
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION



**THE SOCIAL SECURITY ADMINISTRATION'S
USE OF AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009 FUNDS TO
ADMINISTER ECONOMIC RECOVERY PAYMENTS**

September 2010

A-06-10-10124

AUDIT REPORT



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.



SOCIAL SECURITY

MEMORANDUM

Date: September 30, 2010

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Use of *American Recovery and Reinvestment Act of 2009* Funds to Administer Economic Recovery Payments (A-06-10-10124)

OBJECTIVE

Our objective was to determine whether administrative costs incurred to administer economic recovery payments¹ (ERP), authorized as part of the *American Recovery and Reinvestment Act of 2009* (ARRA), were valid and appropriate.

BACKGROUND

On February 17, 2009, ARRA was signed into law.² ARRA provided for a one-time payment of \$250 to certain Social Security beneficiaries and Supplemental Security Income recipients whose address of record was 1 of the 50 States, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands.³ The Social Security Administration (SSA) was required to identify the individuals entitled to receive the payments and provide the Secretary of the Treasury with information required to disburse the payments.⁴ ARRA provided SSA up to \$90 million for costs incurred in carrying out the ERP section⁵ of ARRA and the Department of the Treasury (Treasury) up to \$131 million for administrative costs

¹ These payments are also referred to as "stimulus payments" or "one-time payments."

² Pub. L. No. 111-5, February 17, 2009.

³ ARRA §§ 2201(a)(1)(A) and (a)(2). Eligible individuals generally include all (1) Old-Age, Survivors and Disability Insurance beneficiaries except children and Medicare-only beneficiaries and (2) Supplemental Security Income recipients except individuals receiving Medicaid in care facilities. See ARRA § 2201(a)(1)(B).

⁴ ARRA § 2201(b). Individuals eligible for benefits for any of the 3 months before the month of enactment of ARRA (that is, November 2008, December 2008, and January 2009) may receive the one-time payment. ARRA § 2201(a)(1)(A).

⁵ ARRA § 2201.

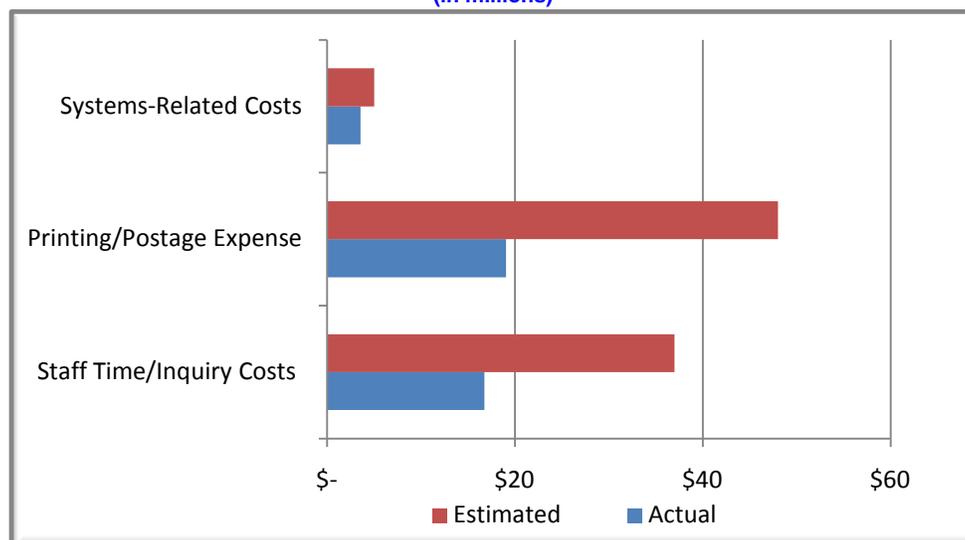
incurred in carrying out specified provisions of ARRA.⁶ From May through December 2009, SSA certified ERPs for approximately 52 million individuals totaling about \$13 billion.

