

*Audit Report*

Non-receipt of Social Security  
Benefits Due to Unauthorized Direct  
Deposit Changes

A-02-13-23004 / May 2014

# OIG

Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

## MEMORANDUM

**Date:** May 13, 2014 **Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Non-receipt of Social Security Benefits Due to Unauthorized Direct Deposit Changes (A-02-13-23004)

The attached final report presents the results of our audit. Our objective was to quantify the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes.

Please provide within 60 days a corrective action plan that addresses each recommendation. 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

# Non-receipt of Social Security Benefits Due to Unauthorized Direct Deposit Changes

## A-02-13-23004



May 2014

Office of Audit Report Summary

### Objective

To quantify the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes.

### Background

Beginning March 1, 2013, most beneficiaries are required to receive their payments through direct deposit rather than paper checks. Because of this new requirement, the Social Security Administration (SSA) expects the volume of direct deposit-related requests from beneficiaries to increase.

In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had redirected benefit payments away from the beneficiaries' bank accounts to accounts the individuals controlled. As of May 2013, we had received over 36,000 reports concerning an unauthorized change or a suspected attempt to make an unauthorized change to a beneficiary's direct deposit information in SSA's records.

Congressional staff requested that we determine the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes and whether beneficiaries who had their payments misdirected received the payments they were due.

### Our Findings

We identified 23,192 beneficiaries who had multiple changes to their direct deposit information and who reported that they did not receive 25,728 Social Security payments, totaling \$28.3 million, between September 2, 2011 and June 11, 2012. SSA sent replacement payments to many beneficiaries, but not all of them had their missing payment replaced. In total, SSA sent replacement payments totaling \$17.4 million to 13,380 individuals.

When SSA issues a replacement payment, it also initiates a teletrace request with the Department of the Treasury to determine the status of the initial non-received payment. In cases that involve unauthorized changes to direct deposit information, the Department of the Treasury often determines that the new financial account that received the initial payment was in the beneficiary's name because fraudsters used the beneficiary's identity to establish the bank account they control. Since the payment was deposited into an account under the beneficiary's name, the Department of the Treasury does not return a credit to SSA, and SSA establishes an overpayment on the beneficiary's record.

SSA charged 2,452 of the beneficiaries who received replacement payments with overpayments totaling \$3 million.

### Our Recommendations

1. Provide beneficiaries replacement payments for missed payments due to unauthorized changes to their direct deposit information.
2. Implement a consistent policy to refund overpayments collected from beneficiaries for replacement payments received after unauthorized changes to their direct deposit information.
3. Ensure beneficiaries with outstanding overpayments for replacement payments after unauthorized changes to their direct deposit information are not held liable for repaying them.

The Agency disagreed with Recommendation 1 and 2, and agreed with Recommendation 3.

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## **ABBREVIATIONS**

ATS	Audit Trail System
CPS	Critical Payment System
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
PHUS	Payment History Updating System
POMS	Program Operations Manual System
ROAR	Recovery of Overpayments, Accounting and Reporting
SSA	Social Security Administration

## OBJECTIVE

Our objective was to quantify the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes.

Congressional staff requested that we determine the cost of replacing missing Social Security benefit payments due to unauthorized direct deposit changes and whether beneficiaries who had payments misdirected received the payments they were due. Our methodology allowed us to estimate the costs of unauthorized changes and identify beneficiaries who did not receive benefit payments they were due because of unauthorized changes.

## BACKGROUND

Pursuant to changes in Federal regulation,<sup>1</sup> beginning March 1, 2013, most beneficiaries are required to receive their payments through direct deposit rather than paper checks.<sup>2</sup> Because of this new requirement, the Social Security Administration (SSA) expects the volume of direct deposit-related requests from beneficiaries to increase.

SSA beneficiaries have a variety of ways of initiating a direct deposit change. Beneficiaries can request changes by calling or visiting an SSA office, by calling SSA's 800-number, through SSA's Website,<sup>3</sup> or through their financial institution (auto-enrollment).

## Unauthorized Direct Deposit Changes

In October 2011, we began tracking allegations that indicated individuals other than the beneficiaries or their representatives had fraudulently redirected benefit payments away from the beneficiaries' bank accounts to accounts the individuals controlled. As of May 20, 2013, we had received over 36,000 reports concerning an unauthorized change or a suspected attempt to make an unauthorized change to an SSA beneficiary's record.<sup>4</sup>

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<sup>1</sup> 31 C.F.R. § 208.3. Although the C.F.R. states the effective date is January 2, 1999, temporary exemptions/waivers allowed for payment by check through February 28, 2013. 31 C.F.R. § 208.4; SSA, POMS, GN 02402.001B.2 (August 22, 2012).

<sup>2</sup> See 31 C.F.R. § 208.4 for waivers to this requirement.

<sup>3</sup> At the time of our audit, SSA had an Internet application that allowed individuals to request changes to their direct deposit information. SSA introduced MySSA in May 2012 and made direct deposit information changes available through MySSA as of January 2013, which is after our audit period. Our audit population does not include direct deposit changes initiated through MySSA. It includes direct deposit changes initiated by the Internet application that preceded MySSA.

