

Audit Report

Direct Deposit Auto-Enrollment
Fraud Prevention Block

A-06-14-14042 / April 2015

OIG

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: April 22, 2015 Refer To:

To: The Commissioner

From: Inspector General

Subject: Direct Deposit Auto-Enrollment Fraud Prevention Block (A-06-14-14042)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration's Direct Deposit Auto-Enrollment Fraud Prevention block worked as intended and prevented benefit payment diversion.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

Direct Deposit Auto-Enrollment Fraud Prevention Block

A-06-14-14042



April 2015

Office of Audit Report Summary

Objective

To determine whether the Social Security Administration's (SSA) Direct Deposit Auto-Enrollment Fraud Prevention (DDFP) block worked as intended and prevented benefit payment diversion.

Background

Most Social Security beneficiaries are required to receive their payments through direct deposit rather than paper checks. Beneficiaries have a variety of methods available to change their direct deposit account information: they can call or visit an SSA office, call SSA's 800-number, use SSA's Website, or contact their financial institution (auto-enrollment).

Unauthorized direct deposit changes can occur when a perpetrator obtains enough personally identifiable information to redirect a payment from the beneficiary's account into an account they control.

To protect beneficiaries from unauthorized account changes, in November 2012, SSA introduced the DDFP block. Beneficiaries or their representative payees may request a DDFP block because of alleged fraud or as a preventive measure.

As of September 2014, SSA had established fraud blocks on approximately 120,000 beneficiaries' records.

Findings

The DDFP block worked as intended and reduced the risk of direct deposit fraud for those who used the block. We reviewed bank account change activity and reports of benefit non-receipt for approximately 38,000 beneficiaries with DDFP blocks on their accounts. We did not identify any instances where there was an auto-enrollment account change and a subsequent report of non-receipt of benefits after SSA placed a DDFP block on a beneficiary's record. We identified a small number of cases where fraudsters successfully diverted benefit payments through means other than auto-enrollment after SSA added the block to the beneficiaries' records. However, SSA was proactive in taking action to prevent similar errors from occurring in the future.

Beneficiaries we interviewed who had been victims of identity fraud before SSA added the block on their records were generally satisfied with the block and believed it was effective and worked as intended.

We made no recommendations for corrective action.

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ABBREVIATIONS

C.F.R.	Code of Federal Regulations
DDFP	Direct Deposit Auto-Enrollment Fraud Prevention
OIG	Office of the Inspector General
SSA	Social Security Administration

OBJECTIVE

Our objective was to determine whether the Social Security Administration's (SSA) Direct Deposit Auto-Enrollment Fraud Prevention (DDFP) block worked as intended and prevented benefit payment diversion.

BACKGROUND

Most Social Security beneficiaries are required to receive their payments through direct deposit rather than paper checks.¹ SSA beneficiaries have a variety of methods available to change their direct deposit account information. Beneficiaries can call or visit an SSA office, call SSA's 800-number, visit SSA's Website,² or contact their financial institution (auto-enrollment) to change their direct deposit account information.

Unauthorized direct deposit changes can occur when a perpetrator obtains enough personally identifiable information to redirect an SSA payment from the beneficiary's account into an account they control. When this occurs, beneficiaries typically report the non-receipt of benefits to SSA. In October 2011, we began tracking allegations of unauthorized direct deposit changes. As of May 20, 2013, we had received over 36,000 reports of an unauthorized change or suspected attempt to make an unauthorized change to a beneficiary's record.

To protect beneficiaries from unauthorized account changes, in November 2012, SSA introduced the DDFP block. As of September 2014, SSA had established fraud blocks on approximately 120,000 beneficiaries' records. Beneficiaries or their representative payees may request a DDFP block because of alleged fraud or as a preventive measure. If they want to change their account information, they may be required to visit a field office to request the change.³ Once SSA activates a DDFP block on an individual's record, it may only be removed with the beneficiary or representative payee's authorization. When introduced, the DDFP block prevented changes requested through auto-enrollment. In August 2013, SSA updated the block to also prevent direct deposit and address changes requested through its *my Social Security* Website. The block does not prevent changes requested through SSA's field offices.

