OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Evaluation Report

The Social Security Administration's Compliance with the *Improper Payments Elimination and Recovery Act of 2010* in the Fiscal Year 2013 Agency Financial Report

A-15-14-14074 | April 2014

OIG Office *of the* Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: April 14, 2014 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Compliance with *the Improper Payments Elimination and Recovery Act of 2010* in the Fiscal Year 2013 Agency Financial Report (A-15-14-14074)

The attached final report presents the results of our review. Our objectives were to review the Improper Payments Information section in the Fiscal Year 2013 Agency Financial Report and determine whether the Social Security Administration met all requirements of the *Improper Payments Elimination and Recovery Act of 2010*. In addition, we evaluated the Agency's (1) accuracy and completeness of reporting and (2) performance in reducing and recapturing improper payments.

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

The Social Security Administration's Compliance with the *Improper Payments Elimination and Recovery Act of 2010* in the Fiscal Year 2013 Agency Financial Report
A-15-14-14074

SOCIAL SECURITY ADMINISTRATION OIG

April 2014 **Office of Audit Report Summary**

Objective

To review the Improper Payments Information section in the Fiscal Year (FY) 2013 Agency Financial Report (AFR) and determine whether the Social Security Administration (SSA) met all requirements of the *Improper Payments Elimination and Recovery Act of 2010* (IPERA). In addition, we evaluated the Agency's (1) accuracy and completeness of reporting and (2) performance in reducing and recapturing improper payments.

Background

On July 22, 2010, the President signed IPERA into law. IPERA amended the *Improper Payments Information Act of 2002* (IPIA) to prevent the loss of billions in taxpayer dollars. In April 2011, the Office of Management and Budget (OMB) issued Government-wide guidance on the implementation of IPIA, as amended by IPERA.

Our Findings

We found that the Agency complied with all of IPIA's reporting requirements; however, it did not meet the OMB-established reduction targets required by IPIA. The Agency accurately reported improper payment information and produced a substantially complete report. Because of system limitations, SSA could not provide documentation to support the results of one of the corrective actions for the OASDI program. The Agency also did not timely provide documentation to support one of the leading causes of improper administrative payments.

We also noted that for both financial accounts and wages, actual deficiency dollars had increased despite the implementation of the Access to Financial Institutions and Supplemental Security Income Telephone Wage Reporting programs.

Our Recommendation

Based on our review, we recommend that, in accordance with OMB guidance, SSA should annually review its existing corrective actions to determine whether any action can be intensified or expanded, resulting in a high-impact, high return on investment in terms of reduced or prevented improper payments.

SSA agreed with the recommendation.

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ABBREVIATIONS

AFI	Access to Financial Institutions
AFR	Agency Financial Report
FY	Fiscal Year
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPIA	*Improper Payments Information Act of 2002*
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSI	Supplemental Security Income
SSITWR	Supplemental Security Income Telephone Wage Reporting
U.S.C.	United States Code

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Background

On July 22, 2010, the President signed IPERA[1] into law. IPERA amended the *Improper Payments Information Act of 2002* (IPIA)[2] to prevent the loss of billions in taxpayer dollars. In April 2011, the Office of Management and Budget (OMB) issued Government-wide guidance on the implementation of IPIA, [3] as amended by IPERA.[4]

Under IPIA, the head of each agency shall periodically review and identify all programs and activities it administers that may be susceptible to significant improper payments based on guidance provided by the Director of OMB.[5] IPIA generally defines significant improper payments as $10 million of all program or activity payments made during the FY reported and 2.5 percent of program outlays or $100 million.[6] For each program and activity identified, the agency is required to produce a statistically valid estimate, or estimate methodology approved by OMB, of the improper payments and include those estimates in the accompanying materials to the agency's annual financial statements.[7]

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[1] Pub. L. No. 111-204, 124 Stat. 2224 (2010).

[2] Pub. L. No. 107-300, 116 Stat. 2350 (2002).

[3] Unless otherwise indicated, the term "IPIA" will imply "IPIA, as amended by IPERA." Even though IPERA amends IPIA, the authorizing legislation is still named IPIA. We reviewed the requirements as amended by IPERA.

[4] OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, Parts I and II, April 2011.

[5] Pub. L. No. 111-204 § 2(a)(1), 124 Stat. 2224 (2010).

[6] Pub. L. No. 111-204 § 2(a)(3), 124 Stat. 2224-2225 (2010). However, for FYs beginning before FY 2013, IPIA defines significant improper payments as $10 million of all program or activity payments made during the FY reported and 1.5 percent of program outlays, or $100 million.

[7] Pub. L. No. 111-204 § 2(b), 124 Stat. 2224, 2225 (2010).