<sup>4</sup> These are allegations the OIG received.

## The Office of the Inspector General's Response

Our Office of Investigations is investigating allegations that individuals are fraudulently changing beneficiaries' direct deposit information in SSA's records. Our Office of Audit has completed the following reviews of the controls over direct deposit changes that originated through the different methods available.

- *Direct Deposit Changes Initiated by the SSA'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.

During these audits, we spoke with 129 beneficiaries who reported they did not receive benefit payments after their direct deposit information in SSA's records was changed. Another direct deposit change was made after they reported they did not receive their benefit payments. Of the 129 beneficiaries with whom we spoke, 117 reported they did not authorize the changes to their direct deposit information that led to their not receiving benefit payments.

These audits concluded that the controls over direct deposit account changes were not fully effective and did not prevent SSA from processing direct deposit account changes requested by someone other than the beneficiary or his/her authorized representative without the beneficiary's or representative's approval or knowledge.

## SSA's Response

According to SSA's Program Operations Manual System (POMS),<sup>5</sup> unauthorized changes of direct deposit routing numbers could be the result of fraud, and, if fraud is suspected, employees should refer cases to the Office of the Inspector General (OIG).<sup>6</sup> In May 2012, SSA released Emergency Message EM-12021, *Handling Alleged Direct Deposit Fraud Cases and the Resulting Overpayments*, which requires that SSA field office employees report any beneficiary claim of an unauthorized direct deposit change made to his/her account to OIG for investigation.

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<sup>5</sup> SSA, POMS, GN 02406.007 C (August 20, 2012).

<sup>6</sup> Instructions on how to refer cases to the OIG are found in SSA, POMS, GN 04100.000.

SSA has taken additional steps to strengthen the controls over the processes used to change direct deposit information in its systems.

- In November 2012, SSA revised its policy for verifying the identities of callers who request to establish, change, or cancel direct deposit payments.<sup>7</sup>
- It issued reminders to its staff on properly processing callers' requests to change direct deposit information, especially if the related record in SSA's systems has notations indicating the beneficiary's direct deposit information was previously changed fraudulently.<sup>8</sup>
- SSA implemented the Direct Deposit Auto-Enrollment Fraud Prevention block on November 16, 2012, which allows SSA, at beneficiaries' request, to block direct deposit changes made through the auto-enrollment process.<sup>9</sup>
- SSA terminated the use of the Direct Deposit Automated Application for all field office callers as of March 18, 2013.
- SSA terminated the use of Direct Deposit Automated Application for all 800-number callers as of March 27, 2013.
- SSA implemented an eServices Block on April 15, 2013, that allowed SSA, at beneficiaries' request, to block direct deposit changes made through the MySSA portal.

## Audit Population

For this review, we identified 23,192 beneficiaries who had multiple changes to their direct deposit information and who reported that they did not receive 25,728 Social Security payments, totaling \$28.3 million, between September 2, 2011 and June 11, 2012. All the beneficiaries had an initial change to their direct deposit information before the payment they did not receive and a second change to their direct deposit information on or after the date of the payment they reported they had not received.

From previous audit work that used a similar methodology, we believe the changes made to the beneficiaries' direct deposit information that led to their not receiving their benefits were likely not authorized by the beneficiaries.<sup>10</sup> During our previous audit work, we spoke with

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<sup>7</sup> The Agency made additional policy revisions in February and July 2012.

<sup>8</sup> The reminders were issued as multiple Operational Bulletins, Emergency Messages, Administrative Messages, and Transmittals to teleservice and processing centers and all SSA employees. SSA also issued reminders on how to properly process direct deposit requests, and prevent and report fraud.

<sup>9</sup> SSA is exploring the possibility of developing a procedure to add a temporary Direct Deposit Auto-Enrollment Fraud Prevention block to a beneficiary's record, initially without the beneficiary's consent.

<sup>10</sup> For this review, we define an unauthorized change to direct deposit information as a change made by individuals other than the beneficiaries or their representatives, unknown to the beneficiaries or their representatives, and which redirected benefit payments away from the beneficiaries' bank account.

beneficiaries who confirmed that they did not authorize the changes to their direct deposit information that led to not receiving their benefit payments.

After discussions with SSA, we contacted 50 individuals in our population in the fall of 2013 to ask them whether they authorized the direct deposit changes we identified. We selected 50 beneficiaries from the latter part of our audit period because we believed they would be best able to recall the facts of their cases. We focused on beneficiaries who did not receive replacement payments.

We spoke with 36 of the 50 beneficiaries. Of these, 22 reported they had not authorized the changes, 3 refused to answer our questions, and 11 reported they authorized the changes. Of the 14 beneficiaries we were unable to locate, 4 had messages in SSA's records that indicated the changes were unauthorized and potentially fraudulent.

