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SOCIAL SECURITY DISABILITY FRAUD CONSPIRACY IN PUERTO RICO

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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SOCIAL SECURITY DISABILITY FRAUD CONSPIRACY IN PUERTO RICO

THURSDAY, SEPTEMBER 19, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The subcommittee met, pursuant to call, at 2:30 p.m., in Room B–318, Rayburn House Office Building, the Honorable Sam Johnson [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Chairman Johnson Announces Hearing on Social Security Disability Fraud Conspiracy in Puerto Rico

Washington, Sep 2013

U.S. Congressman Sam Johnson (R–TX), Chairman of the House Committee on Ways and Means Subcommittee on Social Security, today announced a hearing on the Social Security Disability Insurance fraud conspiracy in Puerto Rico. **The hearing will take place on Thursday, September 19, 2013, in B–318 Rayburn House Office Building beginning at 2:30 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the printed record of the hearing.

BACKGROUND:

On August 21, 2013, the United States Attorney for the District of Puerto Rico announced that a Federal Grand Jury in the District of Puerto Rico issued over 70 indictments charging three doctors, one non-attorney representative (a former Social Security employee), and 71 Social Security claimants with fraud in the Social Security Disability Insurance (SSDI) program in Puerto Rico.

Under the alleged scheme, the non-attorney representative would help a claimant file an SSDI application and, with the assistance of a conspiring doctor, provide fraudulent medical evidence that would result in benefits for individuals who did not, in fact, meet the legal eligibility standard for disability benefits. The representative would collect a fee from the claimant of 25 percent of any past-due benefits owed (up to a limit of $6,000). The doctors involved would be paid $150 to $500 by the claimant for their submission of false reports to the SSA.

The multi-year investigation began when disability medical consultants in the Puerto Rico Disability Determination Services noticed and reported a suspicious pattern of benefit claims involving nearly identical medical evidence. As a result, the SSA and the SSA Office of Inspector General (OIG) conducted an extensive analysis of medical source documentation in SSDI files. The SSA OIG was joined in the investigation by the Federal Bureau of Investigation San Juan Office and the Puerto Rico Police Department, and included numerous interviews and surveillances.

As a result of the federal indictments, the SSA was able to immediately suspend benefits to the indicted beneficiaries and has initiated internal reviews of over 6,000 files of beneficiaries that included evidence provided by one or more of the indicted physicians or the indicted representative. During the internal review, should the remaining evidence not substantiate the disability finding, benefits will be suspended and the beneficiary must submit evidence to substantiate the disability. Should a beneficiary be unable to substantiate their disability without additional evidence, his or her benefits will be terminated after proper notice and they will be required to repay the Social Security Trust Fund for the benefits they improperly received.

The responsibility for making initial disability determinations is shared by the States and the SSA. All 50 States, plus the District of Columbia and Puerto Rico, maintain fully federally-funded agencies, known as Disability Determination Services, which decide initial and continuing eligibility for benefits under rules established by the SSA. According to the SSA OIG, approximately 185,000 disabled workers in Puerto Rico and their eligible dependents receive about $2.4 million in SSDI benefits each year.

According to the Congressional Budget Office, 10.9 million beneficiaries received $135 billion in SSDI benefits in fiscal year 2012. According to the 2013 Social Security Trustees report, SSDI program revenues will only be able to finance 80 percent of benefits beginning in 2016, unless Congress acts.

In announcing the hearing, Social Security Subcommittee Chairman Sam Johnson (R–TX) said, **"The widespread disability fraud uncovered in Puerto Rico raises serious questions about Social Security's management of the disability program. At a time when the Disability Insurance program will be unable to pay full benefits beginning in 2016, it is deeply troubling that Social Security is doling out millions of dollars in fraudulent taxpayer-funded payments. Americans deserve answers. On behalf of the American taxpayer, I am committed to getting the answers and rooting out waste, fraud and abuse so that we can help keep the program strong for those who truly need it."**

FOCUS OF THE HEARING:

The hearing will examine the investigation in Puerto Rico resulting in the arrest and indictment of individuals for Social Security disability fraud, Social Security's oversight of the SSDI program in Puerto Rico, and Social Security's overall efforts to detect, prevent and prosecute fraud.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, October 3, 2013**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman JOHNSON. The hearing will come to order.

