Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA’s programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

We strive for continual improvement in SSA’s programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.
MEMORANDUM

Date: February 19, 2008

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration’s Income and Resource Verification Process for Individuals Applying for Help with Medicare Prescription Drug Plan Costs (A-06-06-16135)

OBJECTIVE

Our objective was to determine the effectiveness of income and resource verifications performed for individuals applying for help with Medicare prescription drug plan costs.

BACKGROUND

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003,¹ also known as the Medicare Modernization Act, established a new, voluntary Part D Prescription Drug Program effective January 1, 2006. The Centers for Medicare and Medicaid Services (CMS) have overall responsibility for implementing this voluntary prescription drug program, whose costs are funded through Medicare’s Supplementary Medical Insurance Trust Fund.

The Medicare Modernization Act provides for certain low-income individuals to receive Part D premium, deductible and co-payment subsidies. Individuals who have Medicare and receive Supplemental Security Income (SSI) and/or Medicaid or who participate in the Medicare Savings Program are automatically deemed eligible for the subsidy. As part of its responsibilities, the Social Security Administration (SSA) provides general information to the public about Part D and the low-income subsidy.² SSA supplies applications for the low-income subsidy and assists the public with filing these applications. SSA’s primary role is to determine the individual’s income in relation to the poverty level for a family of the size involved, resources and whether a person will be eligible for a full or partial subsidy. In making these determinations, SSA applies certain exclusions to income that are modeled after the exclusions used in the SSI

¹ Public Law 108-173.

² SSA, Program Operations Manual System (POMS) HI 03001.001.C, Description of the Medicare Prescription Drug Program.
program. Our review of SSA data indicated that, as of February 22, 2007, SSA had approved subsidies to about 2.1 million applicants and denied subsidies to about 2.5 million applicants.

SSA developed a simplified form that subsidy applicants use to disclose their level of income and resources, under penalty of perjury. Subsidy eligibility determinations are based, in part, on a comparison of the income and resource information provided on the application (application data) with income and resource data that appear in SSA records or are obtained through matching agreements with other agencies (agency data). SSA contacts individuals to verify the accuracy of agency data before using it to terminate, deny or reduce the subsidy. SSA policy requires that it inform the individual about any materially discrepant information from other agencies and accept the individual's reasonable explanation to reconcile the discrepant information.

Because of the high volume of subsidy applications, SSA developed an electronic process where applications are scanned into the Medicare Application Processing System, and amounts attested to on the application are compared with agency data. If both application and agency data indicate income and resources are within established limits, SSA approves the subsidy. If inconsistencies are detected that affect the eligibility determination, SSA implements a verification process whereby field offices contact the applicant to resolve the differences.

A flowchart describing the subsidy application process is provided in Appendix A. The scope and methodology of our review is provided in Appendix B.

RESULTS OF REVIEW

SSA income and resource verifications for individuals applying for help with Medicare prescription drug plan costs were not always effective. Our review of a sample of denied subsidy applications found that SSA properly denied each because applicant income and/or resources exceeded limitations specified by law.

However, our review of approved subsidy applications indicated that SSA approved subsidies without properly establishing applicant eligibility in approximately 13 percent of cases reviewed. In each of these cases, SSA approved subsidies for applicants whose income and/or resources appeared to exceed eligibility limits.

A projection of our sample findings to the population of approved subsidies indicated that SSA approved subsidies to about 276,000 individuals whose income and/or resources appeared to exceed eligibility limits. Based on the Calendar Year 2006 average expenditures per Part D enrollee, enrollment of these individuals in prescription drug plans would result in questionable Medicare Trust Fund Part D low-income subsidy

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3 POMS HI 03035.005E, Verification Process - General
expenditures of about $473 million during a 12-month period.\textsuperscript{4} In addition, we found SSA’s redetermination process is unlikely to be effective in terminating these questionable subsidy approvals. A projection of our sample results to the population of approved subsidies indicated that approximately 130,000 of the 276,000 questionable subsidies were likely to continue for at least another year, resulting in additional estimated Medicare Trust Fund expenditures of about $224 million over 12 months. (See Appendix C for a description of how this estimate was calculated.)

During preliminary discussions of our audit results with Agency officials, SSA disagreed with our overall conclusion that it approved low-income subsidies without establishing applicant eligibility. SSA stated Congress’ intent was for SSA to enroll, as quickly as possible, the maximum number of eligible citizens into the prescription drug program. To accomplish this, SSA developed a streamlined income and resource verification process that relied heavily on applicant attestations under the penalty of perjury. SSA stated that the Department of Health and Human Services/the Centers for Medicare and Medicaid Services and the Office of Management and Budget were actively involved in the development of the Agency’s low-income subsidy policies and procedures. SSA disagrees in most cases that it made incorrect low-income subsidy eligibility determinations. Instead, SSA officials stated it made the best possible determinations based on information available at the time. We recognize SSA based decisions on the information available at the time. However, as discussed below, information available after SSA approved low-income subsidies calls into question the validity of those decisions.