The records for the beneficiaries in our population often had other indicators that increased the likelihood the direct deposit changes were unauthorized. While we believe the direct deposit changes for the 23,192 beneficiaries were unlikely authorized by them or their representative payees, we realize that some of them may have been authorized changes. See Appendix A for additional information on the beneficiaries we contacted and our scope and methodology.

## RESULTS OF REVIEW

We identified 23,192 beneficiaries who had multiple changes to their direct deposit information and who reported they did not receive 25,728 Social Security payments, totaling about \$28.3 million, between September 2, 2011 and June 11, 2012. SSA sent replacement payments to many beneficiaries, but not all of them had their missing payment replaced. In total, SSA sent replacement payments totaling \$17.4 million to 13,380 individuals.

When SSA issues a replacement payment, it also initiates a teletrace request with the Department of the Treasury to determine the status of the initial non-received payment. When the Department of the Treasury determines the initial payment was deposited into an account under the beneficiary's name, the Department of the Treasury does not return a credit to SSA and SSA establishes an overpayment on the beneficiary's record. In cases involving unauthorized changes to direct deposit information, the Department of the Treasury often determines that the new financial account that received the initial payment is in the beneficiary's name because fraudsters used the beneficiary's identity to establish the bank account they control. SSA charged 2,452 of the beneficiaries who received replacement payments for non-received benefit payments with overpayments totaling \$3 million.

SSA revised its policies to address the replacement of payments not received due to unauthorized changes to a beneficiary's direct deposit information on May 7, 2012, which was the end of our audit period. Per the policy, SSA will provide eligible beneficiaries immediate payments to replace those not received due to unauthorized direct deposit changes and suspend the collection of overpayments caused by the replacement payments. We found that SSA did not always follow its revised policy for reports of non-received payments after May 7, 2012. Also, the revised policy instructed SSA staff on how to process reported missed payments due to

unauthorized changes on or after May 7, 2012. To our knowledge, SSA has not applied the new policy to cases of missed payments reported prior to May 7, 2012.

## Non-received Payments

Between September 2, 2011 and June 11, 2012, there were 23,192 beneficiaries who had multiple changes to their direct deposit information and reported they did not receive 25,728 Social Security payments totaling \$28.3 million. (See Appendix B for additional information on the methods used to initiate the direct deposit changes and the geographic location of the beneficiaries who had their accounts changed.) SSA recovered 8,231 of the reported non-received payments,<sup>11</sup> totaling \$10.9 million,<sup>12</sup> from the banks into which they were deposited.<sup>13</sup>

## Replacement Payments

SSA sent replacement payments to 13,380 beneficiaries who reported they did not receive benefit payments totaling \$17.4 million. SSA sent replacement payments to 7,695 of the 7,847 beneficiaries for whom it recovered the initial non-received payments.<sup>14</sup> SSA also sent replacement payments to 5,896<sup>15</sup> of the 15,760<sup>16</sup> beneficiaries whose payments were not recovered.

We compared the number of replacement payments SSA sent for non-received benefit payments by month for the period of our review and found that SSA did not replace 38 to 51 percent of reported non-received payments in any given month. See Table 1.

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<sup>11</sup> SSA recovered the full amount of 8,136 payments and partial amounts for 95 payments.

<sup>12</sup> The amount of funds recovered by SSA is for returned checks credited as of August 21, 2012, which is the date we extracted the data used for this part of our analysis, and for recovered funds credited through March 27, 2013 towards overpayments charged.

<sup>13</sup> SSA may have recovered additional payments that were not easily identified in its records. SSA did not record all partial payment recoveries as returned payments. While we were able to identify some partial recoveries of non-received payments SSA credited as remittances toward the overpayments we identified, we may not have identified all the partial recoveries because SSA recorded some as overpayment deletions. However, not all overpayment deletions represent recovered funds. Therefore, SSA may have recovered some additional portion of the \$17.4 million beneficiaries reported they did not receive.

<sup>14</sup> The remaining 152 beneficiaries did not receive replacement payments for various reasons, including that the returned check was credited to a prior overpayment on the beneficiaries' record or the beneficiaries died before a replacement payment could be provided and SSA had not located the individual entitled to the underpayment.

<sup>15</sup> There were 211 individuals who received replacements for a payment that was recovered and a payment that was not recovered.

<sup>16</sup> There were 415 individuals who had 1 or more payments recovered, but not all payments recovered. They are included in both the 7,695 beneficiaries for whom SSA recovered the initial non-received payments and the 15,760 beneficiaries whose initial payments were not recovered.

