

**U.S. House of Representatives
Committee on Ways and Means**

Statement for the Record

Waste, Fraud, and Abuse

**The Honorable James G. Huse, Jr.
Inspector General, Social Security Administration**

July 17, 2003

Good morning, Chairman Thomas, Ranking Member Rangel, and Members of the Committee on Ways and Means. Last week, I submitted testimony for the record to the House Committee on the Budget on our efforts to identify and prevent fraud, waste, and abuse in the programs that Social Security administers. Since these issues are at the core of our mission in the Office of the Inspector General (OIG), I welcome the opportunity to testify before you today.

I want to first reiterate what I told the Budget Committee last week: that the prevention of program fraud, waste, and abuse is more cost-effective and more meaningful because it occurs before benefits are ever paid. To that end, our office has focused not merely on identifying erroneous payments, but also preventing such payments from being issued in the first place. My office endeavors not only to deter and punish those who would defraud the Social Security Administration (SSA), but also to find those savings that may be realized through better management and less waste.

Today's hearing will give me the opportunity to discuss the fugitive felon, prisoner, and representative payee provisions in H.R. 743, as well as our efforts to improve SSA's payment accuracy and reduce improper payments in all of SSA's programs. It will also allow me to discuss how important it is that we all protect the integrity of the Social Security number (SSN).

First, we must recognize that the Agency has made progress in improving payment accuracy in recent years as demonstrated by the removal of the Supplemental Security Income (SSI) program from General Accounting Office's (GAO) high risk list this year, a place it held since 1997. SSA has undertaken many projects to identify how it could do more to reduce improper payments and/or to recover amounts overpaid due to fraud, waste and abuse. For instance, the Agency has been working to improve its ability to prevent overpayments by obtaining beneficiary information from independent sources sooner and/or using technology more effectively. In this regard, SSA has initiated new computer matching agreements, obtained on-line access to wage and income data, and implemented improvements in its debt recovery program.

SSA has also made great progress in reducing benefit payments to prisoners. SSA's Actuary estimated \$3.46 billion in savings for the 7-year period covering calendar years 1996 through 2001 due to Social Security Act provisions prohibiting SSI and Old Age, Survivors and Disability Insurance (OASDI) benefits to prisoners. In addition, we are currently completing an audit involving SSA's fugitive felon program that will report on SSA's savings and recoveries since this program's inception. The preliminary results from our current fugitive audit found that SSA has saved and/or recovered an estimated total of \$79.9 million in SSI funds through its joint

effort with OIG to match fugitive warrant data from Federal, State, and local law enforcement agencies against SSA's payment records.

Despite significant strides, more needs to be done. In fiscal year (FY) 2002, SSA issued \$483 billion in OASDI and SSI benefit payments to 53.1 million people. Considering the volume and amount of payments SSA makes each month, even the smallest percentage of fraud, waste, and abuse can result in the loss of millions of dollars. It can also harm SSA's stewardship of its programs and weaken America's faith in Government overall.

In FY 2002, SSA identified and reported \$1.6 billion in overpayments in the OASDI program and \$2 billion in overpayments in the SSI program—a total of \$3.6 billion in overpayments. The Agency must now expend scarce resources to recover these overpayments and return them to the OASDI Trust Fund and the General Fund. Although a portion of these overpayments could not be prevented under current legislative or regulatory requirements, another portion of these overpayments is attributed to fraud, waste, and abuse. These statistics represent only the identified instances of overpayments in SSA's program. They do not represent "undetected" overpayments stemming from fraud, waste, and abuse.

According to SSA, it collected about \$1.9 billion in overpayments in FY 2002 for periods prior to and including FY 2002, but waived about half a billion dollars in overpayments and deemed a similar figure uncollectible.

By way of definition, SSA has the authority under the Social Security Act to waive collection of an overpayment. If collection is waived, the individual is no longer liable for the debt and SSA can not collect the overpayment amount at a later date. In contrast, SSA may recover at a later date funds that SSA deemed uncollectible. But if that person comes back into pay status or other circumstances arise that indicate the person can repay the debt, SSA can try to recover the funds. For example, once a debt is determined to be uncollectible, SSA can still recover the funds through the tax refund offset program with the Department of the Treasury.

We need to gather additional information about the fraud in SSA's various programs by quantifying the amount through in-depth audit work and investigation. To initiate this process, we are going to focus on SSA's disability programs because GAO designated the modernization of Federal disability programs as a high risk area and because SSA's disability programs attract so much fraud and abuse.

We will conduct a comprehensive review in which we will sample and analyze about 1,500 disabled cases to determine the appropriateness of the payments to these individuals. This work will focus on four disability diagnosis codes that our prior audit and investigative work have shown to be the most problematic. Due to the comprehensive nature of our planned review and the resources needed to investigate this type of activity, we expect this study to take between 12 and 15 months to complete.

