Improper Payments

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FOR AUDIT
SOCIAL SECURITY ADMINISTRATION

Overview

- Background of Improper Payments
- Role of IG Community
- SSA OIG Activities
- What's Next
- Questions

Background

- Improper Payments Act of 2002
  - Recovery Auditing Act of 2002
- Executive Order 13520 November 2009
  - M-10-13 - Part II of OMB Circular A-123 Appendix C (March 22, 2010)
- Improper Payments Elimination and Recovery Act of 2010 (July 2010) – Repeals Recovery Auditing Act of 2002
  - M-11-04 – Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Recapture Audits (November 2010)

    - www.whitehouse.gov/omb/financial_fia_improper/

2010 Improper Payment Statistics

"For 2010, federal agencies reported a government-wide improper payment rate of 5.49%, a decrease from the 5.65% improper payment rate that was reported in 2009, but more than the original target of 5.33% established last year. Despite the lower improper payment rate, due to higher outlays associated with the economic downturn, improper payments totaled approximately $125 billion in 2010 - an increase of $15 billion from 2009."

- Source: www.paymentaccuracy.gov

2010 Improper Payment Statistics

High-Error Programs

Of the 79 risk-susceptible programs in 2010, the Office of Management and Budget (OMB) designated 14 programs as "high-error". OMB designates a program as high-error based on improper payment information in agencies' annual performance and financial reports. The criteria for determining when a program is high-error are found in OMB guidance. The high-error programs are those programs that reported roughly $750 million or more in improper payments in 2009, which did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or which have not yet established a program error rate and have measured components that were above the threshold. 11 out of the 14 high-error programs made up 94% of all reported improper payments. OMB will identify the 2011 high-error programs in February 2011.

Select a program from the list below to view program details:

Program	Agency	Total Payments (outlays)	Improper Payment Amounts	Improper Payment Rates
Medicare Fee-for-Service	Department of Health and Human Services	$326.4B	$34.3B	10.5%
Medicaid	Department of Health and Human Services	$239.0B	$22.5B	9.4%
Unemployment Insurance (UI)	Department of Labor	$156.0B	$17.5B	11.2%
Medicare Advantage (Part C)	Department of Health and Human Services	$96.4B	$13.6B	14.1%
Supplemental Security Income (SSI)	Social Security Administration	$48.3B	$4.8B	10.0%
Retirement, Survivors, and Disability Insurance (RSDI)	Social Security Administration	$659.6B	$3.2B	0.5%
Supplemental Nutrition Assistance Program (SNAP)	Department of Agriculture	$50.4B	$2.2B	4.4%
National School Lunch Program (NSLP)	Department of Agriculture	$8.9B	$1.5B	16.3%
Rental Housing Assistance Programs	Department of Housing and Urban Development	$30.0B	$0.9B	3.1%
Children's Health Insurance Program (CHIP)	Department of Health and Human Services	$8.9B	NR	NR
Earned Income Tax Credit (EITC)	Department of the Treasury	$64.2B	NR	NR
High Cost Program of the Universal Service Fund	Federal Communications Commission	$4.6B	NR	NR
Medicare Prescription Drug Benefit (Part D)	Department of Health and Human Services	$58.8B	NR	NR

NR: No data has been reported for the current period

Note: All amounts are in billions of dollars

FY 2010 Improper Payments

Government-wide	$125 billion
• Social Security Administration	$8 billion
• Health and Human Services	$71.4 billion
• Department of Labor	$17.5 billion

Inspector General Role

- Council of the Inspectors General on Integrity and Efficiency
  - Chair – Hon. Phyllis K. Fong, Agriculture IG
  - Vice-Chair – Mr. Carl A. Clinefelter, Farm Credit Administration IG
- IG community has primarily served in the role of consultant as a part of the OMB workgroup on improper payments:
  - Dashboard contents
  - Proposed guidance
  - Centralized Public Reporting of Suspected Fraud (www.paymentaccuracy.gov REPORT FRAUD, WASTE AND ABUSE) – Directs user to the respective IG's website.
  - Forensic Audits
  - Data Sharing
  - National Procurement Fraud Task Force

Inspector General Role

Specific IG Responsibilities under EX-O 13520

- Review and issue a report on Agency Accountable Official Report on Improper Payments
- Review and issue a report on Agency Quarterly High Dollar Reports

Inspector General Role

- Under IPERA, IG Community will
  - Provide comments to OMB
  - Coordinate with CFO Council on:
    - Study of Recovery Audit Activities
    - Lessons Learned during First 20 Years of Implementing CFO Act of 1990
  - Report on Agency Compliance
    - If 2 years of non compliance, OMB may direct Agency to obligate additional funds toward addressing improper payments

SSA OIG Activities

- Liaison for collecting OIG-wide concerns
- Audits focused on Identifying Improper Payments

What's Next

- Continuing the Improper Payment Emphasis
- Evaluating Success of the Initiative
  - Have We Really Met the Expected Goals
  - Is The Effort Cost Beneficial
    - Has Real Change Occurred

Conclusion

The ultimate success of the governmentwide effort to reduce improper payments hinges on each federal agency's diligence and commitment to identify, estimate, determine the causes of, take corrective actions, and measure progress in reducing improper payments.