**Table 1: Non-received Payments and Replacement Payments by Month**

Month	Number of Reported Non-received Payments	Non-received Payments Without a Replacement Payment	Non-received Payments Without a Replacement Payment by Month <sup>17</sup>
<b>September 2011</b>	542	246	45 %
<b>October 2011</b>	2,520	1,162	46 %
<b>November 2011</b>	3,536	1,523	43 %
<b>December 2011</b>	2,920	1,477	51 %
<b>January 2012</b>	3,325	1,397	42 %
<b>February 2012</b>	3,560	1,425	40 %
<b>March 2012</b>	2,794	1,224	44 %
<b>April 2012</b>	2,824	1,223	43 %
<b>May 2012</b>	2,511	1,011	40 %
<b>June 2012<sup>18</sup></b>	1,196	454	38 %
<b>Total</b>	<b>25,728</b>	<b>11,142</b>	<b>43 %</b>

We provided SSA a list of the payments that were not replaced and asked it to explain why the beneficiaries did not receive replacement payments. SSA responded that instructions on policy for replacing all fraudulently misdirected benefit payments and suspending collection of related overpayments were not issued until May 2012. However, before the new instructions were issued, SSA policy stated that a Critical Payment System payment may be issued when the non-receipt of an electronically deposited benefit payment was alleged and the payment was sent to the incorrect bank.<sup>19</sup> Also, for 2,125 of the beneficiaries who did not receive a replacement payment, SSA's records indicated that the beneficiaries' direct deposit information was fraudulently changed or SSA had referred the case to OIG for investigation.

## Overpayments

When SSA issues a replacement payment, it also initiates a teletrace request with the Department of the Treasury to determine the status of the initial non-received payment. When the Department of the Treasury determines the initial payment was deposited in an account under the

<sup>17</sup> The payments had not been replaced as of August 21, 2012, the date our data were extracted for this analysis.

<sup>18</sup> The numbers for June are through June 11, 2012.

<sup>19</sup> SSA, POMS, RS, 02801.001 A.2e (January 8, 2010). Additionally, the non-receipt desk chart in POMS, GN 02406.004 (October 5, 2010) states that when non-receipt of a Title II direct deposit payment is reported and the routing number is valid, but not the correct routing number for the beneficiary's financial institution, a CPS payment should be issued and the case controlled for 20 days.

beneficiary's name, the Department of the Treasury does not return a credit to SSA, and SSA establishes an overpayment on the beneficiary's record. In cases involving unauthorized changes to direct deposit information, the Department of the Treasury often determines that the new financial account that received the initial payment is in the beneficiary's name because fraudsters used the beneficiary's identity to establish the bank account they control.

SSA recorded overpayments for 2,452 of the beneficiaries who reported they did not receive their initial benefit payments and received replacement payments totaling \$3 million. SSA based the overpayments on the replacement payments paid.

SSA took the following action on the 2,452 overpayments.

- SSA collected \$894,968 from 970 beneficiaries.<sup>20</sup>
- SSA recovered \$78,370 from the banks into which the initial benefit payments were deposited. SSA credited the remittances against the overpayments for 111 beneficiaries.
- SSA waived \$164,690 of the overpayments after 183 beneficiaries requested a waiver.<sup>21</sup>
- SSA deleted \$452,262 of the overpayments for 379 beneficiaries.<sup>22</sup>
- SSA transferred \$9,158 of the overpayments it determined were incorrectly charged to five of the beneficiaries.<sup>23</sup>

As of March 2013, 1,147 beneficiaries<sup>24</sup> still had overpayment balances, totaling \$1.4 million, because of the replacement checks they received.

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<sup>20</sup> SSA collected the overpayments from the beneficiaries' benefit payments. It also collected lump-sum death payments to credit towards the overpayments on beneficiaries' records.

<sup>21</sup> Of the 183 beneficiaries, 182 had a waiver transaction code on their ROAR record. The remaining beneficiary had a transaction code indicating the overpayment was reduced because of her request for reconsideration. However, SSA sent her a notice stating the \$873 overpayment was waived.

<sup>22</sup> SSA deleted the overpayments for multiple reasons. In some cases, the overpayments were deleted and transferred to a non-entitled individual so the Agency could track the overpayment without adversely affecting the beneficiary. In other cases, the original non-received payment was returned to SSA, and SSA deleted the overpayment rather than inputting a credit in the ROAR system. We also identified cases where the beneficiary was notified that the overpayment was removed from his or her record, but the notice and SSA's Debt Management System did not document why the overpayment was deleted.

<sup>23</sup> In four of the five cases, the original non-received payment was erroneously paid to another beneficiary receiving benefits on the same SSN. Therefore, the overpayment was transferred from the beneficiary whose payment was replaced to the beneficiary who erroneously received the original payment. The fifth overpayment was for a CPS payment to a beneficiary whose benefits were subsequently terminated, and the overpayment was transferred to another beneficiary on the same record.

<sup>24</sup> The 1,147 beneficiaries include the 279 beneficiaries whose overpayments SSA had partially collected, waived, deleted, or transferred.

## SSA's Policy Change

On May 7, 2012, SSA released Emergency Message EM-12021, *Handling Alleged Direct Deposit Fraud Cases and the Resulting Overpayments*, which required that SSA field office employees report any beneficiary claim of an unauthorized direct deposit change made to his/her account to OIG for investigation. The policy also called for SSA to provide eligible beneficiaries immediate payments to replace those not received due to unauthorized direct deposit changes and suspend the collection of overpayments caused by the replacement payments.<sup>25</sup>

SSA replaced 2,482 of the 4,327 missed payments in our population reported on or after May 7, 2012. Of the 4,327, SSA referred 1,567 to OIG for investigation. SSA replaced 1,131 of the non-received payments referred to OIG.

