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Subcommittee on Social Security

**SOCIAL SECURITY
ADMINISTRATION**

OIG

Statement for the Record

Challenges Facing the Next Commissioner of Social Security

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Good morning, Chairman Johnson, Ranking Member Becerra, and members of the Subcommittee. It is a pleasure to appear before you, and I thank you for the invitation to testify today. I have appeared before your Subcommittee many times to discuss issues critical to the Social Security Administration (SSA) and the services the Agency provides. Today, we are discussing the various challenges facing the next Commissioner of Social Security.

Certainly, it is a critical time for SSA to evaluate the state of its programs and operations and to plan for the future. The Agency paid more than \$800 billion in Old-Age, Survivors' and Disability Insurance (OASDI) benefits and Supplemental Security Income (SSI) to more than 60 million Americans in Fiscal Year (FY) 2012; a significant number of citizens are applying for and collecting Social Security retirement and disability payments each year. As technology advances, SSA's customers expect it to provide service as quickly and accurately as does the private sector. To effectively serve a growing customer base, the Agency must continue to modernize and streamline its operations. It must also accomplish this with limited resources at a time when national attention is focused on reducing government spending and ensuring the long-term solvency of entitlement programs.

SSA has been a model for government customer service for more than 75 years, but to continue that long record of success, we in the Office of the Inspector General (OIG) believe the next Commissioner of Social Security should focus his or her efforts on these three critical areas:

- Strengthen Information Technology (IT) and Strategic Planning
- Improve the Disability Programs
- Focus on Program Integrity

Information Technology and Strategic Planning

SSA estimates that over the next 20 years, 80 million individuals, most from the baby boom generation, will retire and file for Social Security benefits. This population will expect the Agency to provide most of its services electronically. As a result of both this increasing workload and customer expectations, SSA will have to improve its IT infrastructure to take advantage of technological advances and manage increasing workloads with level or even decreased staffing.

SSA customers can currently perform many Agency-related actions online, such as apply for retirement or disability benefits; the Agency expects to receive about 48 percent of benefit applications online by the end of FY2013. Also, last year, SSA launched the *my Social Security* Web portal so people can access their Social Security Statement and perform other actions online, like change address information or start or change direct deposit information. The Agency has also increased efforts in recent years to connect with citizens through social media channels like Twitter and Facebook.

However, we believe the Agency should additionally

- develop a long-term plan for its electronic services that is closely aligned with and builds upon SSA's larger IT vision and customer service delivery goals;
- develop metrics to measure customer satisfaction for key electronic applications; and

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- continue to implement more innovative ways to interact and communicate with its customers.

In a July 2011 Congressional Response Report, *The Social Security Administration's Customer Service Delivery Plan*, we encouraged SSA to develop and regularly update a comprehensive blueprint that addresses the challenges of meeting service demands not just three, five, or even 10, but 20 years into the future. The Agency's strategic plan should also include a detailed roadmap with specific performance measures to expand SSA electronic and mobile capabilities.

As SSA considers its long-term strategic IT and customer service plans, the Agency should closely monitor the construction of its new data storage center, the National Support Center (NSC), in Urbana, Maryland. The NSC will replace SSA's National Computer Center (the NCC was constructed in 1979), and construction should be complete by Fall 2014. A timely and efficient transition from the NCC to the NSC is necessary to avoid the risk of an extended outage that could affect SSA's ability to deliver services and make payments as scheduled.

Last year, Grant Thornton, an independent certified public accounting firm, audited SSA's FY2012 financial statements and identified a material weakness in SSA's controls over information security, which had been reported as a significant deficiency the prior 2 years; and a significant deficiency in SSA's benefit payment oversight. SSA must promptly address these issues.

To address the information security weakness, Grant Thornton recommended that SSA

- implement monitoring controls to identify non-compliant network configurations that could put SSA's systems at risk;
- develop comprehensive security vulnerability testing; and
- implement additional controls to prevent unauthorized programmers from accessing SSA's production environment.

To address the payment oversight deficiency, Grant Thornton recommended that SSA

- enforce continuing disability review (CDR) documentation procedures at Disability Determination Services (DDS);
- ensure SSA staff completes quality assurance reviews timely and correctly; and
- ensure that staff documents overpayments timely and accurately.