SSA's Office of Systems provided fraud block data as of July 2013 for our audit. At that time, SSA had established DDFP blocks on about 38,000 beneficiaries' records. For additional information on our scope and methodology, see Appendix A.

¹ 31 C.F.R. § 208.3. See 31 C.F.R. § 208.4 for waivers to this requirement.

² SSA introduced *my Social Security* in May 2012 and made direct deposit information changes available through *my Social Security* as of January 2013.

³ After placement of the DDFP block on a Social Security record, SSA policy states the beneficiary or representative payee may be required to go into the field office for direct deposit and address changes.

RESULTS OF REVIEW

The DDFP block worked as intended and reduced the risk of direct deposit fraud for those who used the block. We reviewed bank account change activity and reports of benefit non-receipt for approximately 38,000 beneficiaries with DDFP blocks on their accounts. We did not identify any instances of an auto-enrollment account change and subsequent report of non-receipt of benefits after SSA placed a DDFP block on a beneficiary's record. However, we identified 24 instances where fraudsters successfully diverted benefit payments through means other than auto-enrollment after SSA added the block to the beneficiaries' records.

- In 11 cases, SSA records indicated that personnel processed account changes after fraudsters who had knowledge of the beneficiaries' personally identifiable information contacted SSA posing as the beneficiary and requested the account changes. After SSA was informed of these diversions, staff placed special messages on the beneficiaries' payment records indicating that future account changes must be conducted in person.
- In 11 cases, SSA records indicated fraudsters used *my Social Security* to divert the beneficiaries' payments before SSA modified the DDFP block to prevent account changes through *my Social Security* in August 2013.
- In two cases, SSA employees failed to change bank account information after beneficiaries reported fraudsters had diverted their benefits. In both cases, SSA employees added fraud blocks on the accounts to prevent future diversions. However, employees did not change the deposit account information back to the beneficiaries' correct account. As a result, SSA deposited three additional benefit payments into accounts established by the fraudsters.

Although every benefit diversion case can significantly impact the beneficiary, we are encouraged that only a small number of diversions occurred after SSA placed the blocks on these accounts and that SSA had taken action to prevent future diversions.

Beneficiaries Generally Satisfied with the DDFP Block

We interviewed 12 beneficiaries in the Dallas, Texas, and Denver, Colorado, metropolitan areas who had been victims of identity fraud before SSA added the DDFP block to their records.⁴ Eleven were satisfied with the fraud block and stated the block was effective and worked as intended.

One beneficiary reported that the DDFP block did not prevent a fraudster from redirecting his benefits. In this case, a fraudster posing as an insurance salesman visited the beneficiary in his home. Believing he was purchasing insurance, the beneficiary provided the "salesman" his personal information, including his Social Security number. After the visit, the beneficiary called the insurance company to speak with the "salesman," but the company informed him the

⁴ Appendix A provides additional information on interviewee selection.

individual was not an employee. Realizing he was a victim of a scam, the beneficiary contacted an SSA field office and a DDFP block was placed on his record. Despite the DDFP block, SSA records indicated the fraudster used the beneficiary's personally identifiable information to make account changes via *my Social Security*. This diversion occurred before *my Social Security* changes were added to the DDFP block in August 2013.

CONCLUSIONS

The DDFP block worked as intended and reduced the risk of direct deposit fraud for those who used the block. We reviewed bank account change activity and reports of benefit non-receipt for approximately 38,000 beneficiaries with DDFP blocks on their accounts. We did not identify any instances of an auto-enrollment account change and subsequent report of non-receipt of benefits after SSA placed a DDFP block on a beneficiary's record. We identified a small number of cases where fraudsters successfully diverted benefit payments through means other than auto-enrollment after SSA added the block to the beneficiaries' records. In these cases, SSA was proactive in taking action to prevent similar diversions from occurring in the future.