In addition to our planned work to quantify the amount of unidentified improper payments due to fraud, waste, and abuse in SSA's disability program, our Cooperative Disability Investigations (CDI) teams—which first opened in FY 1998—are at the forefront of our efforts to identify and prevent fraud. The CDI teams investigate suspicious disability claims under the DI and SSI

programs. These teams combine the talents of OIG special agents and personnel from SSA, the State DDS, and State and local law enforcement. Today, 17 CDI units have been opened in 16 States and we plan to add CDI units on a year-to-year basis, depending on availability of funds. In the first six months of this year, we reported that the CDI units had confirmed 733 fraud cases out of 1,483 referrals, obtained recoveries and restitution totaling \$879,235, and saved the Social Security program over \$43 million.

Our work on the audit side has also identified fraud, waste, and abuse in other areas of SSA's programs. For example, last year we recommended to SSA that it strengthen its existing controls to prevent SSI payments from being erroneously paid to recipients who are outside the United States and therefore ineligible for payment. Our work showed that SSA's systems generate a foreign address alert for individuals receiving both SSI and OASDI benefits when the OASDI record shows an address outside the country. This alert notifies SSA that it needs to investigate and determine whether the individual is still eligible for SSI payments. However, we found that if individuals had their payments direct-deposited to a bank outside the U.S., an alert was not generated. Although SSA agreed with the intent of our recommendation, the Agency did not want to implement it until it conducted a cost-benefit analysis. We continue to urge SSA to implement our recommendation.

Another area of concern to me is the practice of recipients who claim repeatedly that they did not receive their monthly payment. They then negotiate both the original and the duplicate check that is provided by the Agency. In one case investigated by our office, a woman filed false non-receipt claims in 16 of 19 months for benefits payable to her son, an SSI recipient. Sentenced to 5 years probation, she was ordered to pay restitution of over \$7,000 and there were program savings of \$34,000.

In another case, over \$13,000 in overpayments appear on two children's records due to their mother filing false non-receipt claims 14 of 30 months, or 47 percent of the time. Based on these and other cases, our investigators are involved in a nationwide project to comprehensively uncover those who abuse the replacement check process. In addition, we are currently conducting an audit on SSA's procedures for controlling duplicate SSI checks issued to and cashed by the same recipient and for recovering overpayments resulting from these double check negotiations. When these two projects are completed, we will report on their results. Based on our work, SSA has already revised its procedures to improve its controls over double check negotiations and recovery of related overpayments.

Now I would like to turn our attention to the provisions of H.R. 743. We worked closely with your staff during the last legislative session to develop a proposal that provides greater oversight of representative payees and expands the Title XVI fugitive felon provisions to the Title II program.

First, let me address the representative payee provisions. There are currently about 5.4 million representative payees who manage benefits for about 7.6 million beneficiaries. I have previously recounted in testimony before this committee, several instances in which representative payees misused funds intended for beneficiaries in their charge. The effect on the lives of the beneficiaries in those cases was catastrophic. I applaud H.R. 743's improved oversight

provisions, as well as additional civil and administrative penalties to allow my office to more effectively combat this problem.

As we have pointed out in audit reports and prior testimony, legislation is needed to ensure the integrity of the representative payee process at several stages. This includes a spectrum of activities ranging from selection, monitoring, and oversight to proper accounting when funds are misused and measures designed to punish and deter such misuse. I believe this legislation makes important strides in each of these areas.

At the outset, closer attention to the initial selection process can resolve many potential problems before they arise, so it is critical that SSA more thoroughly screen potential representative payees. In October 2002, we issued a report that identified 121 individuals serving as representative payees for others whose own SSI benefits were stopped by SSA because they were fugitive felons or parole or probation violators. As you know, current SSA policy permits fugitive felons and parole or probation violators to serve as representative payees. We also completed an additional audit in March 2003 wherein we quantified the number of representative payees who were fugitive felons regardless of whether they were receiving SSI payments. In this audit, we estimated that fugitives would manage approximately \$19 million in Social Security funds each year if SSA does not take action to replace them as representative payees.

Our work also shows that once an appropriate representative payee is selected, it becomes incumbent upon SSA to adequately monitor that individual or organization to ensure that benefits are being used as intended to aid the beneficiary and that the representative payee continues to be suitable. We published an audit report entitled "Nonresponder Representative Payee Alerts for Supplemental Security Income Recipients" on September 23, 1999. That report recommended that SSA develop procedures to redirect benefit checks to field offices and require representative payees to provide accounting forms before releasing checks when attempts to obtain required forms have failed. SSA agreed with this recommendation in principle, but chose not to take action until the supporting legislation was enacted. This is also the case with our fugitive representative payee audit recommendations. Enactment of this legislation will result in SSA's implementation of some important prior recommendations in this area.

In April 2003, we issued a report on SSA's oversight of representative payees and concluded that SSA's representative payee review methodology should be modified to ensure that representative payees are using Social Security funds only for the benefit of the vulnerable beneficiaries they represent. We made several recommendations for SSA to improve its oversight of representative payees, and the Agency generally agreed with most of them.