**SUBSIDY ELIGIBILITY NOT ESTABLISHED**

SSA approved low-income subsidies for applicants whose income and/or resources appeared to exceed eligibility limits. Federal law\textsuperscript{5} requires that SSA subject income and resource information provided on subsidy applications “to appropriate methods of verification.” However, our review of 275 statistically selected approved subsidies identified 36 individuals (13.1 percent) who appeared to have income and/or countable resources in amounts that should have disqualified them from eligibility consideration. On October 3, 2007, we met with SSA Operations and Systems staff to discuss the 36 questionable subsidy awards. Based on this discussion, we grouped the discrepancies into six categories.

\textsuperscript{4} This projection is based on the $1,715 estimated average cost of providing low-income subsidy benefits to Medicare Part D low-income subsidy enrollees during Calendar Year 2006, as reported in the 2007 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, page 157, Table IV.B.11, Incurred Reimbursement Amounts per Enrollee for Part D Expenditures. This average is based on cost of providing premium, deductible, and co-payment subsidies for all 9.1 million enrollees who received the low-income subsidy. Subsidized enrollees include low-income recipients approved by SSA as well as low-income recipients deemed eligible for subsidy benefits by CMS. The $1,715 subsidy cost is in addition to the $1,146 estimated average cost of providing basic prescription drug coverage to all enrollees.

Wage Information Not Available When SSA Approved Subsidy

SSA approved low-income subsidies to 14 applicants whose earned wages should have disqualified them from eligibility consideration. In each case, individuals understated the amount of wages earned by themselves or their spouses on their subsidy applications.

We compared wage information provided on approved subsidy applications with SSA earnings records and found these 14 applicants understated their wages and/or their spouse’s wages in amounts that ranged from $1,280 to $40,892. In each instance, SSA would have denied the subsidy application if accurate wage amounts were considered in the eligibility determination. For example, in response to the application question “What do you expect to earn in wages before taxes this year?” one applicant checked “NONE” then wrote the amount “1100” on an application filed in October 2006. Because “NONE” was checked, SSA used $0 in making its eligibility determination. SSA did not verify this amount and approved the subsidy. However, our review of this individual’s earnings record revealed she was employed during 2006 and earned $34,349 in wages, which should have disqualified her from low-income subsidy eligibility.

SSA staff stated it accepted wage amounts provided by subsidy applicants without verification because, when SSA processed the subsidy applications, current
information\(^6\) needed to verify wage amounts provided by applicants was not available. While SSA eligibility determinations were based on information available when the applications were processed, accurate wage information available after the subsidy approvals revealed the determinations were incorrect, and these applicants received benefits to which they were not properly entitled.

**Field Offices Disregarded Agency Data Without Documentation**

SSA approved low-income subsidies to eight applicants whose income or resources should have disqualified them from eligibility consideration. In each case, before subsidy approval, SSA obtained Internal Revenue Service (IRS) data that indicated the applicants did not qualify for the low-income subsidy. However, SSA disregarded the IRS information and used lower or $0 amounts reported by subsidy applicants.

In each of the eight cases, SSA was aware that significant discrepancies existed between application and Agency data and forwarded the cases to field offices for verification. SSA policy\(^7\) requires that field office staff discuss such discrepancies with applicants. If the applicants give credible explanations for the differences, SSA policy directs that field office staff should accept the explanations and document these contacts.\(^8\) However, in all eight cases, field office staff accepted the income or resource amounts provided by the subsidy applicant and approved the subsidy without documenting applicant contacts or providing any explanation or justification for disregarding the IRS data.

Based on a review of existing documentation, SSA should have denied these subsidy applications. However, it is also possible that, during the verification process, the applicants provided SSA with evidence or explanation that justified disregard of Agency data, and SSA personnel simply neglected to document the information provided by the applicants. If true, SSA personnel approved the subsidies without following established procedures; but approval was justified. If all eight of these cases were nothing more than documentation errors, the percentage of erroneously approved subsidies in our sample would fall from 13.1 percent to 10.2 percent, and the total estimated Medicare Trust Fund expenditures to provide questionable low-income subsidies would be reduced by approximately $105 million.

In response to problems noted with verification documentation, on June 21, 2007, SSA issued Policy Instruction AM-07086, Processing and Documenting Medicare Part D Subsidy Verification Issue Resolutions in the Medicare Application Processing System (MAPS) – REMINDERS. This Instruction was sent to all Regional Commissioners,

\(^6\) Refers to wages reported to SSA by employers or to wage information provided through computer matching agreement with the Office of Child Support Enforcement.

\(^7\) SSA, POMS, HI 03035.005E.

\(^8\) SSA, POMS, HI 03035.005E.1 and F.1. We identified 19 cases where field offices provided justification for accepting the lower amounts provided by applicants before approving the subsidy award. We did not question these subsidy approvals.
Deputy Regional Commissioners, Area Directors, Field Offices, Teleservice Centers, and Payment Centers. The Instruction provided detailed background as well as specific directions for documenting verification determinations.

Recipient Subsequently Deemed Eligible for Benefits

SSA approved low-income subsidies for five applicants whose wages, Social Security benefits, or resources should have disqualified them from eligibility consideration. However, after the SSA initial eligibility determination, CMS deemed each of these five individuals eligible for full subsidy benefits because they were entitled to Medicare benefits and

• received full Medicaid or
• were Qualified Medicare Beneficiaries, Specified Low-Income Medicare Beneficiaries or Qualifying Individuals.