Of the 2,452 beneficiaries in our population charged overpayments, SSA collected overpayments from 970. SSA collected overpayments from 442 of the 970 beneficiaries after May 7, 2012.<sup>26</sup> Of these, SSA had referred 249 to OIG.

Additionally, of the 1,147 outstanding overpayments, 951 were in protest status. While SSA did not attempt to collect the overpayments being protested, it attempted to collect overpayments from 175 beneficiaries whose overpayments were not in a protest status. Ninety-one of these overpayments were established on or after May 7, 2012.<sup>27</sup> Of these, SSA had referred 38 to OIG.

We have shared the results of our reviews of the allegations related to our population with SSA. We are committed to investigating allegations of direct deposit fraud. Unfortunately, because of the nature and methods criminals employ to perpetrate this type of fraud, the overwhelming majority of these type of allegations provided little information that lead to identifying a possible subject. Our decision not to pursue an allegation because of a lack of information on a possible subject should have no bearing on SSA taking the administrative action it deems appropriate to rectify a beneficiary's record.

Lastly, the revised policy instructed SSA staff on how to process reported missed payments due to unauthorized changes on or after May 7, 2012. To our knowledge, SSA has not applied the new policy to cases of missed payments reported before May 7, 2012.

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<sup>25</sup> EM-12021 SEN REV, released November 28, 2012, required SSA staff not to charge new or protested overpayments resulting from a one-time payment issued because of an unauthorized direct deposit change to the beneficiary who reported the non-received payment. Instead, SSA staff should establish an overpayment for a non-entitled debtor—someone other than the beneficiary

<sup>26</sup> SSA collected \$418,005 from 442 of the 970 beneficiaries after May 7, 2012.

<sup>27</sup> Additionally, it was billing two former beneficiaries for the overpayments charged to them. SSA did not attempt to collect the overpayments charged to another 19 beneficiaries who were in terminated payment status. Collection activity was terminated for 16 of the 19 beneficiaries. Three additional beneficiaries were deceased, but collection activity had not been terminated.

## CONCLUSIONS

We identified 23,192 beneficiaries who had multiple changes to their direct deposit information and who reported that they did not receive 25,728 Social Security payments, totaling \$28.3 million, between September 2, 2011 and June 11, 2012. While SSA recovered some of the initial redirected benefit payments, it did not recover them all. Similarly, while SSA sent many of the beneficiaries' replacement payments, it did not send replacement payments to all. See Table 2.

**Table 2: Non-received Payments and Replacement Payments**

Status	Number of Beneficiaries	Dollar Amount of Benefit Payments (in millions)
<b>Initial Payment Recovered, Replacement Payment Sent</b>	7,695	\$10.7
<b>Initial Payment Not Recovered, Replacement Payment Sent</b>	5,896	\$6.7
<b>Initial Payment Recovered, Replacement Payment Not Sent</b>	160	\$0.2
<b>Initial Payment Not Recovered, Replacement Payment Not Sent</b>	10,101	\$10.7
<b>Total</b>	<b>23,852*</b>	<b>\$28.3</b>

\*Total does not equal 23,192 because some beneficiaries had multiple payments redirected and SSA recovered one of the misdirected payments, but not the other.

Also, SSA charged nearly 2,500 of the beneficiaries with overpayments for replacement payments they received after reporting they did not receive their benefit payments.

In May 2012, the Agency changed its policy related to recovery of overpayments for replacement payments for alleged misdirected payments. To ensure a beneficiary did not have to pay back an overpayment until all actions on his or her case were complete, the overpayment was to be placed in protest status. We are concerned that SSA did not process some cases after May 7, 2012 in accordance with its revised policy. Additionally, SSA's instructions to staff on handling non-received payments after unauthorized changes differed before and after May 7, 2012. Hence, a beneficiary who reported an unauthorized non-receipt on May 6, 2012 was treated differently from a beneficiary who made the same report on May 7, 2012. To our knowledge, SSA had taken no action to reevaluate the accounts of beneficiaries who reported the unauthorized misdirection of their payments reported before May 7, 2012. We believe all beneficiaries who had unauthorized changes to their accounts should receive replacement payments without an overpayment charged against them regardless of when they reported the problem.

## **RECOMMENDATIONS**

Accordingly, we recommend that SSA:

1. Provide beneficiaries replacement payments for missed payments due to unauthorized changes to their direct deposit information.
2. Implement a consistent policy to refund overpayments collected from beneficiaries for replacement payments received after unauthorized changes to their direct deposit information.
3. Ensure beneficiaries with outstanding overpayments for replacement payments after unauthorized changes to their direct deposit information are not held liable for repaying them.