The agency is required to prepare a report on actions it has taken to reduce improper payments for programs or activities with estimated improper payments.[8] The report must, among other things, (1) describe the causes of improper payments, actions planned or taken to correct those causes, and the planned or actual completion date of the actions taken to address those causes and (2) contain program- and activity-specific targets for reducing improper payments the Director of OMB has approved.[9]

The agency is required to report on all actions it has taken to recover improper payments identified in recovery audits required by IPIA,[10] including

- a discussion of the methods used to recover overpayments;
- the amounts recovered, outstanding, and determined uncollectable, including the percent of the agency's total overpayments these amounts represent;
- a justification for determining overpayments are not collectable;
- an aging schedule of the outstanding amounts;
- a summary of how recovered amounts are disposed of; and
- a discussion of any conditions giving rise to improper payments and how those conditions are being resolved.[11]

The agency is also required to provide a justification if it determined that performing recovery audits for any program or activity was not cost-effective.[12]

Responsibilities of the Agencies' Inspectors General

OMB guidance specifies that each agency's Inspector General should review improper payment reporting in the agency's annual Performance and Accountability Report (PAR) or AFR and accompanying materials to determine whether it complied with IPIA.

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[8] Pub. L. No 111-204 § 2(c), 124 Stat. 2224, 2225-2226 (2010).

[9] Pub. L. No. 111-204 §§ 2(c)(1) and (4), 124 Stat. 2224, 2225-2226 (2010).

[10] IPIA generally requires that such audits be conducted, unless prohibited by law, for each program and activity of the agency that expends $1 million or more annually if conducting such audits would be cost-effective. Pub. L. No. 111-204 § 2(h), 124 Stat. 2224, 2228-2229 (2010).

[11] Pub. L. No. 111-204 § 2(d), 124 Stat. 2224, 2226 (2010).

[12] Pub. L. No. 111-204 § 2(d)(7), 124 Stat. 2224, 2227 (2010).

According to OMB guidance, compliance with IPIA means the agency has

- published and posted a PAR or AFR and any accompanying OMB-required materials for the most recent FY on the agency's Website;
- conducted a specific risk assessment for each program or activity that conformed with section 3321 of Title 31 U.S.C. (if required);
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- published programmatic corrective action plans in the PAR or AFR (if required);
- published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR; and
- reported information on its efforts to recapture improper payments.[13]

If an agency does not meet one or more of these requirements, it is not compliant with IPIA. The agency's Inspector General should also evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.[14] See Appendix A for our scope and methodology.

RESULTS OF REVIEW

Our review determined that SSA (1) complied with the IPIA reporting requirements; however, it did not meet the OMB-established reduction targets required by IPIA (2) accurately reported most improper payment information but could not provide all supporting documentation, and (3) produced a substantially complete report.

Compliance with IPIA

Although the Agency met all of IPIA's reporting requirements, it did not meet its annual reduction targets. As such, we concluded that SSA did not fully comply with IPIA. We reviewed the Improper Payments Information section of the FY 2013 AFR[15] and determined that

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[13] OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, Part II, *Compliance with the Improper Payment Requirements*, § (A)(4), April 2011. As previously noted, IPERA has amended IPIA.

[14] Id.

[15] SSA's FY 2013 Agency Financial Report, *Improper Payments Information Detailed Report*, pgs. 140-174.

SSA reported all required information. However, OMB guidance states that compliance with IPIA means the agency has to publish and meet the annual reduction targets for each program assessed to be at risk and measured for improper payments.[16]

As noted in our review of SSA's March 2013 Annual Accountable Official's Report[17] issued in September 2013,[18] SSA did not meet all of the reduction targets approved by OMB for FYs 2010 and 2011. As reported in the FY 2013 AFR, the Agency did not meet the reduction targets for Old-Age, Survivors and Disability Insurance (OASDI) overpayments and Supplemental Security Income (SSI) over- and underpayments for FY 2012. In response to our September 2013 report, the Agency stated,

> For [FY] 2011, for us to make any further improvements upon our 99.7 percent overpayment accuracy rate, it requires an investment of about $717 million for each tenth of a percentage point in [OASDI] program outlays. For the SSI program, each tenth of a percentage point requires prevention of about $52 million in further improvements in payment accuracy. Given our limited resources, we must balance program integrity work with other agency priorities.

As funding allows, the Agency should continue focusing resources on corrective actions that will help meet the OMB-approved reduction targets.

Accuracy and Completeness of IPIA Reporting

We requested supporting documentation for all figures to evaluate the accuracy of the IPIA Report in the FY 2013 AFR. SSA provided supporting documentation for most of the figures in the Report. Because of database limitations, the Agency could not provide documentation to support the results of one of the corrective actions for the OASDI program. The system contains only point-in-time data and therefore could not recreate a report to support the actual number of referred veteran pension cases reported in the AFR. The Agency also could not timely provide documentation to support one of the leading causes of improper administrative payments reported relating to time and attendance records. Each year, as the Agency is constructing this report, it should retain all supporting documentation to assist with future reviews.