This is the first subcommittee hearing since the passing of my friend and former subcommittee chairman Clay Shaw. We all remember him. Clay was one of the best, a great American, a diplomat, and a joy to work with regardless of your politics. I sat right next to Clay as he led the subcommittee during the 106th, 107th and 108th Congresses.

Through his leadership the committee achieved a number of legislative accomplishments for America and its people. Chief among them were the Seniors Freedom to Work Act of 1999, which repealed the retirement earnings penalty for individuals who attained their full retirement age; the Ticket to Work and Work Incentives Improvement Act of 1999 to help those receiving disability benefits to return to work; and the Social Security Protection Act of 2003 to protect vulnerable Social Security recipients from representative payees who misused benefits and other program protections, including withholding benefits from fugitive felons and parole violators. I guess that is similar to what we are going to talk about today.

Chairman Shaw believed in Social Security and worked tirelessly to secure its future by authoring legislation to keep the Social Security promise, protect Social Security finances, and enhance Social Security benefits for women.

Clay's instincts were to be bipartisan if possible and a gentleman legislator always. He joined efforts with then-Ways and Means Chairman Bill Archer in developing and promoting legislation to save Social Security for 75 years and beyond, the Social Security Guarantee Plus Act, a bill his Florida constituents and even some Democrats found thoughtful and possible. He was one of the earliest Members of Congress to lead the fight to protect Social Security numbers.

Our hearts go out to Clay's beloved wife Emilee and his family, and I ask that we bow our heads for a moment of silence to honor our former Chairman.

[Moment of silence.]

Chairman JOHNSON. Thank you. I appreciate that.

You knew him, too.

Mr. BECERRA. I did, Mr. Chairman. If I may say a word?

Chairman JOHNSON. You may.

Mr. BECERRA. Mr. Chairman, if I may associate myself with every single word that you just uttered with regard to our colleague and friend Mr. Shaw. There are people who understand this institution and who work hard to try to make it work. Mr. Shaw was one of those individuals. He would reach out to his friends, Republican and Democrat alike.

It is tough when you hear about a colleague who passes on because you think that you never quite grow that old, and you still remember those memories, and it is almost as if it was yesterday that Clay was here with us. So I join you in remembering a dear colleague and friend, and I hope that we are able to see this House continue to make progress on behalf of people like Clay Shaw, who gave quite a bit of his life and his hard work to make it work.

So with that, Mr. Chairman, I thank you for yielding some time.

Chairman JOHNSON. Thank you. I appreciate your comments.

We now turn our hearing to Social Security disability fraud conspiracy in Puerto Rico. On August 21st, the United States Attorney for the District of Puerto Rico announced the arrest and indictment of 75 individuals for Social Security fraud. Let me repeat that number. Seventy-five arrested for allegedly seeking to defraud Social Security. So we are not talking about a few bad apples here. Those arrested include a claimant representative who was a former Social Security employee, three physicians, and 71 beneficiaries. My understanding is that the investigation is ongoing, and there could be additional arrests.

Under the alleged scheme, the former Social Security worker would help a claimant file an application for disability benefits and, with the assistance of a conspiring doctor, provide fraudulent medical evidence that would result in taxpayer-funded benefits that should never have been paid in the first place. The representative would collect a fee from the claimant of 25 percent of any past-due benefits owed up to a cap of $6,000. The doctors would receive a kickback of $150 to $500 by the claimant for their submission of false reports to Social Security.

The investigation began back in November 2009 after medical consultants in the Puerto Rico Disability Determination Services reported a suspicious pattern of benefit claims involving nearly identical medical evidence. Social Security and the Office of the Inspector General then began an extensive review of the medical information. Later the FBI and the Puerto Rico Police Department joined the investigation.

Social Security has now suspended benefits claimed by the indicted beneficiaries. It has also begun reviewing the files of over 6,000 beneficiaries that included medical evidence from the indicted physicians or representative. Unless beneficiaries are able to prove their disability with nontainted medical information, they will be required to pay back to Social Security the benefits they should not have received in the first place.