Further, SSA has used the mainframe-based Cost Analysis System (CAS) to analyze workload data and allocate administrative costs to the Agency's programs for about 35 years. CAS has been modified several times to enhance its functionality, but in April 2011, Grant Thornton concluded that

- the Agency's cost allocation methodology had not been updated to account for changes in business processes, system technology, or Federal accounting standards;
- all workload complexities could not be accounted for in the current methodology; and
- continuity of operations could be at risk because of outdated or unclear CAS documentation and insufficient workforce planning.

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Grant Thornton has recommended that SSA review and update the CAS methodology as needed, to reflect current regulations, Federal accounting standards, and current SSA business processes and systems technology; review the methodology annually; and use actual operating expenses to allocate costs to program activities. We are aware that SSA is taking steps to address Grant Thornton's findings, but we will continue to monitor and assess the Agency's progress as we move into the next financial statement audit cycle.

SSA's Disability Programs

In addition to the \$51 billion in SSI payments made in FY2012, the Agency paid more than \$135 billion in Disability Insurance (DI) benefits, both record amounts. Also, in FY2012, SSA received about 3.2 million initial disability claims and more than 832,000 reconsideration claims.

At the end of March 2013, the Agency's level of pending initial claims stood at about 709,000. The Agency had been working toward a goal of reducing that to 525,000 by the beginning of FY2014, but SSA now says it will not reach that goal and has not been able to update its estimate due to recent budget uncertainty.

DDS staffing and resources have a direct effect on SSA's ability to process the disability workload and reduce the initial claims pending backlog. DDSs are currently facing high attrition rates, hiring freezes, and even furloughs. SSA only made "limited critical hires" in FY2012, so the Agency lost about 1,000 DDS employees. SSA has tried to offset staffing shortages by creating centralized Extended Service Teams (ESTs) to help the states with the highest pending levels process claims. These ESTs are located in Arkansas, Mississippi, Oklahoma, and Virginia, which are states with a history of high quality and productivity, and the ability to train people quickly. SSA also increased staffing in the Federal disability processing components that support the DDSs.

Even during times of budget uncertainty, SSA and DDS staff must handle increasing service requests while balancing stewardship reviews to ensure beneficiaries remain eligible for payments. We believe reducing the complexity of SSA's disability programs could streamline operations and reduce millions of dollars in payment errors each year. The OIG supports SSA's legislative proposal to establish the Work Incentive Simplification Pilot (WISP). WISP would test whether simplifying DI work provisions would reduce administrative complexity, enhance correlation of program rules among SSA's disability programs, and encourage DI beneficiaries to return to work because they would not face a permanent loss of benefits and Medicare. Our auditors are planning to review the pilot in FY2014.

On another note, we have long urged SSA to consider revising its policy on administrative finality so that more improper payments can be stopped. Administrative finality dictates that determinations of benefit eligibility and payment amounts become binding and final, unless they are timely appealed or later reopened and revised within certain periods. Consequently, if conditions to reopen a determination do not exist, or time limits expire, SSA generally will not revise the determination, and will not only *not* assess an overpayment, but will also continue to pay the erroneous amount throughout a beneficiary's lifetime. SSA does not consider

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these erroneous payments to be improper payments. SSA has agreed with multiple OIG recommendations with respect to administrative finality and has a draft policy change in process.

SSA is taking concrete actions, however, to improve the disability decision process. The Disability Claims Processing System (DCPS), a nationwide, state-of-the-art computer system, will integrate case-analysis tools and health IT, and is expected to decrease processing times and make determinations more consistent across the country. According to SSA, the Agency has started testing the system in Idaho, and three additional sites—Illinois, Missouri, and Nebraska—are scheduled for testing by the end of the calendar year.

Compassionate Allowances (CA) and Quick Disability Determinations (QDD) have helped SSA and disability examiners fast-track benefits to those who need them most urgently. The CA program expedites disability decisions so that people with the most serious disabilities receive a determination within days instead of months or years. SSA added 87 additional CA conditions in 2012, bringing the total to 200. QDD selects cases for quick adjudication that have a high degree of probability that the individual is disabled and for which evidence is likely readily available. We have recommended that SSA continue refining and enhancing its predictive model for the QDD program, to improve the timelines and quality of the disability process.

Along with managing the initial claims process, the Agency must address the timeliness and accuracy of disability decisions at the hearing level. In recent years, SSA has directed increased resources to improve hearing timeliness and process more hearings. Since FY2008, average processing time has dropped by about 31 percent—from an average of 514 days in FY2008 to 353 days at the end of FY2012. However, an increasing number of appeals has led to an increase in the hearings backlog, which as of September 2012, stood at approximately 817,000 cases—about 30,000 cases higher than at the beginning of FY2012.