## **AGENCY COMMENTS**

While it disagreed with Recommendations 1 and 2, the Agency agreed to review and correct the cases we identified as being erroneously processed between May 7 and June 11, 2012. While this should help make some beneficiaries whole, many others may not be helped. For example, only 1,463 of the over 11,000 non-received payments that were not replaced had payment dates between May 7, 2012 and June 11, 2012. Similarly, SSA recorded only 368 of the nearly 2,500 overpayments charged beneficiaries who received replacement payments after they reported they did not receive their initial benefit payments between May 7 and June 11, 2012.

We continue to believe that SSA should replace all missing payments due to unauthorized changes to direct deposit information regardless of when the unauthorized changes occurred. Similarly, SSA should not treat beneficiaries charged overpayments differently because of the date their overpayments were inaccurately assessed.

SSA agreed with Recommendation 3. The Agency's comments are included in Appendix C.

# *APPENDICES*

## **Appendix A – SCOPE AND METHODOLOGY**

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To complete the objective of our review, we:

- Reviewed applicable sections of the *Social Security Act*, Code of Federal Regulations, and other Public Laws related to electronic funds transfer.
- Reviewed the section of the Program Operations Manual System related to direct deposit actions; fraud; non-receipt of Title II payments; overpayments; the Payment History Update Systems (PHUS); and Recovery of Overpayments, Accounting and Reporting (ROAR) system.
- Reviewed the applicable Operations Bulletins, Administrative Messages, Emergency Messages, guides, and regional instructions on processing direct deposit requests.
- Spoke with staff from the Social Security Administration's Offices of Systems and Quality Performance to gain an understanding of the controls over direct deposit changes.
- Reviewed six final Office of the Inspector General (OIG) reports –
  - *Improperly Titled Bank Accounts for Beneficiaries with Representative Payees* (A-01-09-19055), March 31, 2011
  - *Controls over Changes Made To Direct Deposit Routing Numbers* (A-02-08-28052), March 26, 2010
  - *Direct Deposit Changes Initiated by the SSA'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
- Obtained data of direct deposit changes from the Audit Trail System (ATS) and non-receipt of payment from PHUS to identify a pattern of direct deposit changes followed by reports of non-receipt of a Title II benefit payment, and then followed by other direct deposit changes.
- Obtained PHUS data to identify the return of non-received payments to SSA and replacement payments sent to beneficiaries.
- Obtained a data extract from the Master Beneficiary Record (MBR) and ROAR to identify overpayments charged for the replacement payments and determine whether those payments were repaid or recovered.
- Obtained a list of allegations of fraudulent and/or unauthorized changes to direct deposit information from our Office of Investigations.

- Used the Agency's software toolbar (Qwiz) to query additional information, such as Special Messages in the MBR and the ROAR section of MBR, for non-entitled debtors.
- Used the following methodology to estimate unauthorized direct deposit changes.
  - We obtained data of direct deposit changes from ATS, followed by a non-receipt of payment, followed by another direct deposit change from ATS between September 1, 2011 and June 12, 2012. Per PHUS, the payment dates for the non-received benefit payments were between September 2, 2011 and June 11, 2012. The beneficiaries who did not receive the benefit payments reported the non-receipt of their payments from September 6, 2011 to August 17, 2012.
  - We compared the bank account and routing numbers from the initial direct deposit change to the subsequent change and excluded 12,498 cases that appeared to be a transposition error. We did not exclude cases that at first appeared to be a transposition error if SSA's records had a Special Message indicating direct deposit fraud had occurred with the case or if our Office of Investigations had an allegation that the case involved fraudulently redirected benefits payments.
  - We identified 25,728 transactions for 23,192 individuals who had a direct deposit change followed by a report of non-receipt of Title II payment and a subsequent direct deposit change that did not appear to have a transposition error. The direct deposit changes diverted \$28,264,153 in benefit payments.

From our previous audit work that used a similar methodology, we believe the changes made to the 23,192 beneficiaries' direct deposit information that led to their not receiving their benefits were likely unauthorized. In our previous audit work, we spoke with beneficiaries who had similar changes to their direct deposit information and they confirmed that they did not authorize the changes that led to their not receiving their benefit payments.

For this project, we did not initially plan to contact the beneficiaries to confirm whether they had authorized the direct deposit changes because contacting over 23,000 beneficiaries was beyond our resource abilities. After discussions with SSA, we decided to call a small sample of beneficiaries in our population to ask them if they authorized the direct deposit changes we identified. We called the beneficiaries in October and November 2013.

Because of the large gap in time from when the reported non-receipt of payments occurred (September 1, 2011 to June 11, 2012) to when we called the 50 beneficiaries (October and November 2013), we selected 50 beneficiaries from the latter part of our audit scope. Specifically, we selected 50 beneficiaries who had not received replacement payments with the most recent direct deposit changes made through auto-enrollment. We focused on changes made through auto-enrollment because it was the most common method used to change direct deposit information in our population. We focused on those who did not receive replacement payments because we believed it was more likely SSA determined the direct deposit changes had been authorized, therefore the beneficiaries were not due a replacement payment.