So the bottom line is that at a time when the Disability Insurance program will be unable to pay full benefits beginning in 2016, Social Security has been doling out millions of dollars in fraudulent taxpayer-funded payments. This is unacceptable. And on the heels of the Puerto Rico case, GAO reported last week that Social Security paid $1.3 billion in overpayments to disability beneficiaries. Moreover, the debt owed to the Disability Insurance Trust Fund from those who need to pay back overpayments is now $6 billion. In this particular case, the problem occurred before beneficiaries even got their first check, so they may have been awarded benefits when they shouldn't have, all because Social Security's enforcement operations doesn't generate earnings alerts in all cases when earnings occur during the 5-month waiting period. In other words, in my view, Social Security wasn't doing its job.

The Puerto Rico case along with GAO's report raises serious and troubling questions about Social Security's management of the disability program. The American taxpayer is right to wonder whether Social Security is fully committed to rooting out waste, fraud and abuse.

Let me be clear that Social Security should not try to downplay the Puerto Rico case and the GAO's report by spinning the num-

bers to try to minimize the loss of taxpayer dollars. To do so would be an insult to taxpayers. Waste, fraud and abuse in the Disability Insurance program cheat honest, hard-working American taxpayers and those who truly need benefits. The best way to protect the disability program is to prevent waste, fraud and abuse before it occurs.

The American people want, need and deserve answers. Social Security's leadership needs to get serious about better protecting this program paid for by America's hard-working wage earners.

Chairman JOHNSON. I now will recognize our ranking member Mr. Becerra for his opening statement.

Mr. BECERRA. Mr. Chairman, thank you very much.

American workers pay for Social Security, and we owe it to them to protect their investments by preventing fraud and stopping it where we can. Every month over 160 million American workers contribute part of their hard-earned paychecks to Social Security to prepare for retirement and to protect themselves and their families.

To put it in context, over Social Security's lifetime American workers have contributed $14.5 trillion to Social Security. During those 78 years, Social Security has safeguarded those contributions, it has invested surpluses in U.S. Treasury bonds, and it has paid American families their benefits on time and in full for 78 years. And in those 78 years today, there are some $2.5 trillion in reserve that has yet to be used to help cover the future benefits of Americans who paid into this system. We owe it to Americans, therefore, to do everything we can to protect their contributions from those looking to defraud Social Security, while still paying those honest workers their earned benefits when they need them.

SSA does a good job of fighting fraud, as evidenced by this successful investigation that we will hear about more. Most Social Security fraud is reported or prevented by Social Security Administration employees, as was this conspiracy. It was frontline employees at the Puerto Rico office who first detected this conspiracy as part of their work reviewing benefit applications. They brought it to the attention of SSA's regional leadership, and a referral was then made to the inspector general for investigation and potential prosecution.

But SSA didn't stop there. They continued to track the suspicious cases, subjecting them to additional scrutiny. And in light of the deepening investigation and the emergence of a conspiracy, SSA set up a process to quickly rereview all suspicious cases as soon as the Attorney General filed indictments. SSA has already suspended benefits to the 71 individual beneficiaries who were indicted on August 16th.

The vast majority of disability insurance recipients are honest. They are hard-working Americans who became too disabled to work, and the disability insurance program has grown in recent years because of demographics and the aging population, not because of fraud. As Social Security's chief actuary has testified, the disability program has grown primarily because there is a larger population, the baby boomers are hitting their most disability-prone years, and the increase in the number of women in the workforce. These are factors that have nothing to do with fraud and

that the actuaries have actually known about and projected for many years.

Finally, I would note for the record that fraud is not a driver of the growth of the DI program in and of itself. Last year, in 2012, SSA employees made over 26,000 fraud referrals to the inspector general, including disability fraud. Of these the inspector general found that 5,300 cases merited investigation and, of those, 236 rose to the level of criminal prosecution; 236 out of 26,000 fraud referrals. That is less than 1 percent. And that doesn't even say that there was a conviction. That was a referral for a criminal prosecution.