Beneficiaries who are deemed eligible are automatically entitled to the subsidy and do not have to file subsidy applications with SSA. As a result, SSA staff stated these cases were no longer subject to SSA review. While we agree these cases are no longer under SSA purview, we question how individuals with income and resources exceeding subsidy eligibility limits were able to qualify for CMS deeming. For instance, SSA records indicate one applicant and his spouse received over $35,000 in annual Social Security benefit payments. These benefit payments exceeded the $19,800 maximum income limit for this household and should have disqualified the applicant from subsidy eligibility consideration. However, CMS deemed the individual eligible for the subsidy. We plan to refer these questionable cases to the Department of Health and Human Services’ Office of Inspector General.

SSA Agrees That Approval Decision Error Occurred

SSA approved low-income subsidies for four applicants whose income or resources should have disqualified them from eligibility consideration. Had SSA based eligibility determinations on wage and resource amounts actually disclosed by these individuals, these applications would have been denied. SSA reviewed each of these four cases and agreed it should not have approved the subsidies.

• Two cases resulted from application scanning errors. Both applicants disclosed income or ownership of high-dollar assets in excess of subsidy eligibility limits. However, when SSA scanned these applications into MAPS, significant digits were omitted and not considered in the determination process. To illustrate, one applicant disclosed self-employment earnings of $60,000, and another disclosed ownership of $109,321 in stocks and bonds. These disclosures should have prevented further eligibility consideration. However, as a result of scanning errors, SSA based eligibility determinations on the amounts “$60.00” and “$9,321,” respectively.
In one case, SSA approved a subsidy for a married individual although the applicant and spouse received Social Security benefits in excess of eligibility limits. While SSA agreed the subsidy should not have been approved, it also noted this error was corrected approximately 8 months later (August 2006) when the subsidy was selected for redetermination and terminated as a result of the Social Security benefits paid to the couple.

In one case, SSA could not explain why it approved a low-income subsidy for an applicant whose combined Social Security benefits, wages, and unearned income were in excess of subsidy eligibility limits.

**IRS Data Not Available When SSA Awarded Subsidy**

SSA approved a low-income subsidy for three applicants whose unearned income or resources should have disqualified them from eligibility consideration. SSA staff stated it accepted income and resource amounts provided by these subsidy applicants without verification because, when SSA processed the subsidy applications, IRS information needed to verify amounts provided by applicants was not available. After SSA receives a subsidy application, it requests financial information from the IRS for use in verifying income and resource amounts provided by the applicant. According to SSA, if the IRS does not provide these data within 28 days, SSA accepts amounts provided by the applicant and renders its eligibility determination. While SSA eligibility determinations were based on information available at the time the applications were processed, IRS information available after the subsidy approvals indicated the determinations were incorrect and these applicants received benefits to which they were not properly entitled.

**SSA Did Not Believe Income Verification Was Necessary**

SSA approved low-income subsidies to two applicants whose unearned income should have disqualified them from eligibility consideration. In both cases, SSA stated income verification was not necessary because the applicants responded “YES” to Question 10 on the subsidy application (see excerpt from the application below).
According to SSA, to expedite the eligibility determination process, the MAPS was programmed to disregard the unearned income in agency data and accept applicant-provided income information—without any additional verification—if the applicant indicated their pension and other income amounts had decreased in the past 2 years. Because an applicant’s pension or other income can decrease over time but still be sufficient to disqualify the applicant from low-income status, we do not believe SSA sufficiently verified these applicants’ income. IRS information available when SSA approved these subsidies indicated both determinations were incorrect and these applicants received benefits to which they were not properly entitled.

**SUBSIDY ELIGIBILITY REDETERMINATION PROCESS**

A change in income, resources or household size can affect a person’s eligibility for the Medicare Part D subsidy. As a result, SSA is required to periodically redetermine a person’s eligibility for the low-income subsidy.\(^9\)

**SSA’s Original Redetermination Process**

To expedite the large volume of redeterminations required with a program involving millions of subsidy recipients, SSA instituted a primarily passive redetermination process. Under this passive process, SSA sent letters to subsidy recipients explaining the information SSA had in reference to their income and resources. Unless the subsidy recipient voluntarily reported significant changes to SSA, the subsidy was automatically awarded for an additional year. SSA subjected most of the questionable subsidy awards to this type of redetermination process.\(^{10}\)

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\(^{10}\) SSA did not redetermine eligibility in five approved cases or in five deemed cases.
SSA’s New Redetermination Process

In August 2007, SSA advised us it initiated a new, more rigorous process to redetermine the eligibility of subsidy recipients. As part of this new process, SSA selected 500,000 cases for redetermination based on specific characteristics. SSA planned to mail notices to each of these subsidy recipients and request they verify certain information affecting subsidy eligibility. According to SSA staff, recipients must respond to these notices or face subsidy termination, effective January 2008.

In September 2007, we identified the current status of subsidies for each of the 36 questionable approvals and found

- 28 individuals were enrolled in a Part D prescription drug plan and continued to receive low-income subsidy benefits;
- 7 individuals were enrolled in a Part D prescription drug plan, but no longer received low-income subsidy benefits; and
- 1 individual approved for the subsidy did not appear to be enrolled in a Part D prescription drug plan.