We made no recommendations for corrective action.

AGENCY COMMENTS

The Agency's comments are included in Appendix B.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

To accomplish our objectives we:

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General reports concerning direct deposit fraud.
 - ✓ *Direct Deposit Changes Initiated by the Social Security Administration's National 800-Number Staff* (A-02-12-21272), July 10, 2012.
 - ✓ *Direct Deposit Changes Initiated Through Financial Institutions and the Social Security Administration's Internet and Automated 800-Number Applications* (A-14-12-21271), December 20, 2012.
 - ✓ *Controls over the Enrollment Process with the Direct Express® Debit Card Program* (A-15-12-21273), December 21, 2012.
 - ✓ *Controls over Direct Deposit Changes Initiated in Field Offices* (A-06-12-22101), January 23, 2013.
 - ✓ *Non-receipt of Social Security Benefits Due to Unauthorized Direct Deposit Changes* (A-02-13-23004), May 13, 2014.
- Interviewed SSA officials to gain an understanding of the Direct Deposit Auto-Enrollment Fraud Prevention (DDFP) block.
- Reviewed SSA policies and procedures referencing the DDFP block.
- Obtained a listing from SSA's Office of Systems of 37,852 beneficiaries whose records contained a DDFP block as of July 29, 2013.
- Obtained data from SSA's Master Benefit Record, Payment History Update System, and Audit Trail System for each of the 37,852 beneficiaries.
- Identified 1,104 beneficiaries whose records showed a report of non-receipt of benefits after SSA placed the DDFP block.
 - ✓ SSA records for 526 beneficiaries indicated no bank change occurred between the time SSA established the fraud block and the beneficiary reported the non-receipt. We excluded these cases from further review.
 - ✓ For the remaining 578 cases, we
 - reviewed transaction dates for fraud block placement, direct deposit account changes, and reports of non-receipt;

- reviewed the special message posted on the Master Beneficiary Record for evidence of post-fraud block benefit diversion;
- reviewed the source of the bank account changes with transaction dates after fraud block placement dates; and
- interviewed 12 of the 15 beneficiaries who resided within an approximately 100-mile radius of SSA's Regional Offices in Dallas, Texas, and Denver, Colorado.¹ All 12 individuals had been victims of identity fraud before SSA placed the fraud block on their SSA records.

We conducted our audit in Dallas, Texas, from April to November 2014. We tested the data obtained for our audit and determined them to be sufficiently reliable to meet our objective. The entities audited were the Offices of 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹ Three beneficiaries in the Dallas, Texas metropolitan area did not respond to letters, multiple telephone calls, or a visit to their address of record. According to SSA records, one individual died in December 2014. We referred the remaining two cases to the Dallas Region for development.

Appendix B – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: April 9, 2015 Refer To: S1J-3

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

From: Frank Cristaudo /s/
Executive Counselor to the Commissioner

Subject: Office of the Inspector General Draft Report, “Direct Deposit Auto-Enrollment Fraud Prevention Block” (A-06-14-14042) - INFORMATION

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

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “DIRECT DEPOSIT AUTO-ENROLLMENT FRAUD PREVENTION BLOCK” (A-06-14-14042)

General Comments

We appreciate OIG conducting this review and endorsing our position that the Direct Deposit Auto-Enrollment Fraud Prevention Block works as intended. In addition, OIG confirmed our technicians and the public have successfully embraced the application. We are confident that the use of the Direct Deposit Auto-Enrollment Fraud Prevention (DDFP) block will continue to be effective; both our customers and we are already realizing the DDFP block's benefits.

We are committed to expanding our efforts to reduce the instances of unauthorized direct deposit changes and preventing fraudulent changes to a beneficiaries' record.

Appendix C – MAJOR CONTRIBUTORS

Ron Gunia, Director, Dallas Audit Division

Jason Arrington, Audit Manager

Gonzalo Cagigal, Program Analyst

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