Statement of Kay L Daly, Director
Financial Management and Assurance, GAO
April 9, 2009

Questions?

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Risk-Based Approach to Fraud Detection and Preventing Improper Payments

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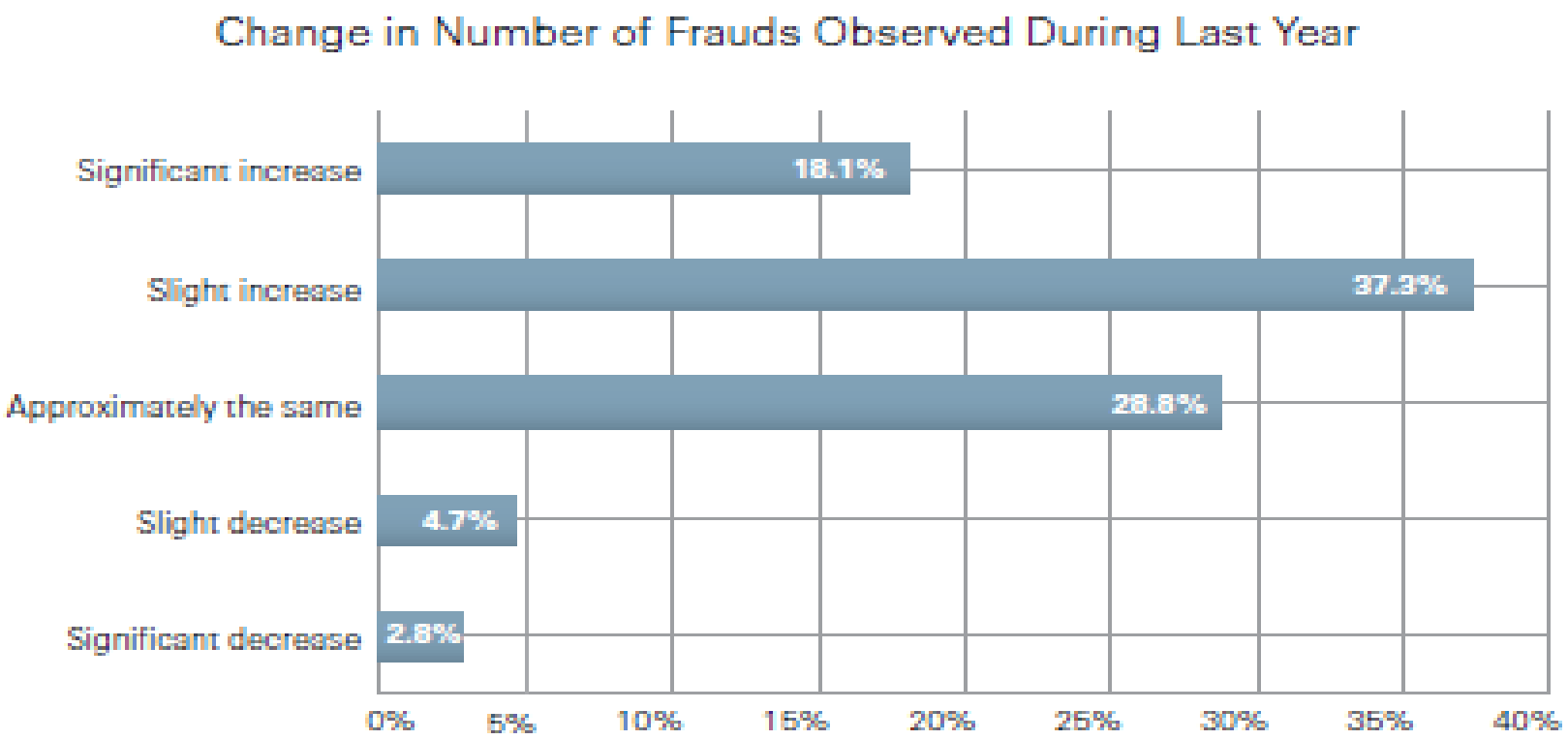
Fraud overview – recent trends

The number and amount of frauds are increasing. In a recent survey of 507 CFEs cited in *Compliance Week* (April 20,2009)

- 55% say the number of frauds increased during the past year when compared to the level of fraud observed in prior years
- 49% observed an increase in $ amount lost to fraud
- 88% anticipate a slight or significant increase in fraudulent activity during the next 12 months

