421</b>

## CONCLUSIONS

SSA is missing opportunities to identify and collect overpayments from SSI recipients who have significant income and resources. We estimate SSA overpaid about \$12 million in benefits to 1,014 SSI recipients for whom the IRS reported \$100,000 or more in income and resources for TY 2010. This occurred because the IRS codes SSA systems assigned to these cases did not alert field office staff that the recipients had significant income and resources that made them ineligible for SSI payments. Although we did not review any other TYs, we expect that similar results would occur if we reviewed alerts from other TYs. SSA designed its alert process and implemented the statistical profiling module in 1996 to minimize the burden on field office staff and SSI recipients in not spending time and effort developing unproductive alerts. However, based on our audit results, we believe the Agency needs to review its criteria to ensure it develops those cases that are most likely to result in overpayments.

SSA did not always develop IRS alerts timely to recover potential overpayments. Our review showed that 27 percent of the IRS alerts identified in December 2011 was still pending as of April 2013. We found that SSA had coded 1,401 of these pending cases as Profile C HEP redeterminations, which indicated the cases were most likely to result in overpayments. Because

<sup>20</sup> SSA OIG, *Supplemental Security Income High-error Profile Redeterminations* (A-07-12-11263).

of limited resources, SSA stated it was not always able to complete these cases, even those coded as Profile C redeterminations. We made recommendations related to SSA's profiling system for redeterminations in a prior report.

## **RECOMMENDATIONS**

We recommend that SSA:

1. Review the 20 sample cases we determined had overpayments and the remaining 2,485 cases from the sample population to ensure benefits are appropriately adjusted.
2. Based on the results from the review of the TY 2010 cases, assess whether the IRS data for TYs 2011 and 2012 should be developed for those cases where there is significant income and resources reported.
3. Review its existing statistical profiling model to determine whether cases with significant income and resources are more likely to lead to an overpayment and should be sent to a field office for development.
4. Revise the profiling criteria for SSI couples with income above the tolerance to allow these cases to be included as part of the profiling model to determine the probability of an overpayment.

## **AGENCY COMMENTS**

The Agency agreed with our recommendations. See Appendix D for the full text of SSA's comments.

# *APPENDICES*

## Appendix A – SCOPE AND METHODOLOGY

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To accomplish our objective, we:

- Reviewed applicable Federal laws and sections of the *Social Security Act* and the Social Security Administration’s (SSA) regulations, policies, and procedures.
- Reviewed applicable Program Operations Manual System policies and operating instructions relevant to our audit.
- Reviewed Office of the Inspector General reports, Government Accountability Office reports, and other relevant documents.
- Reviewed the SSA Final Interim Report – *Supplemental Security Income Record (SSR) Maintenance System, Internal Revenue Service (IRS) 1099 Wage Model*, and other SSA internal reports.
- Reviewed SSA’s Office of Earnings, Enumeration and Administrative Systems Division of Technology Services and Exchanges, *Functional Requirement for Tax Year (TY) 2005 Supplemental Security Income (SSI) IRS 1099 Interface*, and the Office of Quality Performance’s (OQP) *Supplemental Security Income Redeterminations Change Rate Study for Fiscal Years 2010 through 2012* to obtain information on redeterminations and limited issues data.
- Interviewed individuals from SSA’s OQP and Office of Systems to obtain information about SSA’s statistical model and processes for profiling and selecting IRS alert case codes.
- Obtained and reviewed TY 2010 IRS data and found that 684,946 recipients had received approximately \$3.4 billion in income and resources. Further, 2,535 of these recipients had received \$100,000 or more in income and resources, totaling \$2.6 billion.
  - Randomly sampled 50 cases from the population of 2,535 recipients who received \$100,000 or more in income and/or resources, totaling about \$13.7 million. The IRS reported that the recipients received income and resources ranging from \$100,022 to approximately \$1.3 million.
- Computed overpayments based on the available information in SSA’s records and LexisNexis. We obtained and reviewed various SSA internal systems, such as the Numident record, to verify the recipient’s first and last name as well as date of birth; SSR and Master Beneficiary Record to verify benefit and income/resource information; Modernized Supplemental Security Income Claims System, SSI Diary Workload Control Application Online Retrieval System, and the Claims File Records Management System to review documentation and correspondence sent to recipients.

We conducted this audit at the Philadelphia Audit Division, Philadelphia, Pennsylvania, from April through June 2013. We tested the data obtained for our audit and determined they were

sufficiently reliable to meet our objective. The entities audited were the Offices of Quality Performance, Systems, and Operations. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Appendix B – SAMPLE RESULTS

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To conduct this review, in December 2011, we obtained Tax Year (TY) 2010 Internal Revenue Service (IRS) data, which showed that approximately 685,000 Supplemental Security Income (SSI) recipients had received about \$3.4 billion in income and resources. We determined that 2,535 of these recipients received \$100,000 or more in income and resources. We used \$100,000 as a cut-off because this amount seemed excessive for recipients who were receiving SSI payments. Substantial income and resources could result in termination of a recipient's eligibility for benefits.

Using the population of 2,535 recipients with \$100,000 or more in income and resources reported by the IRS, we randomly selected 50 recipients with about \$13.7 million in reported income and resources. Of the 50 sample cases reviewed, we identified 20 recipients who were overpaid \$237,125.