Of the 28 questionable subsidy approvals where the individuals currently received subsidy benefits, 11 were among the 500,000 cases included as part of the new redetermination process. However, the remaining 17 questionable subsidies are likely to continue for at least another year. Projection of our sample findings to the population of approved subsidies indicated that approximately 130,000 questionable subsidies are likely to continue for at least an additional 12 months because they were not subjected to the new redetermination process.

CONCLUSION AND RECOMMENDATIONS

We estimate SSA approved Medicare Part D low-income subsidies to approximately 276,000 applicants whose income and/or resources exceeded established eligibility limits. The subsequent enrollment of these individuals in prescription drug plans would result in estimated Medicare Trust Fund Part D low-income subsidy expenditures of approximately $473 million during a 12-month period. Based on our sample results, we estimate SSA’s new redetermination process is unlikely to correct these errors in approximately 130,000 of the 276,000 cases. These questionable low-income subsidies are likely to continue, resulting in additional estimated Medicare Trust Fund Part D low-income subsidy expenditures of approximately $224 million over the next 12 months. This occurred primarily because SSA did not obtain information needed to verify income and resource amounts that appeared on subsidy applications prior to issuing eligibility determinations. SSA believes it made correct subsidy award decisions based on information available when it rendered eligibility determinations. However, information now available indicates SSA approved low-income subsidies to a significant number of individuals who did not appear to meet low-income subsidy eligibility limits. We believe the nature of these cases requires immediate action be taken so that only eligible individuals receive subsidies.
We recommend that SSA:

1. Develop a process to ensure income and resource amounts appearing on all future applications are subjected to appropriate methods of verification.

2. Work more closely with the IRS to obtain timely income and resource data and use this data to verify low-income subsidy eligibility.

3. Ensure its redetermination process identifies and terminates improperly awarded subsidies currently in effect.

**AGENCY COMMENTS**

SSA disagreed with the results of our review, agreed in theory with Recommendation 1, disagreed with Recommendation 2, and agreed with the intent of Recommendation 3. See appendix D for the full text of SSA’s comments.

Regarding the result of our review, SSA stated most of the discrepancies cited in the report were identified using data obtained after subsidy approval. Because these data were not available to SSA when it processed the subsidy applications, SSA believes it correctly approved the subsidies. SSA disagreed with our estimated questionable expenditures of $473 million during a 12-month period and $224 over the next 12 months. Instead, based on its own analysis, SSA believes incorrect eligibility decisions accounted for $53 million during a 12-month period and another $53 million for the following 12 months.

SSA agreed in theory with Recommendation 1. SSA agreed it could better ensure all subsidy decisions were documented and has taken action to remind employees of the appropriate documentation requirements. SSA believes its verification process conforms to the Medicare Modernization Act’s requirements for a simplified application based on attestation subject to appropriate verification.

SSA disagreed with Recommendation 2 stating it worked with the IRS to establish a process to obtain the best available data the IRS can provide and believes there are no further steps it can take to obtain more timely data.

SSA agreed with the intent of Recommendation 3 stating its Office of Quality Performance will evaluate the redetermination process to determine whether any adjustments in the profiling process are necessary to identify individuals no longer eligible for the subsidy. SSA will review the findings once the evaluation is complete.

**OIG RESPONSE**

We appreciate SSA’s comments and incorporated some of SSA’s suggested modifications into the Background section of the report. We agree with SSA’s assertion that it based subsidy eligibility determinations on financial information available when applications were processed. However, SSA acknowledges that external data available
when applications were processed were neither current nor complete. This lack of information required that SSA make eligibility determinations based heavily on income and resource amounts self reported by subsidy applicants. We agree with SSA that our audit results were based on use of data that, in some cases, were not available to SSA when it rendered subsidy eligibility determinations. However, the data indicate the applicant-provided income and resource amounts, upon which SSA based subsidy eligibility, were not always accurate. As a result, SSA awarded subsidy benefits to a significant number of individuals whose income and/or resources appeared to exceed eligibility limits.

We are encouraged that SSA agreed in theory or with the intent of two of our recommendations. SSA also disagreed with one recommendation. Our concerns with SSA’s response to a specific section of the report, as well as its response to Recommendation 2 are discussed below.

SSA disagreed that eight cases discussed in the report section, Field Offices Disregarded Agency Data Without Documentation should be considered payment errors. SSA states “…subsequent review of these cases showed they were correctly decided when we approved the subsidy….” To clarify, SSA did not perform additional work to validate these eligibility determinations. In discussing these specific cases with SSA Operations staff, SSA agreed no documentation existed to indicate why field office staff disregarded agency data in favor of lower applicant data. SSA staff concluded the lack of documentation rendered them unable to determine whether an error occurred. However, in our opinion, the lack of documentation does not validate the subsidy award, it raises legitimate questions about the validity of the award. In fact, in two of the eight cases, questionable subsidy benefits were ultimately terminated because SSA subsequently applied agency data contradicting income and resource amounts provided by the subsidy applicants.

Regarding Recommendation 2, we agree SSA worked with the IRS to establish a process that provides financial data. However, we do not agree this process obtains the best data the IRS can provide. IRS data are derived from information on IRS Form 1099 and similar reports of financial transactions submitted to IRS for a tax year by financial institutions, brokerage firms, government agencies, employers, etc. The IRS data reflect a total amount paid during the tax year. However, SSA policies acknowledge the data IRS provides SSA “…is generally two years old (e.g., IRS data received in 2005 is for tax year 2003).”11 Our point is simply that SSA should decide low income subsidy eligibility based on current data.