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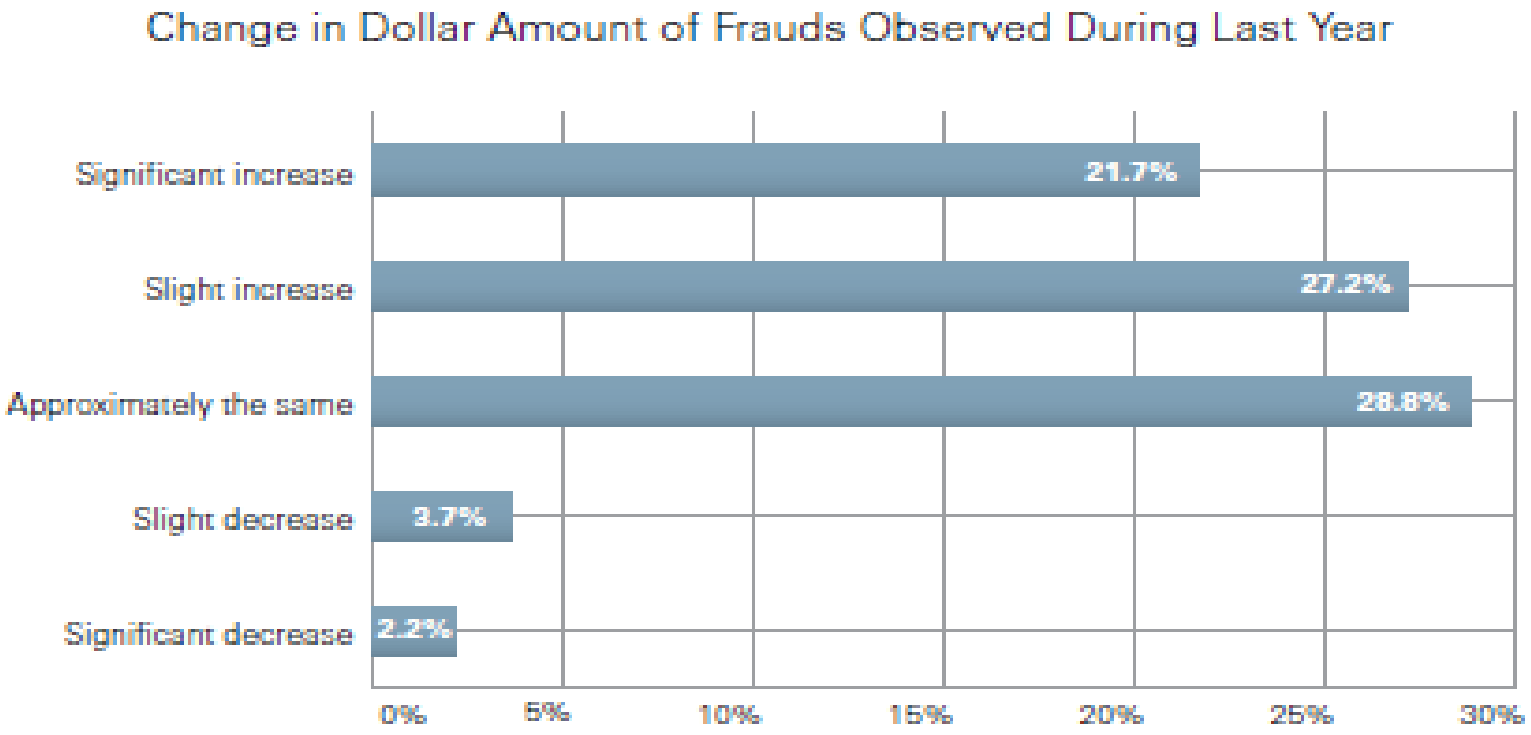
Fraud overview – recent trends



Source ACFE, *Occupational Fraud: A Study of the Impact of an Economic Recession*

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Fraud overview – recent trends



Source ACFE, *Occupational Fraud: A Study of the Impact of an Economic Recession*

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Fraud overview – recent trends

Median Loss Based on Presence of Anti-fraud Controls				
Control	**% of Cases Implemented**	**Yes**	**No**	**% Reduction**
Surprise Audits	25.5%	$70,000	$207,000	66.2%
Job Rotation / Mandatory Vacation	12.3%	$64,000	$164,000	61.0%
Hotline	43.5%	$100,000	$250,000	60.0%
Employee Support Programs	52.9%	$110,000	$250,000	56.0%
Fraud Training for Managers / Executives	41.3%	$100,000	$227,000	55.9%
Internal Audit / FE Department	55.8%	$118,000	$250,000	52.8%
Fraud Training for Employees	38.6%	$100,000	$208,000	51.9%
Anti-Fraud Policy	36.2%	$100,000	$197,000	49.2%
External Audit of ICOFR	53.6%	$121,000	$232,000	47.8%
Code of Conduct	61.5%	$126,000	$232,000	45.7%
Management Review of IC	41.4%	$110,000	$200,000	45.0%
External Audit of F/S	69.6%	$150,000	$250,000	40.0%
Independent Audit Committee	49.9%	$137,000	$200,000	31.5%
Management Certification of F/S	51.6%	$141,000	$200,000	29.5%
Rewards for Whistleblowers	5.4%	$107,000	$150,000	28.7%