[16] OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, Part II, § (A)(4), *Compliance with the Improper Payment Requirements*, April 2011.

[17] SSA, *Accountable Official's Annual Report Executive Order 13520, Reducing Improper Payments*, March 2013.

[18] SSA OIG, *The Social Security Administration's Plan to Reduce Improper Payments Under Executive Order 13520, as Reported in March 2013* (A-15-13-13105), September 2013.

Performance in Reducing and Recapturing Improper Payments

We believe the Agency's corrective action plans were focused on the appropriate root causes and recapturing improper payments. When evaluating SSA's performance in reducing and recapturing improper payments, we reviewed our prior audit reports and corresponding recommendations. We also reviewed the change in deficiency dollars the Agency reported in the IPIA section of the AFR in relation to corrective actions that have been implemented.

Agency Performance

SSA identified the major causes of OASDI and SSI improper payments in its IPIA reporting. For each major cause, the Agency developed corrective action plans. To address one major cause of SSI overpayments, financial accounts, the Agency implemented its Access to Financial Institutions (AFI) plan, which the Agency expanded nationwide in June 2011. With its completion in October 2013, SSA began using AFI in more SSI applications and redeterminations to verify financial accounts. Despite the implementation of this project, the amount of overpayment deficiency dollars[19] related to financial accounts had steadily increased over the past few FYs. According to support provided by the Agency, deficiency dollars related to financial accounts was approximately $858 million in FY 2010 and increased to $870 million in FY 2011 and $918 million in FY 2012. In response to last year's review, the Agency stated that deficiency dollars related to financial accounts had not seen a decline because ". . . AFI was not rolled out nationally until June 2011. In other words, AFI was only in effect nationally for the last quarter of FY 2011." We inquired again with the Agency about why there had not been a decline in deficiency dollars since the program had been in place for over 1 year. The Agency responded as follows.

> Even though AFI was rolled out nationally in June 2011, the full effects will not be felt until all SSI cases in payment status as of June 2011 are redetermined. Many of these cases have not been redetermined since that date and, therefore, have not been subject to AFI verification standards.
>
> In addition, while AFI may have been rolled out geographically in June 2011, its effect was limited by two key decisions: the number of undisclosed bank account searches was not increased and the liquid resource tolerance not reduced until October 2013. Effective that month, the number of undisclosed bank account searches was increased from five to ten, and the liquid tolerance[20] reduced from $750 to $400. The positive effects of these changes should be realized in FY 2014 and later.

As financial accounts are the leading cause of SSI deficiency dollar overpayments, the Agency should ensure it continues monitoring the AFI program to ensure a positive return on investment

[19] Some cases had more than one "error" causing an incorrect payment. Each of these "errors" was referred to as a deficiency.

[20] To determine the liquid tolerance, the value of all liquid resources has to be verified. A liquid resource is any resource in the form of cash or in any form that can be converted to cash within 20 workdays.

and research other initiatives to reduce the amount of overpayments due to undisclosed financial accounts.

Another major cause of improper payments for the SSI program is wages. According to the AFR, for more than a decade, wage discrepancies have been one of the leading causes of over- and underpayment errors. Wage discrepancies occur when the recipient has actual wages that differ from the wage amount used to calculate the SSI payment. To address this issue, the Agency implemented the SSI Telephone Wage Reporting System (SSITWR) in FY 2008. SSITWR allows recipients, representative payees, and deemors to report prior monthly gross wages via an automated telephone system. Although the 5-year rolling average of overpayment deficiency dollars related to wages decreased from $671 million in FY 2011 to $642 million in FY 2012, the actual amount of deficiency dollars increased over $69 million (12 percent) from FYs 2011 to 2012. The Agency conducted an accuracy review of the program and noted that the accuracy of the wages reported using SSITWR was above 90 percent; however, if working recipients and deemors used the program more frequently, it would be more effective. The Agency should continue identifying corrective actions for this area as a result of the limited effect SSITWR has had on wage deficiency dollars to date.

OIG Audits

In addition to reviewing the corrective actions reported by the Agency, we conduct audits in various areas, including audits that focus on reducing improper payments. From April through September 2013, we issued 39 reports that identified over $146 million in questioned costs and over $605 million in Federal funds that could be put to better use. A number of these reports focused on the SSA management challenge to reduce improper payments.

See Appendix B for our audits specifically focused on reducing SSA's improper payments and increasing overpayment recoveries, issued from May 2013 through January 2014.