Patrick P. O’Carroll, Jr.

11 SSA, POMS, HI 03035.005E.3.a, Verification Process - General.
Appendices

APPENDIX A – Subsidy Application Process Flowchart
APPENDIX B – Scope and Methodology
APPENDIX C – Sampling Methodology and Results
APPENDIX D – Agency Comments
APPENDIX E – OIG Contacts and Staff Acknowledgments
Appendix A

Subsidy Application Process Flowchart
Appendix B

Scope and Methodology

To accomplish our objectives, we:

- Reviewed the Social Security Administration’s (SSA) process for verifying income and resource information reported on the Application for Help with Medicare Prescription Drug Plan Costs (Form SSA-1020-OCR-SM).


- Interviewed SSA employees from the Offices of Retirement and Survivors Insurance Systems, Public Services and Operations Support, Income Security Programs, and Quality Performance.

- Flowcharted the application process (see Appendix A).

- Obtained February 2007 subsidy application processing data from SSA’s Medicare Application Processing System identifying 2,109,023 individuals for whom SSA approved subsidy applications and another 2,523,257 individuals for whom SSA denied subsidy applications.

- Selected and reviewed a random sample of 50 SSNs for each population of approved and denied applications for a total of 100 SSNs. We initially reviewed a statistical sample of 50 denied and 50 approved subsidy applications. Review of denied applications indicated SSA properly denied each application (applicant income and/or resources exceeded specified limits). However, review of approved applications identified concerns that caused us to expand our statistical sample to include a total of 275 approved applications.

- Obtained and reviewed Medicare Application Processing System, Master Earnings File and the Office of Child Support Enforcement’s National Directory of New Hire records to determine the propriety of subsidies approved and denied, and the adequacy of support for the decision.

We determined the computer-processed data from the Medicare Application Processing System were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. We did not test data from sources outside SSA to verify its completeness and accuracy.
We performed our audit between February and October 2007 in Dallas, Texas. The entities audited were the Office of the Deputy Commissioner for Operations and the Office of Retirement and Survivors Insurance Systems under the Deputy Commissioner for Systems. We conducted our audit in accordance with generally accepted government auditing standards.
Sampling Methodology and Results

Data from the Social Security Administration's Medicare Application Processing System indicated that, as of February 22, 2007, SSA approved Medicare Part D low-income subsidies to 2,109,023 applicants and denied low-income subsidies to 2,523,257 applicants. We initially reviewed a statistical sample of 50 denied and 50 approved subsidy applications. Preliminary review of denied applications indicated further testing was not warranted because SSA properly denied each application (applicant income and/or resources exceeded specified limits). However, preliminary review of approved applications identified concerns that caused us to expand our statistical sample to include a total of 275 approved applications.

<table>
<thead>
<tr>
<th>STATISTICAL SAMPLE OF MEDICARE PART D SUBSIDY DETERMINATIONS</th>
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</thead>
<tbody>
<tr>
<td>DECISION</td>
</tr>
<tr>
<td>APPLICATION DENIED</td>
</tr>
<tr>
<td>APPLICATION APPROVED</td>
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<tr>
<td>TOTAL</td>
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Results of our review of 275 approved subsidy applications is provided below:

<table>
<thead>
<tr>
<th>Attribute Appraisal: Subsidy Approved for Applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidy Eligibility Not Properly Established</td>
</tr>
<tr>
<td>Population of Approved Subsidy Applicants</td>
</tr>
<tr>
<td>Sample Size</td>
</tr>
<tr>
<td>Number of Applicants whose Income/Resources Exceeded Eligibility Limits</td>
</tr>
<tr>
<td>Projection to Population of Approved Subsidy Applicants:</td>
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<tr>
<td>Lower Limit</td>
</tr>
<tr>
<td><strong>Point Estimate</strong></td>
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<tr>
<td>Upper Limit</td>
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</tbody>
</table>

All projections are at the 90-percent confidence level.
Based on the results of our sample, we estimate that SSA approved subsidies to approximately 276,000 applicants whose income and/or resources exceeded eligibility limits. Based on the calendar year 2006 average subsidy cost of $1,715 per low-income subsidy enrollee reported by the Medicare Boards of Trustees, we estimate that enrollment of these individuals in prescription drug plans would result in Medicare Trust Fund Part D low-income subsidy expenditures of about $473 million during a 12-month period.