In July 2009, we issued a report, *Administrative Expenses Incurred to Provide Economic Recovery Payments*, that assessed SSA's plans to account for the \$90 million provided to administer the ERPs. In that report, we concluded that SSA was positioned to account for ERP-related administrative expenditures in a manner that would allow for transparency and accountability of ARRA funds. We found that SSA took action in accordance with Office of Management and Budget guidance, identified potential administrative costs to provide the ERP, and implemented plans to track and report the identified costs. We also reported that SSA consolidated informational mailings and reduced overall estimated administrative expenditures by approximately \$20 million. See Appendix B for information on the scope and methodology of this review.

RESULTS OF REVIEW

Administrative costs incurred to administer ERPs were generally valid and appropriate. SSA has spent considerably less than the \$90 million provided for administrative costs related to the issuance of the ERPs. As of February 2010, SSA had obligated approximately \$39 million in ARRA funds to administer the ERPs, and by the end of Fiscal Year (FY) 2011, the Agency could return as much as \$50 million in unused funds to Treasury.

COMPARISON OF SSA ESTIMATED EXPENSES VERSUS ACTUAL (in millions)



⁶ ARRA §§ 2201(e)(1) and (2)(B).

The vast majority of expenses charged against the appropriation was valid and supported. However, we identified approximately \$520,000 in ERP-related administrative costs that SSA incurred but did not charge to the appropriation. We also identified a relatively small expenditure, totaling approximately \$45,000, that SSA should not have charged against the appropriation. Finally, SSA implemented controls to reduce ERP duplicate check negotiations, but did not incorporate the changes into cost estimates used to justify accounting system modifications needed to monitor and collect related overpayments.

ERP-RELATED TRAINING COSTS NOT CHARGED TO ARRA APPROPRIATION

SSA incurred approximately \$520,000 in personnel costs related to post-ERP customer service-related training but did not charge the costs against the ARRA administrative appropriation. SSA provided separate training sessions for its employees regarding handling customer inquiries both before and after the ERPs were issued. To quantify these expenditures, SSA used a formula based on the length of training time and the number of individuals in key functional areas⁷ who attended the training. SSA correctly charged the administrative appropriation for costs related to training conducted prior to ERP issuance; however, SSA did not charge the appropriation for additional costs incurred to provide the post-ERP training session. SSA confirmed this oversight and reclassified these expenditures in March 2010.

SSA PERSONNEL STAFF TIME FOR PLANNING POSSIBLE SECOND ERP

SSA improperly charged the ARRA administrative appropriation for approximately \$45,000 of staff time expended to plan for a hypothetical second round of stimulus payments. The Office of Systems tracked its employee staff hours related to ARRA ERP activity via specific codes established in its Resource Accounting System. According to SSA's records, Systems staff spent 699.25 hours for non-developmental work spent planning for a potential second round of ERPs. We believe these expenditures were not in accordance with the intent of ARRA, and that SSA should not have charged them against the ARRA administrative appropriation. Our Office of Counsel to the Inspector General reviewed ARRA and determined no authority exists in ARRA to permit SSA to charge staff hours for planning a potential second ERP against the administrative funds provided by ARRA. Based on our analysis, SSA took steps in July 2010 to reclassify these staff hours.

ACCOUNTING SYSTEM MODIFICATION EXPENDITURE

In May 2009, SSA used ARRA funds to award a \$1.25 million contract for accounting system modifications needed to monitor and collect amounts due from individuals who received ERPs they were not entitled to receive. SSA approved this expenditure based

⁷ The key functional areas identified by SSA were all offices or employees under the Deputy Commissioner for Operations. They included field offices, teleservice centers, select benefit authorizers in the program service centers, customer service technicians, and for post-ERP training only, benefit technical examiners and development support examiners responsible for handling check non-receipts.

on estimates that 15,000-20,000 ERPs (worth \$3.75 million to \$5 million) would be paid incorrectly—that is, individuals would allege non-receipt of ERP checks and cash both the original and replacement checks. According to SSA's Office of the General Counsel, because the ERPs were not considered benefit payments, related double-check negotiation overpayments could not be collected through SSA's normal debt collection process. Instead, SSA paid a contractor to modify its administrative debt collection process to handle this workload.