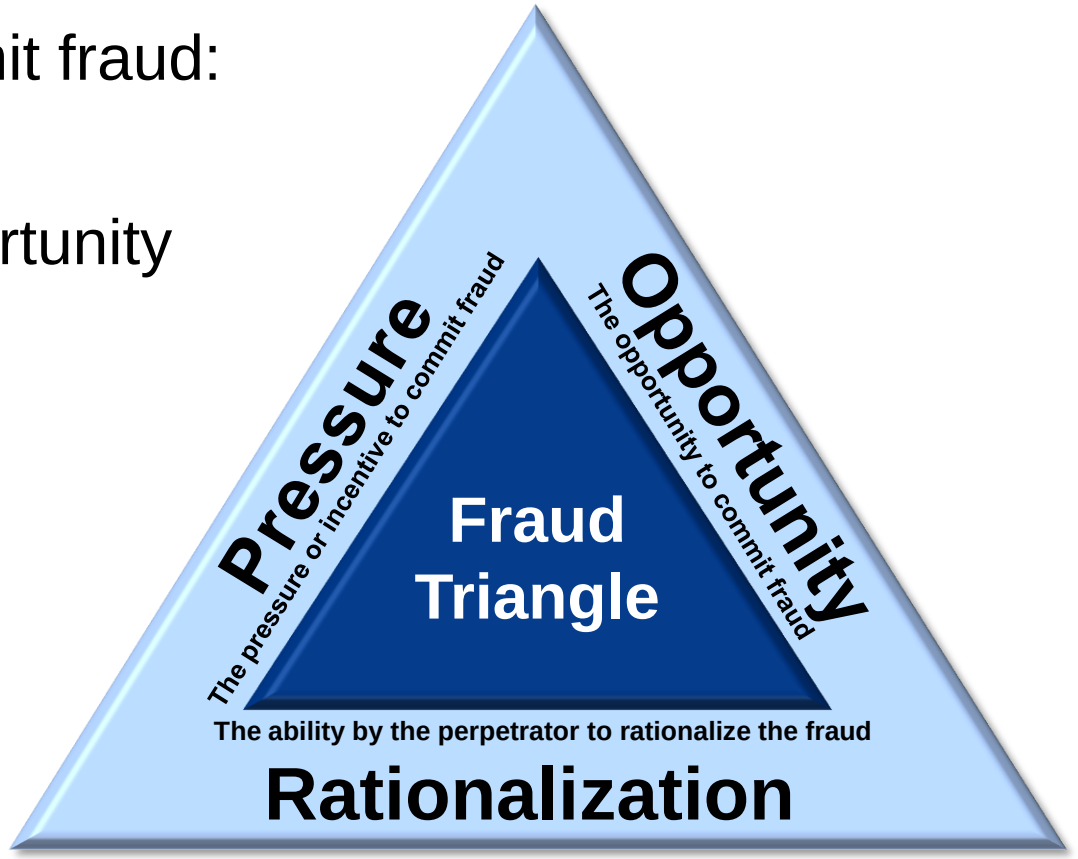
Source: ***ACFE Report to the Nation***

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Fraud triangle

Why do people commit fraud:

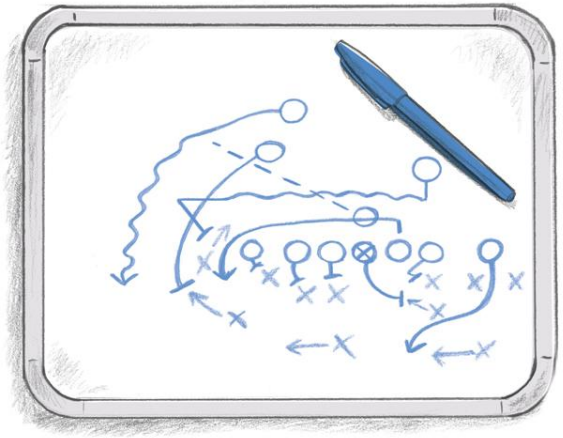
- Financial pressure
- Perception of opportunity
- Rationalization



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Typical examination procedures

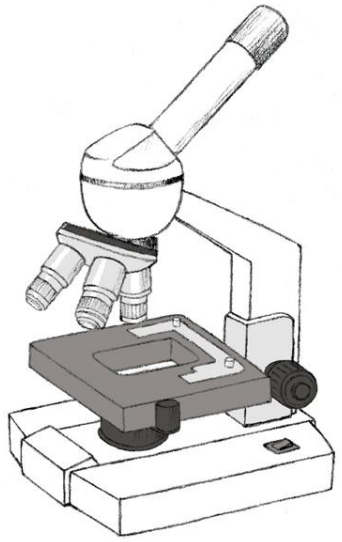
- Perform fraud risk assessment
- Introduce random audit tests
- Use computer-assisted audit techniques (CAAT) to identify red flags of fraud
  - Range checks
  - Sequence checks
  - Reasonableness checks



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"Professional skepticism"

- Study large complex transactions
- Look for strange or unusual patterns
- Interview key employees
- Test and verify information
- Sufficient competent documentary evidence
- Examine third party relationships



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How can fraud and improper payments be prevented?