### Attribute Appraisal: Questionable Subsidy Award

**Subsidy Benefits Currently Paid and Cases Not Subjected to New Redetermination Process**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tr>
<td>Population of Approved Subsidy Applicants</td>
<td>2,109,023</td>
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<tr>
<td>Sample Size</td>
<td>275</td>
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<tr>
<td>Number of Questionable Subsidy Award Cases Where Subsidy Benefits Continued and Cases were not Included in SSA’s New Redetermination Process</td>
<td>17</td>
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</tbody>
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**Projection to Population of Approved Subsidy Applicants:**

<table>
<thead>
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<th>Type</th>
<th>Value</th>
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<tbody>
<tr>
<td>Lower Limit</td>
<td>83,874</td>
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<tr>
<td><strong>Point Estimate</strong></td>
<td><strong>130,376</strong></td>
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<tr>
<td>Upper Limit</td>
<td>192,520</td>
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</tbody>
</table>

*All projections are at the 90-percent confidence level.*

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### Cost Estimate

**Questionable Subsidies Likely to Continue an Additional 12 Months**

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimate</th>
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</thead>
<tbody>
<tr>
<td>Estimated Number of Questionable Subsidies Likely to Continue at Least an Additional 12 Months Because Applicants were not Subject to New Redetermination Process</td>
<td>130,376</td>
</tr>
<tr>
<td>2006 Medicare Trust Fund Low-Income Subsidy Expenditure per Low-Income Subsidy Enrollee</td>
<td>$1,715</td>
</tr>
<tr>
<td>Estimated Funds Put to Better Use</td>
<td>$223,594,840</td>
</tr>
</tbody>
</table>

Based on the results of our sample effort, we estimate that questionable subsidies to approximately 130,000 applicants will likely continue for at least 12 additional months because SSA did not subject these cases to its new redetermination process. Based on the calendar year 2006 average low-income subsidy cost of $1,715 per low-income subsidy enrollee reported by the Medicare Boards of Trustees, we estimate continued enrollment of these individuals in prescription drug plans will likely result in questionable Medicare Trust Fund Part D low-income subsidy expenditures of $224 million over 12 months.

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Appendix D

Agency Comments
MEMORANDUM

Date: January 15, 2008

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

From: David Foster /s/
Chief of Staff


We appreciate OIG’s efforts in conducting this review. Our comments regarding the draft report and response to the recommendations are attached.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment
COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S (OIG) DRAFT REPORT, “THE SOCIAL SECURITY ADMINISTRATION’S INCOME AND RESOURCE VERIFICATION PROCESS FOR INDIVIDUALS APPLYING FOR HELP WITH MEDICARE PRESCRIPTION DRUG PLAN COSTS” (A-06-06-16135)

Thank you for the opportunity to review and provide comments on this draft report. We have significant concerns with this draft report and have provided comments on each section. Our concerns were raised orally at a meeting held on October 31, 2007 where we disagreed with the results of the review.

The draft report states that we approved subsidy applications without properly establishing eligibility in about 13 percent (36 cases) of the 275 cases OIG reviewed. We disagree, as OIG either used data that were not available at the time we made the Low Income Subsidy (LIS) decision or made incorrect assumptions regarding the data reviewed. OIG went beyond the question of whether we made the proper decision at the time it determined a Medicare beneficiary eligible for the LIS, imposing a standard of income and resource verification that was never part of the design of the LIS program. As a result, we find that eligibility was incorrectly established based on the data available at the time of the decision in only 4 cases or 1.4 percent of the sample of 275 cases.

BACKGROUND

We believe that the background section does not provide an accurate description of the reason we developed a simplified LIS application based on attestation. The second paragraph on page 2 states we developed an electronic application process based on attestation and agency matches "because of the high volume of subsidy applications." While we did develop an electronic application process to efficiently process the large volume of subsidy applications, the report should state that the Medicare Modernization Act (MMA) required us to "develop a model, simplified application form" and that the application form "shall consist of an attestation under penalty of perjury regarding the level of assets or resources...." The law further states the attestations "shall be subject to appropriate methods of verification." See section 1860D-14(a)(3)(E) of the Social Security Act as amended by MMA.

The background should also indicate that our regulations state that we will compare the information the individual provides on the application to information in our records and information we obtain from other Federal agencies and, if necessary, contact the individual to reconcile discrepancies. It should also state that we are required by the MMA, the Computer Matching and Privacy Protection Act of 1988, and our matching agreements, to contact the individual to verify the accuracy of the data before using it to terminate, deny or reduce the subsidy. Consistent with the law and our regulations, our policy requires that we inform the individual about any materially discrepant information from other agencies and accept the individual's reasonable explanation to reconcile the discrepant information. Congress noted in the legislative history of the MMA provision that the “Commissioner may only require submission of statements from financial institutions for an application for low income subsidies to be considered complete. No other documentary evidence may be required with the submission
of the application.” (See H.R. Conference Report Number 108-391, year 2003, page 473.) We believe that SSA has implemented policies and procedures which are consistent with congressional mandates.

In addition, we would note that the Department of Health and Human Services/the Centers for Medicare and Medicaid Services and the Office of Management and Budget were actively involved in the development of the Agency’s LIS policies and procedures. These agencies reviewed and commented on our LIS regulations on several occasions. We briefed congressional staff on our policy. The need to keep the application process simple, reduce barriers to filing for LIS and make timely decisions were comments that we heard consistently. The LIS rules were originally published as a Notice of Proposed Rule Making (NPRM) with an ample time period for the public, including advocates and other agencies, to comment.

To the extent that the report notes that retroactive corrections could be made to LIS eligibility determinations, we note that our policies do not provide such retroactive revisions based on the language of the statute and congressional intent. Section 418.3123 explains when a change in an individual’s subsidy is effective, which depends on the reason for the change reported by the individual. For what is known as subsidy changing events, described in section 418.3120(b)(1), such as the death of a spouse, any change in the subsidy will be effective the month following the month of the report. For other events, described in 418.3120(b)(2), such as a change in family size, any change in the subsidy will be effective in January of the next year. In addition to these reports, we explain in section 418.3125 that we will perform redeterminations within one year of the first determination of LIS eligibility. After that, eligibility will be redetermined at intervals determined by the Commissioner. Eligibility changes based on these redeterminations are also effective in January of the next year.