Prior to contract award, SSA implemented controls to mitigate ERP double-check negotiations by instructing Treasury to check the status of the original ERP before issuing replacement ERPs. This action likely minimized the number of double-check negotiations, greatly reducing potential amounts requiring collection. However, SSA did not revise its estimate of the number incorrect ERPs. As of May 2010, the Agency identified only about \$220,000 that required collection.⁸

CONCLUSION AND RECOMMENDATIONS

Administrative costs incurred to administer ERPs were generally valid and appropriate. At the time of our audit, SSA had spent only about \$39 of the \$90 million appropriated to fund administrative costs related to issuance of ERPs and could return as much as \$50 million in unused funds to the Treasury by the end of FY 2011. We identified ERP-related training expenses totaling \$520,000 that SSA should have charged, and a small expenditure totaling about \$45,000 that SSA should not have charged, against the administrative appropriation. SSA took prompt action to reclassify both expenditures. Also, SSA implemented controls to reduce ERP double check negotiations, but did not incorporate these changes into cost estimates used to justify accounting system modifications.

As such, we recommend that SSA ensure cost-benefit analyses for accounting system modifications incorporate all relevant factors into the decision-making process.

AGENCY COMMENTS

SSA agreed with the recommendation. Specifically, where cost-benefit analyses for accounting system modifications are appropriate, the Agency will consider all relevant factors. SSA also informed us that on August 10, 2010, the President signed Public Law 111-226, which rescinded \$47 million of SSA's unused ARRA funds. The full text of SSA's comments is included in Appendix C.



Patrick P. O'Carroll, Jr.

⁸ As of May 2010, actual collections on this debt totaled only about \$15,000.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Agency Comments

APPENDIX D – OIG Contacts and Staff Acknowledgments

Acronyms

ARRA	<i>American Recovery and Reinvestment Act of 2009</i>
ERP	Economic Recovery Payment
FY	Fiscal Year
Pub. L. No.	Public Law Number
SSA	Social Security Administration
Treasury	Department of the Treasury

Scope and Methodology

We reviewed the administrative expenses incurred by the Social Security Administration (SSA) to administer the economic recovery payments (ERP) from February 2009 through February 2010. This time period included expenses incurred in Fiscal Year (FY) 2009 and part of FY 2010. To achieve our objectives, we:

- Reviewed applicable sections of the *American Recovery and Reinvestment Act of 2009* (ARRA).
- Reviewed Office of Management and Budget (OMB) Memorandums M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, February 18, 2009, and M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009.
- Reviewed the SSA Agency-wide and Program Specific Plans submitted to OMB.
- Reviewed SSA accounting and administrative instruction manuals.
- Interviewed Headquarters personnel in the Offices of Financial Policy and Operations, Systems, and Operations who were associated with tracking, monitoring, or reporting the administrative expenses related to the ERP.
- Obtained and reviewed all invoices and contracts related to ARRA ERP expenses.
- Identified SSA's controls for tracking and monitoring ARRA ERP administrative expenses.

We performed our review from February to June 2010 in Dallas, Texas. We tested the data obtained for our audit and determined it to be sufficiently reliable to meet our objectives. The entities audited were the Offices of the Deputy Commissioners for Budget, Finance and Management; Operations; and Systems. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 29, 2010 **Refer To:** S1J-3

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

From: James A. Winn/s/
Executive Counselor to the Commissioner

Subject: Office of the Inspector General (OIG) Draft Report, "SSA's Use of American Recovery and Reinvestment Act of 2009 Funds to Administer Economic Recovery Payments"
(A-06-10-10124)--INFORMATION

Thank you for the opportunity to review the subject report. Please see our attached comments.