Even with improved oversight, there will always be representative payees unable to resist the temptation to misuse individuals' funds. When this occurs, SSA should reissue the funds, and the representative payee who misused the funds should be held liable to repay them. Unfortunately, under current law, SSA has authority to reissue misused benefits only if the Agency finds that it has been negligent. This withholds benefits from those who need and deserve them.

H.R. 743, however, would eliminate the requirement that benefits can be reissued only upon a finding of SSA's negligence. Instead, the Agency would be able to re-issue benefits to those who

are vulnerable even absent a finding of negligence. Further, this legislation makes the representative payee liable for the amount of benefits misused.

Once the beneficiary's needs have been addressed, attention then turns to punishing and deterring misconduct by representative payees. We have found the Civil Monetary Penalty (CMP) program to be an effective tool against fraud in other areas. Unfortunately, as previously reported to you, we have reviewed potential cases for enforcement under the CMP program and found that the current CMP statutes do not adequately address some of the most egregious situations involving representative payees. To remedy this, we proposed two amendments to the CMP statutes, both of which are included in H.R. 743.

The first is amending Section 1129 of the Social Security Act to allow the imposition of CMPs for the willful conversion of a beneficiary's funds by a representative payee. For example, the benefits of a disabled child whose mother (as a minor herself) could not serve as her son's representative payee, were instead paid to the father. The father, who did not live with the child and the child's mother, converted more than \$10,000 of his child's benefits to his own use. The U.S. Attorney declined to prosecute the father criminally, and the case was referred to my office for consideration under the CMP statutes. Unfortunately, the current CMP statutes do not provide for penalties to be imposed for conversion of benefits by representative payees. H.R. 743 provides this much needed authority.

I would now like to turn your attention to the Title II fugitive provisions included in H.R. 743. We have always believed that criminals fleeing from justice should not have the support of Federal benefits. Therefore, we support H.R. 743's expansion of the Title XVI fugitive felon provisions to the Title II programs. Preliminary results from our current audit on the SSI program show that there are significant potential savings if the fugitive prohibition is extended to the Title II program.

Finally, I would like to discuss briefly the SSN integrity issue and our efforts to protect the number from misuse. The SSN has grown in stature to where it is no longer merely a social insurance number, but an instrument for financial crimes and a potential weakness in homeland security as well.

In addition to its direct impact on SSA's programs, SSN misuse can have significant financial implications for the number holder-not to mention enormous consequences for our Nation and its citizens in the context of homeland security. The critical role of the SSN in our daily lives provides a tempting motive for unscrupulous individuals to fraudulently acquire SSNs and use them for illegal purposes.

Now more than ever, SSA must be particularly cautious in striking a balance between serving the public and implementing SSN integrity measures that admittedly delay the processing of SSN applications. However, we believe the Agency has a duty to the American public to safeguard the integrity of the enumeration process. Given the magnitude of SSN misuse, we believe SSA must employ effective front-end controls in issuing SSNs. Likewise, additional techniques, such as data mining, biometrics, and enhanced systems controls, are critical in the fight against SSN misuse. SSA and its OIG have taken steps and continue to be committed to improve procedures for ensuring SSN integrity, thereby strengthening our link in the homeland security chain.

These efforts also pay off in increased cost effectiveness. During questioning at the June 18th hearing of the House Budget Committee, Comptroller General David Walker cautioned Congress to adopt the recommendations of the various Offices of the Inspector General and to hold agencies accountable for not adopting OIG recommendations-especially those which have not been implemented over time and could save Federal funds. Twice each year we report to Congress on recommendations we have made to save money or to deliver Agency services more effectively. Our semiannual reports are required by statute to advise you on what SSA has done to put our recommendations into effect, and what they have left undone or done differently.

The savings we propose year after year represent great sums of money that could be used better elsewhere, whether within or outside of Government. We exist not only to capture frauds and cheats, but equally to find those savings that may be realized through better management and less waste. Our ability to do all of this is limited only by our resources, and we return more in savings than we cost in outlays by a return-on-investment figure most corporations would envy. While we are currently working to make our internal measurements of our own cost effectiveness more sophisticated, our best estimate today of our return on investment is that we save or recover about \$8 for every dollar we are given. Our FY 2002 budget was \$83 million, and we saved or recovered over \$647.5 million.

We continue making excellent progress in preventing fraud, waste, and abuse in SSA's programs, as well as in identifying and recovering erroneous benefit payments. I am pleased that the provisions in H.R. 743 will address some of the issues we have identified over the years with respect to fugitives and representative payees. This legislation will not only provide greater protection to some of the most vulnerable individuals in our country, but will also enhance SSA's ability to be a good steward of its programs and allow the OIG to ensure that fraud, waste and abuse are minimized.

I appreciate this committee's continued interest in improving the OASDI and SSI programs. We will continue to focus our resources on preventing and detecting fraud, waste, and abuse.

I would be happy to answer any questions the committee might have. Thank you.