**Table B–1: Population and Sample Size**

Description	Number of Beneficiaries
Population Size	2,535
Sample Size	50

**Table B–2: Number of Overpayments Office of the Inspector General Identified**

Description	Number of Beneficiaries
Sample Results	20
Point Estimate	1,014
Projection - Lower Limit	721
Projection - Upper Limit	1,330

**Table B–3: SSI Projected Overpayments**

Description	Improper Payments from Alerts
Sample Results - Dollars Improperly Paid	\$237,125
Point Estimate - Dollars Improperly Paid	\$12,022,216
Projection - Lower Limit	\$7,506,882
Projection - Upper Limit	\$16,537,549

Note: All statistical projections are at 90-percent confidence level.

## **Appendix C – INTERNAL REVENUE SERVICE CASE CODES**

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Through the Supplemental Security Income/Internal Revenue Service (IRS) interface, the IRS provides the Social Security Administration (SSA) with unearned income data from its records. SSA processes these data and determines whether the dollar amount the IRS reported exceeds certain tolerances. SSA assigns an IRS code for those cases that meet, exceed, or fall below the tolerances. The system generates an alert and posts it to the Supplemental Security Record for cases where the income and/or resource exceed the tolerances SSA sets.<sup>1</sup> Table C–1 summarizes the IRS codes assigned for Tax Year 2010 IRS data.

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<sup>1</sup> SSA, POMS, SM 02002.430 (March 9, 2010).

**Table C-1: Tax Year 2010 IRS Alert Codes**

IRS Code	IRS Code Description	Alert Generated	Total Recipients	Total Income Amount	Total Resource Amount	Total Income and Resource Amount	Lowest	Highest
K	Income below	No	72,892	\$20,207,235		\$20,207,235	\$1	\$1,000
L	Resource below	No	260,390	84,346	\$7,054,083	7,138,429	\$1	\$380,008
M	Income and resource below	No	11,241	1,733,019	284,235	2,017,254	\$2	\$1,059
R	Couple case income exceeds; no resource	No	21,463	74,785,244		74,785,244	\$1	\$781,000
S	Income & resource exceed; scored to low	No	203,614	307,950,769	2,409,327,505	2,717,278,274	\$61	\$1,456,183,468
T	Couple case resource below; no income	No	42,103		1,433,122	1,433,122	\$1	\$100
X	Couple case resource below; income present	No	2,786	8,484,430	102,612	8,587,042	\$2	\$450,012
B	Income exceeds	Yes	14,825	86,321,054		86,321,054	\$1,001	\$300,000
C	Resource exceeds	Yes	37,410		146,777,681	146,777,681	\$61	\$6,118,041
D	Income and resource exceed	Yes	1,677	12,833,089	51,262,544	64,095,633	\$1,079	\$2,380,390
F	Income exceeds; resource below	Yes	1,297	7,614,320	31,189	7,645,509	\$1,021	\$176,234
G	Resource exceeds; income below	Yes	5,101	654,750	53,721,268	54,376,018	\$63	\$6,276,299
W	Couple case resource exceeds; no income	Yes	8,294		172,127,900	172,127,900	\$101	\$61,595,071
Y	Couple case resource exceeds; income present	Yes	1,853	4,584,844	74,887,992	79,472,836	\$104	\$32,085,984
	<b>Total</b>		<b>684,946</b>	<b>\$525,253,100</b>	<b>\$2,917,010,131</b>	<b>\$3,442,263,231</b>		

## Appendix D – AGENCY COMMENTS

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## SOCIAL SECURITY

### MEMORANDUM

Date: December 2, 2013 Refer To: S1J-3

To: Patrick P. O’Carroll, Jr.  
Inspector General

From: Katherine Thornton /s/  
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Processing Internal Revenue Service Alerts for Supplemental Security Income Recipients” (A-03-13-13106)--INFORMATION

Thank you for the opportunity to comment on your revisions to recommendation two. Please see our attached comments. We agree with the revised recommendation.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,  
"REVIEW OF PROCESSING INTERNAL REVENUE SERVICE ALERTS FOR  
SUPPLEMENTAL SECURITY INCOME RECIPIENTS" (A-03-13-13106)**

**Recommendation 1**

Review the 20 sample cases we determined had overpayments and the remaining 2,485 cases from the sample population to ensure benefits are appropriately adjusted.

**Response**

We agree. We plan to review the 20 cases OIG determined have overpayments by the end of calendar year 2013. Based on the results of our review, we will determine if it is beneficial to review the additional 2,485 cases.

**Recommendation 2**

Based on the results from the review of the tax year (TY) 2010 cases, assess whether the IRS data for TY 2011 and 2012 should be developed for those cases where there is significant income and resources reported.

**Response**

We agree. Once we complete the TY 2010 case review, we will determine if we should perform a review of the data for TY 2011 and 2012, and take action.

**Recommendation 3**

Review its existing statistical profiling model to determine whether cases with significant income and resources are more likely to lead to an overpayment and should be sent to a field office for development.

**Response**

We agree. By September 30, 2014, we plan to complete our review of the existing statistical profiling model to determine whether we can refine our model to: 1) help identify cases with significant income and resources, and 2) determine if these cases are more likely to incur an overpayment. We will send potential overpayment cases to our field offices for development.

**Recommendation 4**

Revise the profiling criteria for SSI couples with income above the tolerance to allow these cases to be included as part of the profiling model to determine the probability of an overpayment.

## **Response**

We agree. In fiscal year 2014, we plan to evaluate the profiling criteria for Supplemental Security Income couples with income above the tolerance to determine whether we should include these cases as part of the profiling model to determine the probability of an overpayment. We will revise the profiling criteria, if necessary.

## Appendix E – MAJOR CONTRIBUTORS

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