We responded to public comments in the redetermination LIS NPRM which asked that we allow reopening of a LIS determination. We explained that redetermination would provide correction of an erroneous LIS determination if we discover clerical errors within 60 days of an initial determination or decision. A new section was added to the rules at section 418.3678 to clarify this policy. See 70 FR 77664, 77673 (December 30, 2005). This narrowly drawn reopening approach is based on statutory language which was read to indicate that Congress intended that LIS determinations be prospective in nature and generally effective initially for one year. See section 1860D-14(a)(3)(B)(ii). This was reiterated in the legislative history of the MMA and supported by a general enrollment period each year (November 15 - December 31) effective in January of the next year. This, coupled with the protection afforded by the appeal and redetermination processes, provide sufficient review of a particular LIS determination. Moreover, Congress clearly intended a simplified application and adjudication process governing the determination of LIS eligibility, and we believe a prospective eligibility determination contributes to that simplification. See section 1860D-14(a)(3)(E)(ii).
RESULTS OF REVIEW

In this section, OIG states that we approved subsidy applications without properly establishing eligibility in about 13 percent of the cases OIG reviewed. We agree we did not properly establish eligibility in 1.4 percent of the study cases. However, we do not agree that the audit showed that we made incorrect determinations for the remaining cases based on data that was available at the time the determination was made. The OIG evaluation was based on data obtained subsequent to the LIS determination in 17 of the sample cases. It is important to note that this subsequent data was not available to us at the time the favorable LIS determination was made. In addition, it needs to be understood that the data can be over 2 years old and, in the case of certain information from the Internal Revenue Service (IRS), we impute the resource values based on reported income. Our policy is to accept the beneficiary's reasonable explanation (e.g., he or she no longer has the income, sold the resource, etc.) for any material discrepancies that arose during the LIS determination process.

The audit has no findings showing the beneficiaries agreed that they had the income and/or resources indicated in the data OIG obtained subsequent to the LIS determination, or that the beneficiaries continued to have the same income and/or resources. Therefore, without this verification, the audit has insufficient support for finding that our determinations were incorrect at the time they were made or for using the cases to project a percentage of incorrect determinations in the overall subsidy population. Further, the audit provides no support for inferring that our subsidy determinations resulted in "questionable" expenditures of $473 million during a 12-month period and $224 million over the next 12 months. Based on our analysis of the data, incorrect eligibility decisions accounted for $53 million during a 12 month period and the same total for the following 12 months.

SUBSIDY ELIGIBILITY NOT ESTABLISHED

In this section, OIG provides a pie chart which incorrectly labels the 36 cases as “Eligibility Not Established.” Except for four of these cases, we established eligibility for the remainder based on information available at the time.

Our analysis of the remaining 32 cases is as follows:

- **Income Verification Not Made – 2 cases (5 percent of OIG identified cases)**

  Since IRS data and other matched data could be over 2 years old, we provided a way for beneficiaries to attest on the application that their income had decreased. Since our policy provides for such attested statements, no re-contact with the beneficiaries was required.
IRS Data Not Available for Initial Decision – 3 cases (8 percent of OIG identified cases)

SSA established timeframes for adjudication, without IRS data. OIG acknowledges (page 7, first full paragraph) that our policy is to make determinations without IRS data if data is not provided within 28 days, but then goes on to claim that we should retroactively deny claims based on information that may be received months later. This is not the intent of the LIS program. In our discussion about the 28 days, we explained that this was a reasonable time period based on the process that IRS has for posting its records. We generally obtain data from the IRS in 12-14 days. If we do not receive the data electronically, it is reasonable to assume that IRS does not have the data available.

Subsequently Deemed – 5 cases (14 percent of OIG identified cases)

These cases were included in the payment error calculations. As we explained during the October 31, 2007 meeting, a determination of deemed eligibility made by the State supersedes our LIS determination. This is because MMA provided an alternate route for establishing LIS eligibility, based on the receipt of Medicaid, Supplemental Security Income or Medicare Savings Programs. Individuals receiving these benefits are “deemed” subsidy eligible (Section 1860D-14(a)(3)(B)(v) of the Act, as amended by MMA). Once there is a deemed determination, the State becomes responsible for processing the redetermination based on the State’s process. Also, each State has different eligibility criteria for Medicaid and Medicare Savings Programs.

Field Office (FO) Documentation Issue – 8 cases (22 percent of OIG identified cases)

We disagree with the inclusion of these cases as payment errors as well as the label “Field Office Disregarded Agency Data Without Documentation.” The subsidy application verification process requires the FO to select the countable income and/or resource amount for the verification determination. For the eight cases, the FOs selected the application income and/or resource amounts for the subsidy determination, but did not sufficiently document why they chose those amounts instead of the agency data. Therefore, a more appropriate description of these cases is "Field Office Used Application Income and Resource Amounts Without Sufficient Documentation."

Subsequent review of these cases showed they were correctly decided when we approved the subsidy based on the application and/or resource amounts.