By the way, of those 236 cases that rose to the level of criminal prosecution, which represents 236 of the 26,000 fraud referrals, that is out of the 3.2 million applications that were received by the Social Security Administration for disability benefits out of the 57 million people who are in the Social Security beneficiary population altogether.

So I think it is very clear that SSA is working very hard to root out fraud, because no one wants to see the hard-earned benefits of any American used for other than the benefits that have been earned.

A highly trained, well-staffed SSA is our best defense against fraud. When SSA's disability examiners noticed this problem in Puerto Rico and reported it to the IG, SSA had more staff available to it than they have today. So we have to take a look. In 2012 reports from Social Security, employees were responsible for nearly two-thirds of the fraud investigations opened by the inspector general. They are not coming from the outside, folks. They are not coming from regular people. They are coming from the SSA employees themselves who are detecting this fraud.

Unfortunately, SSA's budget has been cut by about $1 billion a year since 2011, which has had real consequences for taxpayers, beneficiaries and the workers who are counting on Social Security in the future. It pains me to say, but this House has blocked $421 million that the Budget Control Act provided for SSA to fight waste, fraud and abuse, costing taxpayers billions of dollars. SSA has lost nearly 11,000 highly trained employees to budget cuts over the past 2 years. As Ms. Disman says in her testimony, that leaves far fewer people to "stand watch over Social Security" and leaves them with far less time to document what they see and to report it to the inspector general.

I am pleased that we have had a chance to come together for this hearing to see how SSA combats fraud, to learn more about what happened in this particular conspiracy and whether additional action is needed. At the same time we must keep in mind that in the overwhelming majority of cases, there is no fraud involved.

SSA does a good job overall of detecting and preventing fraud, and the inspector general aggressively investigates reports of potential fraud. But without adequate resources, SSA cannot adequately police fraud while ensuring that individuals who have earned their benefits get paid on time and in the right amount.

So we are very much interested in your testimony today, and with that, Mr. Chairman, I yield back my time.

Chairman JOHNSON. I think as a matter of record it took too long to get into this. 2009 until today is a long time.

As is customary, any Member is welcome to submit a statement for the hearing record.

Chairman JOHNSON. Before we move on to our testimony today, I want to remind our witnesses to please limit your oral statements to 5 minutes. However, without objection, all the written testimony will be made part of the hearing record.

We have one witness panel today seated at the table, the Honorable Patrick O'Carroll, Inspector General, accompanied by the Honorable Paul Lillios, Associate Chief Administrative Law Judge, Social Security Administration; and Beatrice Disman, Regional Commissioner, New York Region, Social Security. You are the one that has responsibility for Puerto Rico, I guess.

Mr. O'Carroll, welcome and thanks for being here. Please go ahead with your testimony.

STATEMENT OF THE HONORABLE PATRICK P. O'CARROLL, JR., INSPECTOR GENERAL, ACCOMPANIED BY THE HONORABLE PAUL C. LILLIOS, ASSOCIATE CHIEF ADMINISTRATIVE LAW JUDGE, SOCIAL SECURITY ADMINISTRATION

Mr. O'CARROLL. Good afternoon, Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee. It is a pleasure to be here today to discuss our ongoing criminal investigation in Puerto Rico.

About 4 weeks ago in the early morning hours, 19 OIG special agents with 125 FBI special agents and about 150 Puerto Rico Police Department officers successfully executed 69 arrest warrants within a few hours. The arrests were meticulously planned and accomplished without incident.

The arrestees were taken to the Morales Basketball Coliseum in Guaynabo where the United States Marshals Service was standing by to process and fingerprint them. They were able to appear immediately before an on-site United States magistrate. In addition to the 69 arrested, 6 additional suspects were arrested or surrendered to authorities in the days that followed.

These arrests were based on 75 indictments returned by a grand jury in Puerto Rico. Our investigation had revealed that these 75 individuals took part in a massive scheme to defraud Social Security of millions of dollars in disability benefits. Seventy-one of the arrestees were disability beneficiaries, three were medical providers, and one was a nonattorney claimant representative named Samuel Torres Crespo, who was a former SSA employee.