A risk-based approach to fraud and improper payment prevention helps prioritize where and how to spend time and valuable resources

- Convene a roundtable discussion with key stakeholders
- Determine the quantitative and qualitative factors
- Consider the use of technology
- Look for red flags



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Risk assessment – risk identification & analysis

Internal considerations

1. Use of various qualitative and quantitative methods
2. Discussion with Senior-Level Managers
3. Employee awareness and upward communication
4. Impact of downsizing on personnel/poor succession planning
5. Employee sabotage and system security weaknesses

External considerations

1. Technological advancements
2. Shared services and external audit findings
3. Changing legislative requirements and new laws/regulations
4. Decentralized operations
5. Impact of economic changes

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Rate identified risks

Likelihood of risk occurring

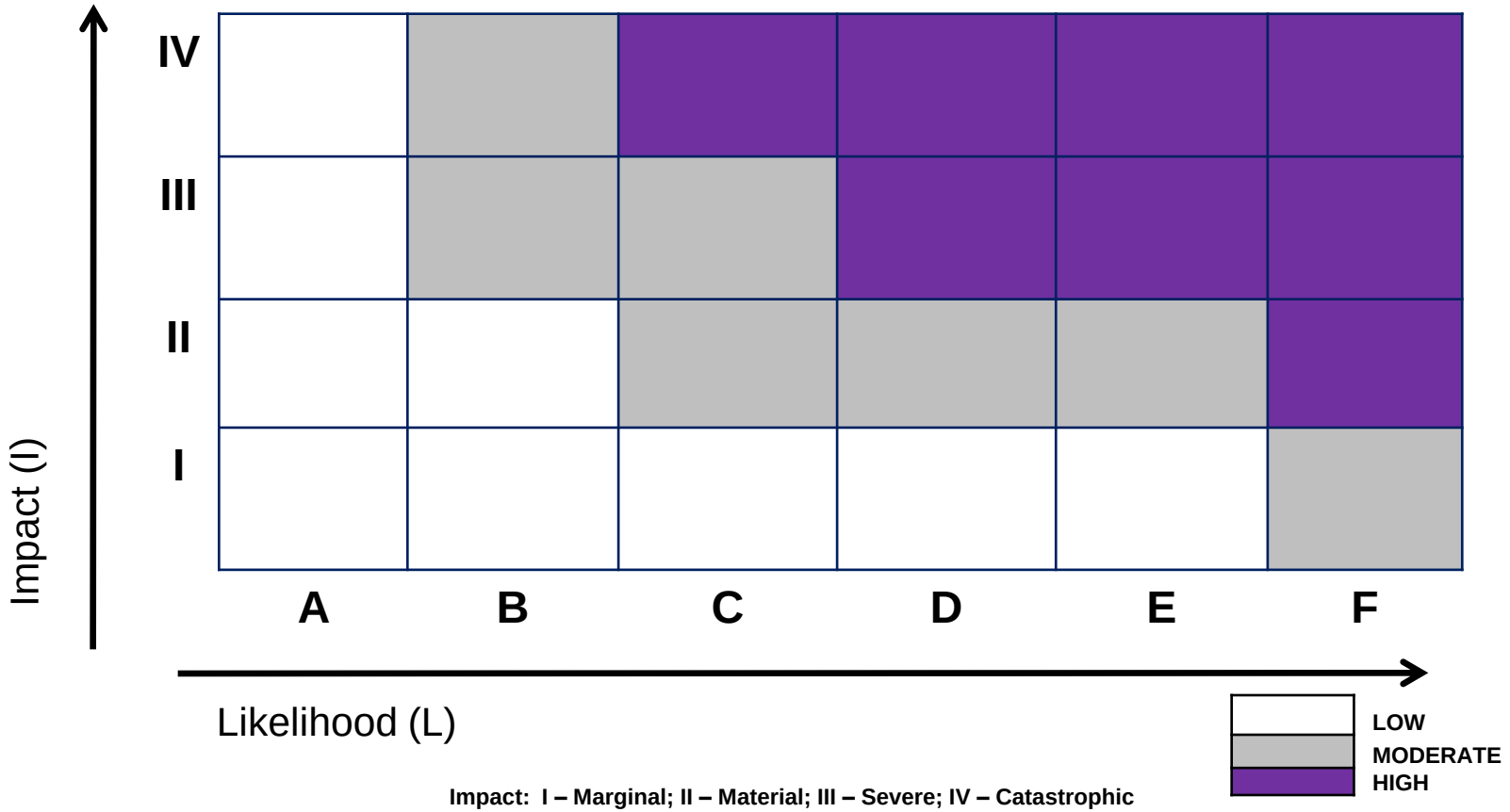
- A – Almost Impossible
- B – Remote
- C – Low
- D – Reasonably Possible
- E – Probable
- F – Very High

Impact if risk occurs

- I – Marginal
- II – Significant
- III – Severe
- V - Catastrophic

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Risk mapping



Impact: I – Marginal; II – Material; III – Severe; IV – Catastrophic
Likelihood: A – Almost Impossible ; B – Remote; C – Low; D – Reasonably possible; E – Probable; F – Very High