We were able to speak with 36 of the 50 beneficiaries. Of these, 22 reported they had not authorized the changes, 3 refused to answer our questions, and 11 reported they authorized the changes. Of the 14 beneficiaries we were unable to locate, 4 had messages in SSA records indicating the changes were unauthorized and potentially fraudulent.

The records of 12,729 of the 23,192 beneficiaries also had other indicators that increased the likelihood that the direct deposit changes were unauthorized. The other indicators identified are detailed in the following five bullets.

- We compared the records of the 23,192 beneficiaries to OIG records of fraud referrals and/or allegations. We found that 5,726 cases were referred to OIG for a direct deposit related fraud investigation or OIG had received an allegation of direct deposit fraud.
- We reviewed the MBRs of the 23,192 beneficiaries for special messages within SSA records indicating that an unauthorized change to the direct deposit information. We found that 6,347 cases had such a special message. Additionally, we identified remarks on 166 of the beneficiaries' Supplemental Security Income Records indicating unauthorized direct deposit changes. (SSA staff only referred 3,989 of the 6,513 cases with messages indicating unauthorized direct deposit changes to OIG for a fraud investigation; 2,524 were not referred as of June 2013. Similarly, not all cases referred to OIG had special message or remarks on their records.)
- We looked at two bank routing numbers when selecting our population of beneficiaries; the routing numbers before and after the beneficiaries' reported missing benefit payment. As an additional analysis, we reviewed a third bank routing number, the routing number on the beneficiary's record before the routing number change that resulted in the missing benefit payment. We wanted to determine whether this routing number matched the routing number the to which the benefit was directed after the beneficiary reported a missing payment. If so, it would suggest that someone redirected a beneficiary's payment from the beneficiary's account, which the beneficiary then corrected after he discovered he did not receive his payment because his routing number was changed without his knowledge. In 7,268 cases, the routing numbers before the direct deposit account change were the same as the routing numbers after the non-receipt report.
- We identified in PHUS the number of beneficiaries to which SSA provided a Critical Payment System (CPS) replacement payment after they reported they did not receive their benefit payments. SSA provided 6,922 of the beneficiaries with a CPS payment. We compared these 6,922 beneficiaries to the remaining beneficiaries who did not have one of the characteristics identified by the matches explained in the previous bullets. As a result, we identified 1,907 additional beneficiaries. We believe these beneficiaries were more likely to have had an unauthorized direct deposit change because SSA determined they did not receive their benefit payments and were in need of a CPS replacement payment to meet their dire needs.

- We also identified 49 beneficiaries who did not have a representative payee or the same representative payees and whose benefit payments were redirected to a bank account shared by another unrelated beneficiary. Accordingly, none of the beneficiaries had the same organizational representative payee that used master sub-accounts. The fact that the benefit payments of these unrelated beneficiaries were redirected to a shared bank account suggests that the redirection was due to an unauthorized direct deposit change.

We took the following steps to determine which benefit payments were returned and/or replaced and which beneficiaries were charged overpayments for the replacement payments received.

- We extracted returned check events from PHUS that corresponded to the 25,728 non-received payments. We identified 8,087 payments returned as of August 21, 2012, totaling \$10,758,171.
- We compared our file of 25,728 non-received payments to a file of 23,181 retroactive and CPS payments and determined the following were replacement payments if they occurred after the date the non-received payment was due: payments on or after the date of a returned non-received check, payments equal to the non-received payment, critical payments equal to either the non-received payment amount, a multiple of that amount, or the non-received payment amount plus the amount of the Medicare part B premium, or a corresponding replacement payment event was added to PHUS. In total, SSA sent replacement checks to 13,380 beneficiaries who reported they did not receive their benefit payments, totaling \$17,354,405.
- In May 2013, we provided SSA a list of 11,142 non-received payments, totaling \$10,861,456, which the Agency had not replaced.
- We obtained a data extract from ROAR of the individuals who had non-receipts preceded and followed by direct deposit changes. We compared the ROAR data to our data of replacement payments issued by CPS. We determined whether the overpayment was for the replacement payment based on the overpayment reason and compared the date of the payment to the date of the overpayment, and the amounts of either the non-received payment or the replacement payment and the overpayment amount. We determined that SSA recorded overpayments for 2,452 of the beneficiaries who reported they did not receive their initial benefit payments and received replacement payments, totaling \$3,009,118.
- We used Qwiz to obtain the balances of these overpayments, totaling \$1,409,671, as of March 2013. We identified \$78,370 in remittances credited toward the beneficiary overpayments. We also used Qwiz to obtain ROAR information for non-entitled debtor overpayments and compared overpayment amounts to the amounts of non-receipts, replacement payments, and the amount of overpayments charged to beneficiaries. We identified overpayments transferred from beneficiaries to non-entitled debtors and \$2,134 in remittances credited toward these overpayments. We identified additional overpayments charged to non-entitled debtors and \$7,228 in remittances credited toward these overpayments.

- We added the \$87,732 in remittances to the \$10,758,171 in returned checks for a total returned payment amount of \$10,845,903.