Your Subcommittee in recent years asked my office to look at SSA's administrative law judge (ALJ) performance, focusing on outliers in terms of productivity and decisional outcomes, as well as assess the Agency's ability to review or take action with respect to ALJs with atypical allowance rates.

Last year, our auditors found that the average ALJ allowance rate in 2010 was 67 percent—but the rate ranged among ALJs from 8.6 percent to 99.7 percent. We concluded that SSA needs to monitor ALJ outliers—high and low—and review the underlying work processes currently in place. We also found that SSA does have the authority to review ALJ decisions, but it faces legal restrictions in doing so. Specifically, Federal law prohibits SSA from sampling ALJ decisions based on the identity of the decision-maker or the hearing office that issues the decision. This law is in place so that ALJs can decide cases impartially, free from agency influence. SSA can conduct reviews of specific ALJs, but these reviews usually seek to determine if the ALJ followed SSA policy. These reviews can lead to disciplinary actions against ALJs, but they usually do not lead to changing the ALJ's decision.

We note recent progress with respect to Agency monitoring of ALJ performance, as well as training and new tools to help hearing office employees understand workload trends. Nevertheless, going forward we would like to see SSA implement several of our

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recommendations related to ALJ and hearing office performance, in particular to 1) increase case rotation among ALJs; 2) modify regulations to allow for more video hearings; and 3) implement systems functionality to monitor ALJ and hearing office risk factors. We will continue to review ALJ-related issues and communicate our work to your Subcommittee.

Finally, we continue to advocate for expanding SSA and OIG's Cooperative Disability Investigations program (CDI) as it has proven to be a highly effective guard against disability fraud. The success of the CDI program rests in the cooperation between SSA, the OIG, State and local law enforcement agencies, and DDS employees who contribute programmatic expertise and also refer suspicious claims to CDI Units. In FY2012, the CDI program reported nearly \$340 million in projected savings to SSA's disability programs—the program's greatest single-year savings total—for a return on investment of \$17 to \$1. Since the program was established, CDI efforts have resulted in over \$2.2 billion in projected savings to SSA's disability programs.

Program Integrity

Given the overall dollars involved in SSA's programs, even the slightest error in any part of the payment process can result in significant overpayments or underpayments. In FY2012, SSA reported \$4.7 billion in improper payments in the SSI program (9.2 percent improper payment rate), and \$3.2 billion in the OASDI program (0.4 percent improper payment rate).

Improper benefit payments occur for many reasons—certainly fraud, but also poor understanding of reporting responsibilities or inability to report, administrative errors, and many other reasons—and they include underpayments as well as overpayments. However, SSA's improper payments largely consist of those erroneously made to ineligible individuals, commonly SSI recipients who do not report to SSA changes in income, resources, and/or living arrangements. For many years, my office has encouraged SSA to balance service initiatives, such as processing new claims, with stewardship responsibilities, such as conducting timely work and medical CDRs and SSI redeterminations, to ensure that individuals remain disabled and eligible, and cease payments to those who do not. For example, we would like to see SSA implement our recommendation from a 2009 report, *Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File*, to implement a plan to allocate more resources to perform work-related CDRs timely—and assess overpayments from work activity—for cases identified by SSA's earnings enforcement process.

SSA estimates that every \$1 spent on medical CDRs yields about \$9 in SSA program savings over 10 years. According to SSA, the Agency conducted 443,233 medical CDRs in FY2012, up from 345,000 in FY2011, but the CDR backlog still stands at 1.2 million. SSA's FY2013 goal for medical CDRs is 435,000 based on the current level of funding.

SSA employs a CDR profiling system that determines which CDRs are due annually and uses data from SSA's records to determine the likelihood of medical improvement for disabled beneficiaries. Those with a predicted high likelihood of medical improvement undergo a medical review at the DDS. Beneficiaries with a predicted medium or low likelihood of medical improvement are sent a mailer questionnaire. If the completed questionnaire indicates medical improvement, SSA will send the case to the DDS for a medical review. The profiling system

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prioritizes cases for CDRs, but the Agency then decides how many to conduct each year, based on a variety of factors.