The scheme was simple enough. Word of mouth was all it took. Anyone looking to obtain disability benefits fraudulently, either because they had recently been laid off or because they saw what they thought was an easy mark, would go see Torres Crespo. He would, for 25 percent of the claimant's accrued benefits, put together an application and send the claimants to one of three of the indicted doctors. The doctor would charge the claimant a fee between of $125 and $500 to produce a false medical report, and then the fraudulent claim would go forward.

Over time, observant disability examiners noticed that nearly identical medical reports were coming across their desks, and the

OIG was notified. Over a period of months, from late 2009 to 2010, we received a series of such allegations. Each was carefully examined, and many required interviews or video surveillance before a decision could be made whether to conduct a criminal investigation. Some allegations proved unfounded, or, more often, the fraud could not be fully established.

Finally, however, we were able to gain a foothold in early 2011 thanks to an exhaustive review of records, tireless work by SSA analysts and our agents, and the timely cooperation of the FBI. Working with the U.S. Attorney for the District of Puerto Rico, the FBI and the Puerto Rico Police Department, we conducted scores of interviews, covert surveillances and undercover visits to doctors' offices. We also executed search warrants and used other investigative techniques that slowly revealed the breadth and extent of this complex scheme.

I cannot say enough about the level of cooperation amongst these agencies. This was truly government and law enforcement at its finest.

The judicial process in this case will take time to unfold. Some of these people will likely go to jail. Many will be required to repay the money they stole, and the government has already seized about $1.7 million in assets from Torres Crespo.

Meanwhile, this investigation continues, and other investigations are spinning off from it. Calls to the toll-free hotline number that we established are generating new leads. That number, 1–855–777–0821, is being contacted frequently.

Our work in Puerto Rico is far from finished, and Puerto Rico is by no means the only place where our office is investigating doctors, lawyers, representatives, interpreters and others who facilitate disability fraud in large numbers. This type of fraud has long been a priority of our office. It was one of the inspirations for the CDI program, with which this subcommittee is very familiar, and the Puerto Rico CDI unit is now up and running. It was also the motivation behind the recent creation of the disability fraud pilot. We specifically designed this program to detect and investigate facilitator fraud such as that which we found in Puerto Rico.

Judge Lillios, who is here with me today, will work with one of our deputy assistant inspector generals for investigation and audit and investigative staff to mine data, review past allegations and beat the bushes for leads. They will also be looking for professionals who have abused the government's trust as paid participants in the disability process. Be they doctors, lawyers or representatives, they should know that we are looking long and hard at similar schemes.

Of course, we will continue to advise this subcommittee as this work continues, and as always I appreciate your unflagging support, and I will be happy to answer any questions.

Chairman JOHNSON. Thank you, sir. I appreciate that testimony.

[The prepared statement of Mr. O'Carroll follows:]

U.S. House of Representatives

Committee on Ways and Means

Subcommittee on Social Security

Statement for the Record

Social Security Disability Insurance Fraud Conspiracy in Puerto Rico

The Honorable Patrick P. O'Carroll, Jr.
Inspector General, Social Security Administration

September 19, 2013

Good afternoon Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee. Thank you for the invitation to testify today about our ongoing disability fraud operation in Puerto Rico.

As you know, we made 75 arrests in this case between August 21 and 23, together with our partners in the Federal Bureau of Investigation (FBI) and the Puerto Rico Police Department (PRPD). I'll explain today how this came to pass, what it means for the disability program and for our organization, and what the future holds. That said, I must first note that this is an ongoing criminal investigation, which will to some extent limit what I can share in a public forum.

While I'm very proud of our special agents, who worked long and hard on this case, and who executed this extensive arrest operation over a period of several hours seamlessly and without incident, I must also note that this operation is not unique in the history of this office, and does not represent a departure from our usual practice. In fact, this operation illustrates the most basic purpose for which this office was created—to protect the integrity of the Social Security Administration's (SSA) programs and conserve its funds for those who are truly deserving. In pursuing this goal, we have made, and will continue to make, significant efforts to ensure that doctors, attorneys, and other facilitators of the disability claims process cannot perpetrate large-scale criminal conspiracies against SSA.