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Risk strategies

- **Avoidance** - Do not proceed with the activity
- **Mitigation** - Reduce the likelihood/impact via improved control
- **Transfer**- Shift responsibility to an external party
- **Acceptance** - Accept the level of risk
- **Creation** – Seek risk activities strategically in an effort to maximize opportunities

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Risk management – operation approach

1. **Internal controls** mitigate potential risks

2. Risks mitigated by controls may have **residual risk**

3. Internal control effectiveness is **monitored and tested** periodically

4. Residual risk and control effectiveness is reported to company **governance** structure

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Risk management maturity model



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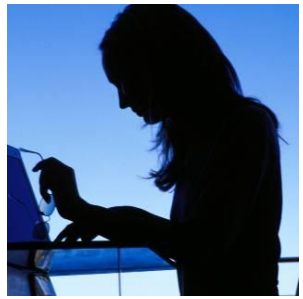
Best practices for a risk-based approach

- Use a **Framework**, with oversight
- Develop a **Charter** with principles/standards
- Understand this is a **Journey**, not a self-contained project
- This is a **Full-time** initiative
- Designate a **Champion** with active top-down support
- Understand your **risk appetite**
- Understand your r**isk tolerance**
- Determine if the approach should be **manual, semi-automated, software automated or enterprise automated**
- **Integrate** with other initiatives (IPERA, A-123, internal audit)
- **Institutionalize** risk assessments and accountability
- **Measure** progress and success in small increments
- Make sure the process or solution is **easy to configure, flexible and has the ability to grow with the organization**

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Automating the Reconciliation Process to Reduce Risk, Boost Efficiency and Gain Transparency

Overview

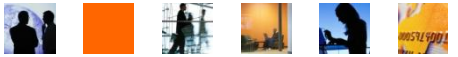
Improper Payments, Fraud and Automated Reconciliation

Key Market Drivers for Reconciliation

Automated Reconciliation

- Methods for Performing Reconciliations
- Reconciliation Automation Maturity Model
- Types of Reconciliations
- Reconciliation/Financial Close Process

What to look for in an automated solution?



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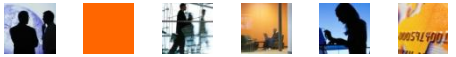
Improper Payments, Fraud and Automated Reconciliation

An automated reconciliation solution can help reduce improper payments due to:

- Data entry errors or issues
- Lack of verification of key information
- Incorrect classification of payments

An automated reconciliation solution can help reduce fraud by:

- Providing system based audit trails and controls
- Requiring electronic sign-offs and approval chains
- Enforcing exception management and workflow processes and eliminating manual steps

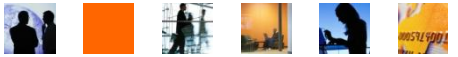


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Improper Payments, Fraud and Automated Reconciliation

An automated reconciliation solution can be leveraged in other areas of the organization as well:

- Other operational accounts
- Reconciling bank statements, AP/AR, etc.
- Proving the balance sheet
- Other non-financial data



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Key Market Drivers

Reduce Risk

- Reduce exposure to losses (improper payments, aged items, manual process risk)

Improve Efficiency

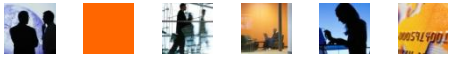
- Reduce Paper/Manual costs
- Reduce Effort (reallocation of staff)
- Handle increasing volumes

Improve Compliance

- Internal – satisfy internal compliance needs more readily
- External – meet various market/industry regulations and requirements

Improve Standardization

- Single platform for reconciling/reporting/etc
- Easier to manage, maintain and train



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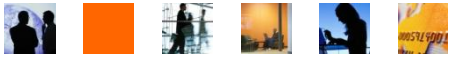
Client Case Study

Company Profile:

- Large Financial Services Organization

Company Pain Points:

- Compliance: Inability to accurately fund their federal reserve capital account resulting in fines and additional oversight
- Standardization: Multiple reconciliation systems driving additional costs, process and IT inefficiencies
- Efficiency: Inability to effectively push key transactional and business knowledge out into the organization resulting in inadequate decision support tools and lower customer services



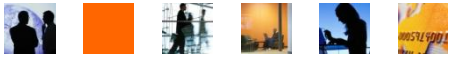
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Client Case Study

Solution:

Single Enterprise Reconciliation/Exception Management Platform

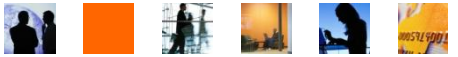
- Eliminated Fed reserve account funding inaccuracies and met SEC requirements for process improvement (85M$ error)
- Over 96% of GL and DDA Accounts under common process and controls
    - Fully automated reconciliation
    - Standard Reporting
    - Standard Account Certification (and sign-off)
- Up to 100 FTE savings within 2 years of implementation
- 3M$ annually reduction
- Exception resolution integrated into the system



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Methods for Performing Reconciliations

- **Manual**
- **Semi Automated**
- **Source Software Automated**
- **Enterprise Automation**