Please let me know if we can be of further assistance. Please direct staff inquiries to Rebecca Tothoro, Acting Director, Audit Management and Liaison Staff, at extension 66975.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, THE SOCIAL SECURITY ADMINISTRATION'S USE OF AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 FUNDS TO ADMINISTER ECONOMIC RECOVERY PAYMENTS (A-06-10-10124)

Thank you for the opportunity to review the draft report. We offer the following.

PAGE SPECIFIC COMMENTS

Page 2, 2nd full paragraph, last sentence reads in part:

“the Agency could return as much as \$50 million in unused funds to Treasury.”

Comment

On August 10, 2010, the President signed Public Law 111-226 which rescinded \$47 million. Specifically, title III, Section 318 of the law states, “Of the funds appropriated for the Commissioner of Social Security under section 2201(e)(2)(B) in title II of division B of Public Law 111-5, \$47,000,000 are rescinded.”

We will reflect this in our financial statements.

Conclusions and Recommendations, next to last sentence reads:

“Also, SSA implemented controls to reduce ERP double check negotiations, but did not incorporate these changes into cost estimates used to justify accounting system modifications.”

Comment

We processed economic recovery payments (ERP) outside existing systems; so, we modified our accounting system and used it in managing ERP overpayment and collection activity. Before modifying our systems, we considered all relevant factors, conducted a comprehensive cost-benefit analysis (CBA), and made decisions accordingly. We also considered the scenario of double ERPs being less than our initial estimate of 15,000-20,000 before we approved the accounting system modification. We were aware that fixed costs to modify the system might exceed the potential debt; but we considered other “relevant factors” and did not base our decision solely on a dollars and cents CBA. Because we were prudent in working with Treasury to avoid double payments before they occurred, the number of double payments was smaller than we had anticipated when we first calculated the CBA. We believe that is a good thing.

Furthermore, Congress expected that we would do what we could to avoid paying beneficiaries two ERPs. Section 2201(a)(3) of the *American Reinvestment and Recovery Act*, PL 111-5, reads:

“NO DOUBLE PAYMENTS -- an individual shall be paid only 1 payment under this section, regardless of whether the individual is entitled to, or eligible for, more than 1 benefit”

While this section of the law specifically prohibits double payments to beneficiaries covered by more than one Federal program, the congressional intent is clear that a person may receive only one payment. We considered this intent as well as our stewardship responsibilities to pursue reimbursement of duplicate payments in all of our programs.

RESPONSE TO RECOMMENDATION

Recommendation

Ensure cost-benefit analyses for accounting system modifications incorporate all relevant factors into the decision-making process.

Response

Where CBAs are appropriate, we will consider all relevant factors. We conducted a CBA in this case and made proper decisions based on the best information available at that time. However, CBAs are not always appropriate for every modification. Accounting systems must meet strict Federal requirements; therefore, every modification does not necessarily produce a classic return on investment. They must comply with generally accepted accounting standards, and cost is only one issue.

We consider all relevant factors when making our decisions, and we are leaders in the Federal financial community. On June 28, 2010, the Office of Management and Budget (OMB) issued Memorandum 10-26, "Immediate Review of Financial Systems Information Technology (IT) Projects." In that memorandum, OMB announced the establishment of a "Financial Systems Advisory Board" (FSAB) with responsibility for reviewing agencies' proposed IT projects. On August 20, 2010, we met with the FSAB and presented our planned activities for the next two years. We are awaiting formal approval, but the board commented that we have a proven record of planning for change, and that we garner value from our IT investments.

We will continue to abide by OMB and FSAB standards when making decisions about accounting system modifications, and we will continue to conduct a formal CBA when necessary and applicable to the proposed modification(s). This is our standard practice, and we will continue to apply it in the future. We consider this issue closed and will take no further actions concerning your recommendation.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Ron Gunia, Director, Dallas Audit Division

Jason Arrington, Audit Manager

Acknowledgments

In addition to those named above:

Chasity Crawley, Senior Auditor

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Social Security Advisory Board

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.