SSA's Office of the Inspector General (OIG) was established in 1995, and we quickly created 10 investigative field divisions, closely tracking SSA's 10 regions. Like SSA, we placed Puerto Rico under the umbrella of our New York Field Division (NYFD), so that our Special Agent-in-Charge would be able to work with SSA's Region II Commissioner for all matters concerning the Commonwealth.

As early as 2000, we sought to establish a Cooperative Disability Investigations (CDI) unit in Puerto Rico, but at the time, we were unable to acquire a viable law enforcement partner for the unit. Our special agents in Puerto Rico, like those across the mainland, nevertheless went about combating disability program fraud in the Commonwealth, receiving and reviewing individual allegations, conducting investigations, and obtaining criminal prosecutions or civil remedies.

For example:

- In 2012, a woman from Yauco, Puerto Rico, entered into a civil consent order in U.S. District Court, agreeing to repay $34,360 that we determined she received after concealing her father's death and continuing to receive and spend his Social Security benefits.

- In November 2009, a man who had been receiving benefits (along with his wife and three children) for a mood disorder since 2005 was found by our investigators to be working at a supermarket and getting paid in cash to conceal this employment from SSA. Both the man and the supermarket that employed him entered into civil settlements with the Department of Justice; the supermarket agreed to pay $60,000, and the man agreed to return to SSA the entire $108,233 he and his family had received.

- In 2012, a Guaynabo woman admitted to misrepresenting her nephew as her son in order to receive benefits for him on her deceased husband's Social Security record. She agreed in a civil settlement to repay almost $93,000.

These are the types of investigations our agents work every day, and every time we consider a large-scale operation like the one we're discussing today, we choose carefully, and we do our homework. In Puerto Rico, that homework led to the inescapable conclusion that we had an operation that merited the enormous dedication of resources it would require. But we reached that conclusion only after significant

preparatory work and development of the multiple allegations we received over a period of many months, during which time our San Juan office was also committed to other large-scale joint investigations. Following is an approximate timeline of the events that culminated in this investigation:

- In 2008, our San Juan office opened a case involving the theft of birth certificates and Social Security numbers from approximately 50 schools on the island. Our special agents investigated with the FBI, the Secret Service, Immigration and Customs Enforcement, the U.S. Department of Education OIG, the PRPD, and the Puerto Rico Department of Social Services. The case generated media and congressional attention, and the dedication of significant resources from the OIG San Juan office. It would continue for two years, resulting in eight arrests and solidifying our already-productive relationships with these entities—particularly the San Juan office of the FBI.

- Also in 2008, as we were working the school theft case and our usual range of individual criminal investigations, one of our special agents in Northern California had a conversation with the Director of our San Francisco Audit Division. The agent had noted that a significant number of his disability fraud investigations involved an Affective Disorder diagnosis. Our auditors conducted informal research and found that of the 10 SSA offices nationwide with the highest percentage of disability recipients with a diagnosis of Affective Disorder, eight of them were in Puerto Rico. From an organizational standpoint, we considered this information, consulted with SSA, and in the absence of any specific allegations (and our existing commitments and resources), decided that we would monitor the situation for a time in the hopes that an allegation would provide a starting point to look into this issue in Puerto Rico.

- A few months later, in November 2009, we received such an allegation from SSA, suggesting that a medical doctor and a non-attorney claimant representative, Samuel Torres Crespo—a former SSA employee—were submitting nearly identical medical reports for disability claimants who shared a common employment history with a company that was experiencing significant downsizing. Following that initial fraud referral in November 2009, the Puerto Rico Disability Determination Services (DDS) and SSA continued to refer other matters relating to disability claims in Puerto Rico to the OIG. In addition, the New York Regional Office helped my office in analyzing many of the cases relating to the investigation.

- In December 2009, aware of this burgeoning issue, the OIG Special Agent-in-Charge of the NYFD and the New York Regional Commissioner submitted a request to SSA for a CDI unit in Puerto Rico. We also began studying these cases and, over the ensuing 15 months, we requested and received additional information from SSA concerning former employees of this company and patients of this doctor. The ongoing work resulted in our identifying additional medical providers as part of this inquiry, and again we requested and received more information from SSA. As our study continued, so did discussions with SSA concerning claimants, medical providers, and claimant representatives, factors unique to Puerto Rico, and other information that would ultimately be critical to the investigation.