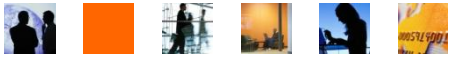


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Methods for Performing Reconciliations

Manual

- Overview
  - Paper based reports and extracts
  - Use highlighters, 10 key and paper to perform reconciliations
- Pros
  - For reconciliations where sources are manual (only printed report/fax/etc) and volumes are low it can be a simple solution
- Cons
  - Risk for errors/manipulation
  - Labor intensive
  - Lack of audit trail

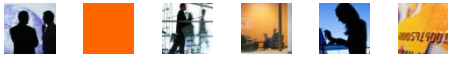


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Methods for Performing Reconciliations

Semi Automated

- Overview
  - Excel or spreadsheet based
  - Macros may be used to automate data source loads and/or matching
- Pros
  - Existing technology infrastructure (i.e. Excel)
  - Can automate some manual tasks
- Cons
  - Risk for errors/manipulation
  - Still involves manual processing
  - Lack of audit trail

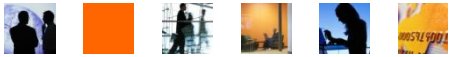


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Methods for Performing Reconciliations

Source System Automated

- Overview
  - Packaged software solution
  - Usually built into one of the source platforms (i.e. General Ledger)
- Pros
  - Simple to use/install
  - Provides a pre-defined level of reconciliation automation
- Cons
  - Usually fixed or pre-defined reconciliation
  - Many different source systems lead to disparate reconciliation processes

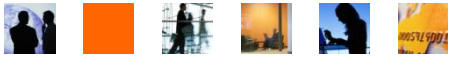


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Methods for Performing Reconciliations

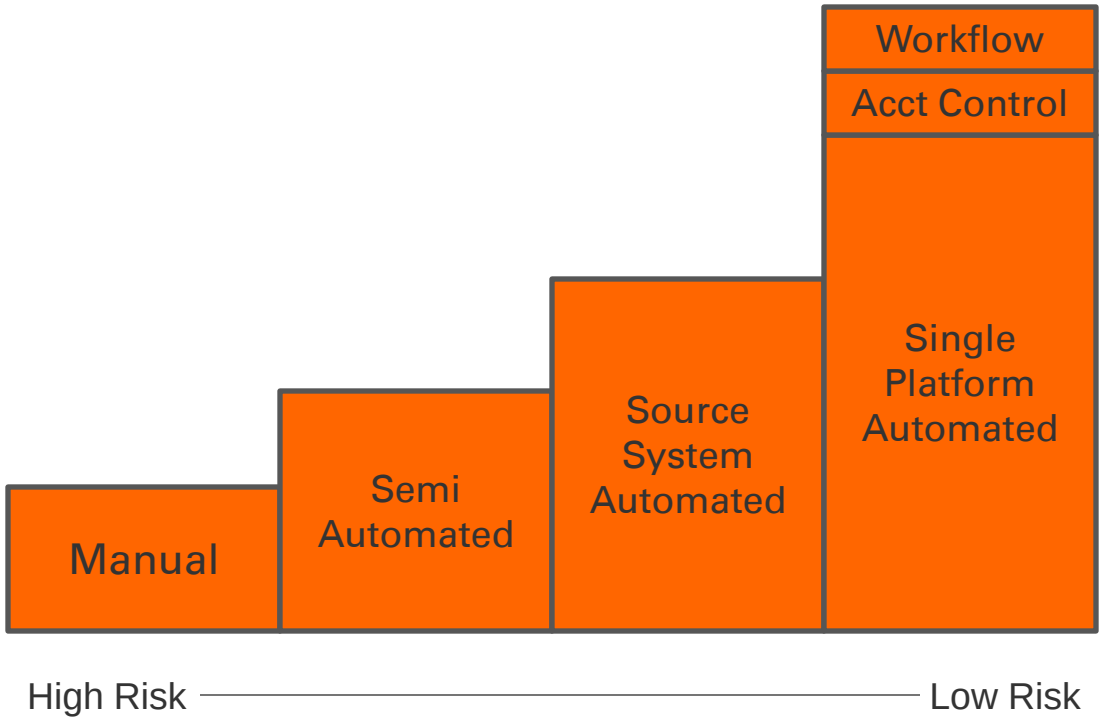
Single Platform Automated

- Overview
  - Single, separate platform for all reconciliations
  - Automatically pull data from various sources and perform recons
- Pros
  - Standardized reconciliation automation
  - Fully audited and centrally controlled
- Cons
  - If not layered in phases, can be time/effort intensive



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Reconciliation Automation Maturity Model



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Reconciliation Categories

Operational – accounts that are generally reconciled at a detailed transaction level

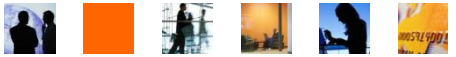
- In many cases, these may not have be fully reconciled back to a GL balance as frequently as exceptions are identified
- Examples: Payments, Suspense and Clearing Accounts, Bank Statements, etc.