I should note here that SSA and OMB do not consider *unavoidable* overpayments to be improper payments. Thus, payments that would not have been made if a medical CDR was conducted when due are *not counted* as improper payments by SSA. We, however, believe these payments do constitute improper payments and should be part of the discussion about SSA's payment accuracy, as funds could have been preserved by performing all identified medical CDRs.

Redeterminations are similarly effective in reducing overpayments in the SSI program. As SSI is a means-tested program, any change in recipients' income, living arrangements, or marital status, among other factors, can affect eligibility or payment amount. SSA has reported that it saves \$5 for every \$1 spent on redeterminations. SSA completed more than 2.4 million redeterminations in FY2011 and 2.6 million in FY2012, and plans to conduct more than 2.6 million in FY2013. Not every SSI recipient undergoes a redetermination every year; SSA uses a statistical scoring model to identify cases for redetermination that have a high likelihood of error. The statistical model uses income, resource, and living arrangement variables to predict likely SSI overpayments.

My office has encouraged SSA to use data matching with other governmental agencies to ensure program integrity and protect Agency funds. For example, we have suggested SSA seek pension data from State and local governments to ensure it properly reduces benefits for people who receive a pension based on government employment not covered by Social Security. We have similarly urged the Agency to seek agreements with States and the U.S. Department of Labor to obtain worker's compensation data so that SSA can properly offset payments to beneficiaries who may not self-report that information.

SSA should also utilize more non-governmental databases to improve the efficiency of resources committed to CDRs and redeterminations. SSA currently receives data from the IRS to verify income, and in recent years, the Agency implemented the Access to Financial Institutions (AFI) initiative, which allows it to check an applicant or recipient's bank accounts to verify resources. In 2011, SSA completed the AFI rollout to all 50 States, the District of Columbia, and the Commonwealth of the Northern Mariana Islands. Assuming that SSA had used its current account verification process on a long-term basis, the account verifications SSA expects to complete in FY2013 would yield an estimated \$365 million in lifetime Federal SSI program savings.

We encourage SSA to support any legislative proposals that would identify and prevent more improper payments in its programs. The OIG community is pursuing an exemption to the *Computer Matching and Privacy Protection Act of 1988* (CMPPA), which would exempt OIGs from a requirement for a formal computer matching agreement before they can match data with other entities to identify potential fraud and waste. This provision impedes OIG efforts to detect improper payments and identify weaknesses that make Federal programs vulnerable to fraud. In 2010, the Department of Health and Human Services (HHS) and its OIG obtained an exemption for data matches designed to identify fraud, waste, and abuse; and we believe SSA's OIG should be similarly exempt. We also continue to support legislation to establish a revolving fund for

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integrity activities, such as CDRs, to help ensure payment accuracy. The proposal would provide for indefinite appropriations to make available to SSA 25 percent, and to OIG 2.5 percent, of actual overpayments collected, for use solely on integrity activities that provide a continuous return on investment.

One final area of concern to the OIG is maintaining and improving the integrity of the Social Security number (SSN). We have long encouraged SSA to work cooperatively and proactively with other Federal agencies to ensure SSN integrity. For example, in an October 2012 report, *Accuracy of the Social Security Administration's Numident*, we recommended that SSA work with the Department of Homeland Security to enhance E-Verify by alerting employers when an employee claims an SSN that, according to SSA, belongs to an individual under or over a predetermined age. And just last week, we issued a report, *Access Controls for the Social Security Number Verification Service*, that found some employers had improperly used SSA's employer verification programs. We recommended that SSA modify the existing fraud detection tools or develop more useful fraud detection tools.

We are currently planning audit work that will assess the expanding role of SSA in verifying SSNs for immigration, work, and other purposes as well as the Agency's new responsibilities for SSN verification under the *Affordable Care Act*. SSA is tasked to have SSN verification routines working for the Centers for Medicare and Medicaid Services by September 2013. Moreover, any potential immigration reform legislation may have direct or indirect impacts on SSA workloads as well. We will continue to assess and provide feedback to SSA and this Subcommittee on these critical issues.

Conclusion

SSA employees provide world-class service every day to Americans who depend on that service. If SSA invests in information technology and focuses on program integrity, we believe it will be able to maintain that level of service while improving speed and accuracy and preserving taxpayer dollars.

I look forward to working constructively with the next Commissioner of Social Security and your Subcommittee to meet the challenges ahead. Thank you again for the invitation to testify, and I am happy to answer any questions.