We conducted our audit work in the New York Audit Division between June 2012 and July 2013. We also attempted to call 50 beneficiaries in October and November 2013 to ask them if they had authorized the direct deposit changes we identified. The entity audited was the Office of Operations under the Office of the Deputy Commissioner for Operations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and conduct 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.

## **Appendix B – NON-RECEIVED PAYMENT TRANSACTIONS**

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Between September 2, 2011 and June 11, 2012, a total of 23,192 beneficiaries who had multiple changes to their direct deposit information reported that they did not receive 25,728 Social Security payments totaling \$28.3 million.

Direct deposit changes were made before and after beneficiaries did not receive payments. The changes redirected the benefit payments to Direct Express cards, prepaid debit cards, or bank accounts, as shown in Table 1.

**Table 3: Initial Direct Deposit Changes**

How Direct Deposit Change Was Initiated	Type of Account to Which Payments Were Redirected			Total
	Direct Express	Banks	Prepaid Debit Cards <sup>1</sup>	
<b>Financial Institution</b>	4,852	2,847	7,181	14,880
<b>Teleservice Center</b>	388	4,196	952	5,536
<b>Field Office</b>	257	3,360	470	4,087
<b>Internet<sup>2</sup></b>	6	599	116	721
<b>Other<sup>3</sup></b>	23	403	78	504
<b>Total</b>	<b>5,526</b>	<b>11,405</b>	<b>8,797</b>	<b>25,728</b>

The average time between the initial direct deposit changes and the corresponding non-received payments was 29 days; the median was 22 days. The time between the two events for about 10 percent of the cases was 100 days or longer.

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<sup>1</sup> We identified prepaid debit cards through the specific routing numbers associated with them. However, we may not be aware of all the routing numbers used by some prepaid debit cards. In such cases, the prepaid cards would be included in the “Banks” column.

<sup>2</sup> At the time of our audit, beneficiaries could use SSA’s Direct Deposit Internet application on the Agency’s Website to initiate direct deposit of benefits or change direct deposit account information. The numbers in this table do not include direct deposit changes made through the Agency’s MySSA online portal. MySSA did not begin receiving direct deposit changes until 2013—after our audit period.

<sup>3</sup> Other types of Social Security offices can also initiate direct deposit changes. For example, SSA’s Payment Centers and Foreign Service Posts can initiate direct deposit changes. SSA recovered the full amount of 8,136 payments and partial amounts for 95 payments. Of the \$10.9 million recovered, \$1.1 million was for payments to direct express cards and \$3.6 million was for payments to prepaid debit cards. The remaining balance of \$6.2 million were payments directly deposited into banks.

The beneficiaries who reported non-received payments lived throughout the United States but resided predominantly in the north- and southeast. The map shows where the beneficiaries resided.



## **Appendix C – AGENCY COMMENTS**

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### **MEMORANDUM**

Date: April 25, 2014 Refer To: S1J-3

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

From: Katherine Thornton /s/  
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, "Non-Receipt of Social Security Benefits Due to Unauthorized Direct Deposit Changes" (A-02-13-23004) - 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, “NON-RECEIPT OF SOCIAL SECURITY BENEFITS DUE TO UNAUTHORIZED DIRECT DEPOSIT CHANGES” (A-02-13-23004)**

**Recommendation 1**

Provide beneficiaries replacement payments for missed payments due to unauthorized changes to their direct deposit information.

**Response**

We disagree. However, for the audit period from May 7, 2012 to June 11, 2012, we will review and correct the cases OIG identified for us as being erroneously processed by our not issuing a replacement check. Moreover, if and when a beneficiary or recipient contacts us about an alleged unauthorized change to their direct deposit information that resulted in him or her missing a payment from the audit period prior to May 7, 2012, we will process that case under our current policy.

**Recommendation 2**

Implement a consistent policy to refund overpayments collected from beneficiaries for replacement payments received after unauthorized changes to their direct deposit information.

**Response**

We disagree. We have a policy for processing cases where beneficiaries allege their direct deposited benefits were misdirected. We have long-standing policies in our regulations and procedures that provide beneficiaries and recipients several levels of due process protections for overpayments, including formal administrative appeal rights (after sufficient notice) and the right to request waiver of any overpayment at any time. However, for the audit period from May 7, 2012 to June 11, 2012, we will review and correct the cases OIG determined we erroneously processed by collecting an overpayment.

**Recommendation 3**

Ensure beneficiaries with outstanding overpayments for replacement payments after unauthorized changes to their direct deposit information are not held liable for repaying them.

**Response**

We agree. Before we start collecting an overpayment in an individual case, we send a notice to the individual explaining his or her right to appeal the overpayment. In addition, this notice provides the individual the right to request a waiver of our collection activities at any time in the process. Both the right to a formal appeal and the right to request a waiver are specified policies in our regulations. Consistent with the agency’s policies and regulations, we will review and correct the cases OIG identified for us as being erroneously processed (i.e., erroneously collecting an overpayment).

## **Appendix D – MAJOR CONTRIBUTORS**

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