- In May 2010, we received an allegation again specifically naming Torres Crespo and the same doctor, both of whom are implicated in the case now being prosecuted. Meanwhile, in July 2010, our San Juan office completed its extensive work on the Puerto Rico schools case, which had been opened in April 2008.

- No sooner had we wrapped up that case than we received another employer-based allegation suggesting that former employees of a downsized company in Puerto Rico were applying for Social Security disability benefits, all using the same doctor, with nearly identical claims. Our preliminary investigative work showed, however, that very few claimants were involved, and additional work revealed no actual similarities among the claims.

- In September 2010, we joined the FBI on an investigation into a widespread private-insurance and health-care fraud scheme, requiring the review of more than 500 patient files. Nevertheless, our agents continued to work with SSA to develop the previous allegations we had received of medical provider and claimant representative fraud.

- In January 2011, as our San Juan office worked with the FBI to effectuate over 500 arrests in connection with the health-care fraud case, we asked SSA to review the patients in that case for SSA benefit implications, but there was none. Meanwhile, our close work with the FBI led to further discussions about the various allegations of medical provider and claimant representative fraud on the island.

- Soon after, in February and March 2011, we received two additional allegations involving doctors and SSA disability claims. SSA's and our developmental work on these and the prior allegations dating back to November 2009 into what was now as many as 17 medical providers, was finally bearing fruit, and on March 24, 2011, we opened a criminal investigation.

At that point, SSA and the OIG began to review specific disability claim files, and we began developing a formal investigative strategy, including interviews, surveillance, undercover operations, and more. In May 2011, we began formal discussions with the FBI in San Juan concerning the dedication of resources, and with the U.S. Attorney concerning potential criminal prosecution.

We then deployed an investigative response team to San Juan to commence work with the Puerto Rico Police Department and the FBI, including surveillance of some 100 investigative subjects, undercover operations, interviews, and other investigative work. Over the course of the investigation, we would deploy 14 different investigative response teams, drawing personnel from our other field divisions and from headquarters to supplement our San Juan agents.

While this work was taking place, we also continued our effort to establish a CDI unit in San Juan, negotiating with SSA and the PRPD. The Commissioner of Social Security announced the creation of the unit in December 2012, and the OIG's CDI team leader began receiving and reviewing fraud allegations in January 2013.

From July to August 2013, we prepared for and participated in Grand Jury proceedings directed at obtaining indictments against three doctors, a non-attorney claimant representative, and approximately 71 disability beneficiaries who, it is alleged, received approximately $2.1 million in fraudulent benefits. The indictments allege, and our investigation found evidence that Torres Crespo worked with physicians and individual claimants to submit false claims for SSA disability benefits. The doctors allegedly charged the "patient" a fee (in addition to the regular medical charges) of between $150 and $500, and Torres Crespo allegedly received 25 percent of each claimant's retroactive disability benefits, not to exceed $6,000 per claimant.

In August, we deployed additional NYFD personnel (two supervisors and two special agents) to San Juan to coordinate and conduct investigative activities and arrest logistics. On August 12, even as we headed to the Grand Jury, the PRPD joined the new San Juan CDI Unit, and the Unit officially opened, staffed by an OIG special agent, two SSA program experts, and two PRPD investigators.

A week later, on August 19, the Grand Jury returned indictments on 75 subjects, and we deployed seven additional NYFD agents and five investigative response team members to San Juan to prepare for the arrest operation. Early in the morning on August 21, the arrest operation began with 19 OIG special agents, over 125 FBI agents, and over 100 PRPD officers. All but five arrests were accomplished in the first four hours; four of the remaining subjects were on the mainland and later surrendered to authorities, while one subject was arrested in Puerto Rico several days later. A basketball arena in San Juan was used to detain and process the arrestees with the help of the U.S. Marshals Service and a U.S. Magistrate.

Looking to what the future holds, this investigation is still ongoing, with additional arrests expected. In addition, a special telephone hotline established to receive tips and other information connected to the investigation has been active, with over 100 calls received. That phone number is 1-855-777-0821. And, we have reports of some claimants and beneficiaries coming forward to withdraw their claims or asking for information about the claims process.