In addition to the audits noted above, we issued a report on SSITWR in February 2014.[21] We found that SSITWR effectively received and processed wages reported via the telephone, and SSA accurately posted those wages to the Supplemental Security Record and Modernized Supplemental Security Income Claims System. However, we identified duplicate transactions in the SSITWR reporting system that may slightly overstate SSITWR's overall success. Information was not available to correlate the changes in improper payments with the implementation of this program.

Our Boston Audit Division is also evaluating the AFI program. The audit is in the fieldwork stage, and the division expects to issue a report by the end of Calendar Year 2014.

[21] SSA OIG, *Supplemental Security Income Telephone Wage Reporting* (A-15-12-11233), February 2014.

CONCLUSIONS

We found that the Agency complied with all of IPIA's reporting requirements; however, it did not meet the OMB-established reduction targets as required by IPIA. The Agency accurately reported improper payment information and produced a substantially complete report. However, because of system limitations, SSA was unable to provide documentation to support the results of one of the corrective actions for the OASDI program. The Agency also did not provide documentation to support one of the leading causes of improper administrative payments reported related to time and attendance records.

As part of evaluating the Agency's performance in reducing and recapturing improper payments, we analyzed the average and actual deficiency dollars reported for areas where SSA has implemented corrective actions. We noted that for both financial accounts and wages, actual deficiency dollars have increased despite the implementation of the AFI and SSITWR programs. As these two areas are the leading causes of SSI improper payments, the Agency should ensure it continues monitoring the progress of the programs and ensure a positive return on investment. The Agency should also continue researching other initiatives that will help the Agency meet the established reduction targets in improper payments for the OASDI and SSI programs.

RECOMMENDATION

Based on our review, we recommend that, in accordance with OMB guidance, SSA should annually review its existing corrective actions to determine whether any action can be intensified or expanded, resulting in a high-impact, high return on investment in terms of reduced or prevented improper payments.

AGENCY COMMENT

SSA agreed with the recommendation.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

To accomplish our objectives, we:

- Reviewed the Management's Discussion and Analysis and Improper Payments Information Detailed Report in the Social Security Administration's (SSA) Fiscal Year 2013 Agency Financial Report (AFR) to ensure compliance with all requirements of the *Improper Payments Information Act of 2002*, as amended by the *Improper Payments Elimination and Recovery Act of 2010*.

- Reviewed applicable Federal laws and regulations, Office of Management and Budget guidance, and SSA Program Operations Manual System policy.

- Requested source data from the Office of Financial Policy and Operations to support the figures in the AFR.

- Analyzed the source data to ensure accuracy and completeness of all figures.

We determined the computerized data used during our review were sufficiently reliable given our objective, and the intended use of the data should not lead to incorrect or unintentional conclusions.

We conducted our review from December 2013 through February 2014 in Baltimore, Maryland. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation.*

Appendix B – Reports on Reducing the Social Security Administration's Improper Payments and Increasing Overpayment Recoveries

1. *Improper Payments Resulting from Unresolved Delayed Claimants* (A-09-12-22100), February 2014.

2. *Supplemental Security Income Telephone Wage Reporting* (A-15-12-11233), February 2014.

3. *Concurrent Beneficiaries Improperly Receiving Payments in Excess of Federal Limits* (A-06-12-22131), January 2014.

4. *The Social Security Administration's Reporting of High-Dollar Overpayments Under Executive Order 13520 in Fiscal Year 2013* (A-15-13-13115), December 2013.

5. *Special Disability Workload Payments Made to Incarcerated Beneficiaries* (A-13-11-21188), October 2013.

6. *Social Security Administration's Plan to Reduce Improper Payments Under Executive Order 13520, As Reported in March 2013* (A-15-13-13105), September 2013.

7. *Supplemental Security Income High-Error Profile Redeterminations* (A-07-12-11263), September 2013.

8. *Using Bank Data to Identify Supplemental Security Income Recipients with Potential Overpayments* (A-01-12-11223), September 2013.

9. *Payments Resulting from Disability Insurance Actions Processed via Manual Adjustment, Credit and Award Processes* (A-04-11-01114), June 2013.

10. *Payments to Individuals whose Numident Record Contained a Death Entry* (A-06-12-11291), June 2013.

11. *Timeliness and Accuracy of Death Reporting for Individuals Killed During the September 11, 2001 Terrorist Attacks* (A-06-12-21221), May 2013.

12. *Adjustment of Disabled Wage Earners' Benefits at Full Retirement Age* (A-09-12-11264), May 2013.

The list of reports above is not a complete list of our audit work in the management challenge "Reduce Improper Payments and Increase Overpayment Recoveries." A complete list of our audit reports can be found at http://oig.ssa.gov/audits-and-investigations/audit-reports/all.

Appendix C – MAJOR CONTRIBUTORS

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