Balance Sheet – various types of reconciliations specifically validating G/L Balance Sheet accounts (either at balance or detailed level)

- Could feed detailed results from an operational reconciliation
- Could be a GL only balance that needs to be substantiated (one-sided)
- Could be a GL balance to a sub-ledger either at the summary or detail level

Non Financial – reconciliations done to ensure data integrity between systems

- Examples: Customer records, data warehouse



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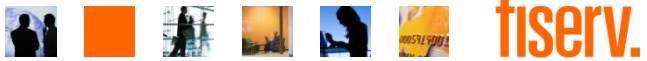
Reconciliation Examples

- Accruals
- Accounting (AR, AP, Assets)
- Adjustments Accounts
- Agency Fees
- Cash
- Collateral Forecasting
- Credit Card Activity
- Deposits
- Disbursements/Checks/ARP
- Dividend Payments
- Electronic Funds Movements
- Foreign Exchange Accounts

- Front-to-back Office
- General Ledger Cost Center Balancing
- Internal Transactions
- Ledger to Sub-ledger Accounts
- Safekeeping Records
- Suspense Accounts
- System-to-System Balancing
- Statements
- Third Party Activity

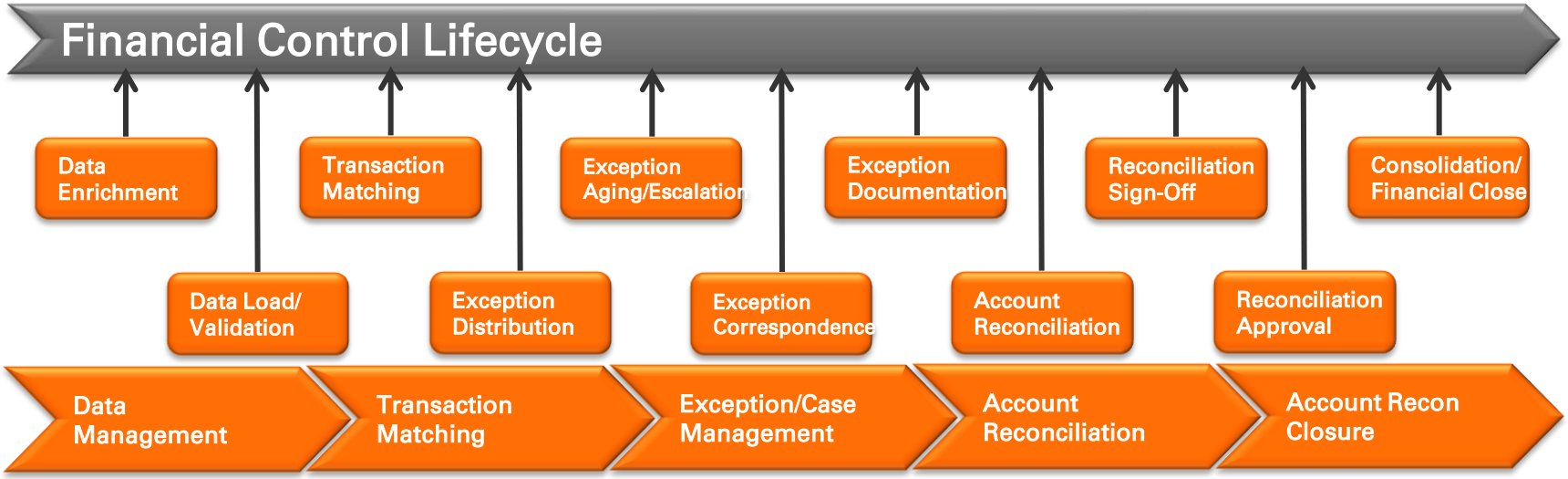
Enterprise Recon

Exceptions



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Reconciliation/Financial Close Process



- Load
- Transform
- Enrich
- Validate
- Export
- Deport
- Purge

- Matching
  - Auto, Proposed, Manual
  - 1-1, 1-n, n-n, Subset
- Exception Identification
- Web Distribution
- Reporting
- Extracts

- Root Cause Identification
- Push Based Escalation
- Automated Correspondence
- Automated Notification
- Automated Corrections and Exports

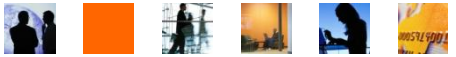
- Proof Calculations
- Point In Time Reconciliation Reporting
- Summary and Detail Level Reporting
- Historical Storage of Reconciliation Snapshots

- Attach Supporting Documentation
- Review and Approve
- Automated Un-approve
- Digital Sign-Off

Configuration Promotion

Archive Management

Reporting and Performance Management



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What to look for in an automated solution?

Easy to configure/maintain

- Little or no programming/scripting

Extensive and complete Audit Controls

- Ensure compliance

Flexible data acquisition and integration

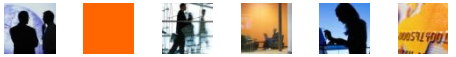
- Ensure ability to pull from new/unknown sources

Flexible data attribute model

- Handle new/unknown reconciliation types

Ability to grow with organization

- Handle increases in volumes, new reconciliation types, etc.



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Thank You

Questions?



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