Wage Information Not Available – 14 cases (39 percent of OIG identified cases)

The last sentence of this section states we made incorrect determinations as wage information, available after the determination, indicated the individual had excess wages. As stated above, we did match application data against agency data, including Office of Child Support Enforcement (OCSE) data, to verify wages. We made the subsidy determinations based on the wage data available at that time. We would had to have had the income data OIG subsequently obtained. Also, we would have needed to confirm with the beneficiaries that they had that income at the time of our determination in order
to make a different determination. Therefore, we based our subsidy decisions on the best wage information that was available to us at the time these applications were processed.

Inherent in this process is the limitation that IRS data and OCSE data represent income or resources that we impute from a past period. Such data indicates that the subsidy applicant worked in the past, but the data is not proof that the applicant is currently working or will be working during the period for which we are determining subsidy eligibility. In addition, the data we get from the IRS and OCSE are the most recent and accurate data that is available at the time we request it. Given the need for us to provide a timely eligibility decision for subsidy applicants, it is inconsistent with our policies and procedures and congressional intent to hold applications until more recent data might be available from IRS and OCSE.

SSA’S ORIGINAL REDETERMINATION PROCESS

We feel that OIG needs to provide a clearer explanation of our process. Rather than state our original redetermination process was "passive," this section should state that our original redetermination process did match subsidy-eligible beneficiaries' income and resource information on our records with other Federal agency data first. If the match indicated a material discrepancy that would affect subsidy eligibility, we would send a 1026 redetermination form to the individual to complete. If the match indicated no material discrepancy, we would send the individual an L-1026 redetermination form which included a summary of the income, resources and household information on our records and request the individual to return the form if the information was not correct. We then sent a 1026 redetermination form to individuals who returned that form.

SSA’S NEW REDETERMINATION PROCESS

This section states we selected 11 of 28 reviewed cases for a redetermination in 2008. This section should also note that all but 4 of the original 36 cases had either an L-1026 redetermination, 1026 redetermination or a subsidy changing event redetermination. The audit provides no support for stating 17 of the cases continue to be "questionable subsidies" (or the projections of total "questionable subsidies" based on that sample).
CONCLUSION AND RECOMMENDATIONS

As stated above, we do not agree with the report’s conclusion and the amount that OIG states are incorrect payments. In summary, our analysis of the 36 cases shows the following:

**SSA Agrees With OIG Finding Decision Errors Occurred**

4 Cases

Projected Costs to Medicare Trust Fund

$52,609,340

**SSA Disagrees With OIG Finding Decision Errors Occurred**

32 Cases

1. Income Verification Not Made (Beneficiary Indicated Income Decreased)

2 Cases

Projected Costs to Medicare Trust Fund

$26,306,385

2. IRS Data Not Available (SSA Waited 28 days)

3 Cases

Projected Costs to Medicare Trust Fund

$39,457,005

3. Subsequently Deemed (State Criteria Applies)

5 Cases

Projected Costs to Medicare Trust Fund

$65,763,390

4. FO Documentation Issue

8 Cases

Projected Costs to Medicare Trust Fund

$105,222,110

5. Wage Information Not Available

14 Cases

Projected Costs to Medicare Trust Fund

$184,136,120

Total-SSA Disagrees With OIG Finding

32 cases

Projected Cost to Medicare Trust Fund

$420,885,010

Recommendation 1

Develop a process to ensure income and resource amounts appearing on all future applications are subjected to appropriate methods of verification.

Comment

We agree in theory, as this recommendation should be modified to state that we need to ensure all subsidy decisions are documented. We have already developed a verification process that conforms to the MMA’s requirements for a simplified application based on attestation subject to appropriate verification. Our verification process matches application data with IRS, Office of Personnel Management, Department of Veterans Affairs, Railroad Retirement Board, and OCSE, and generates a verification issue to FOs if the match identifies material discrepancies affecting subsidy eligibility. In addition to us issuing an Administrative Message (AM-07086) on June 21,
2007, our Office of Training conducted a national training broadcast on June 28, 2007 to remind employees of the appropriate documentation requirements. In addition, a Medicare Application Processing System edit was implemented on November 17, 2007 to require the completion of a Report of Contact to document the verification development. These actions should improve our documentation of the verification determination.

**Recommendation 2**

Work more closely with the IRS to obtain timely income and resource data and use this data to verify low-income subsidy eligibility.

**Comment**

We disagree. We do not believe there are any further steps we can take with IRS to obtain more timely data. While we agree that close cooperation with the IRS is vital, it is important to point out that we worked with IRS to establish a process that provides us the best available data that IRS can provide. We request data from IRS each Friday of every week, for verification of income and resources. IRS, by agreement, responds by the second Wednesday (12 days) after the request, with income and resource data, if available, for each beneficiary requested.

**Recommendation 3**

Ensure its redetermination process identifies and terminates improperly awarded subsidies currently in effect.

**Comment**

We agree with the intent. Our subsidy redetermination process determines prospective subsidy eligibility. Our Office of Quality Performance will be evaluating our redetermination process to determine if any adjustments in the redetermination profiling process are necessary in identifying individuals no longer eligible for the subsidy. We will review the findings once the review is complete.
OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

In addition to those named above:

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Brennan Kraje, Statistician

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