As part of this testimony, I feel it is also critical to give a historical context for the OIG's involvement in and focus on combating third-party facilitator fraud. From our inception, we were aware that criminal investigations of this nature—those involving facilitators responsible for multiple fraudulent benefit applications—would serve a critical role in our efforts to prevent, detect, and prosecute. One of our earliest investigations of this exact nature was a driving force behind the establishment of the highly successful CDI program, with which you are all very familiar. This case, from the State of Washington, originated in 1992, when the Department of Health and Human Services' OIG was responsible for conducting Social Security fraud investigations. A task force comprising the FBI and some seven other Federal agencies, as well as five state agencies, had been looking into allegations that middlemen were helping former refugees from Cambodia and Vietnam defraud Washington's welfare system and the SSA's disability program.

Once the SSA OIG was created and our Seattle Field Division was established, those agents assumed a leading role in this investigation, which continued until 1999, when the last defendants were sentenced. In short, refugees from these war-torn areas were allowed to enter the United States and were relocated to Washington, where they were given an 18-month stipend and language and vocational training. At the end of the 18 months, however, a number of these immigrants worked with middlemen, who would coach them on how to obtain State and Federal disability benefits. For fees as high as $3,000, the middlemen told their clients not to sleep or shower for several days before their benefit interviews, and to dress poorly, all in an attempt to appear mentally disabled. They (the middlemen) acted as interpreters during the interview, providing the interviewer with answers aimed at obtaining benefits. The middlemen also facilitated medical and psychological exams, manipulating those visits in similar ways to obtain medical reports that would result in benefit allowances.

Our investigation included reviewing over 2,500 claim folders—and identifying over 650 that appeared fraudulent—conducting more than 150 confrontational interviews, surveillance, and other techniques to uncover the fact that many of these individuals were not only physically and mentally fit, but were employed or even operating their own businesses.

Ultimately, more than 40 individuals were successfully prosecuted, including two middlemen, six State welfare workers, a doctor and his wife, and 30 benefit recipients. SSA assessed more than $4 million in overpayments and estimated $11 million in savings; and the courts ordered more than $1 million in restitution. SSA also estimated $7 million in savings from other in-pay beneficiaries who came forward when news of the arrests broke and disclaimed their eligibility, fearing prosecution. In 1999, Vice President Gore's National Partnership for Reinventing Government bestowed a Hammer Award on the task force that conducted this investigation.

I am providing this level of detail about a 15-year-old case for several reasons. First, as I've already mentioned, it was this Seattle case that, in substantial part, inspired the CDI program, about which I've testified many times before this Subcommittee. Given your familiarity with CDI, I won't take time to describe it today, but I'd be happy to answer any questions about it, and anyone unfamiliar with the program can read about it on our website at http://oig.ssa.gov/cooperative-disability-investigations-cdi.

Secondly, this case demonstrates that our commitment to facilitator fraud is not new, nor does it end with our success in Puerto Rico.

And finally, it helps to answer questions we've received about the duration of the Puerto Rican investigation—over three and a half years from receipt of the first allegation to the arrest operation in August; the similarly complex Seattle case covered even more time—allowing me to demonstrate exactly how long operations like this take. The level of commitment to cases such as these is significant. The Seattle case involved 12 Federal and State agencies and took six years. The Puerto Rico operation involved three agencies and took less than four years. In both cases, about half the time was spent on

- developing the allegation,
- planning the investigation (in Puerto Rico, this involved extensive coordination with the FBI and after a certain point, the United States Attorney's Office),
- addressing cultural and language issues, and
- reviewing vast amounts of data and documents.

The other half of the time was spent on active investigative work, on grand juries, and on court appearances. There are no shortcuts. As a result, cases of this scope and magnitude have to be carefully considered; committing to one such case could mean passing on scores of individual cases. It also entails weighing the relative monetary values—which affects the likelihood of a prosecutor agreeing to bring criminal charges—the deterrent effect, and even the internal and external relations needed to show Congress, the public, SSA employees, and others who make allegations about individual fraud cases that those allegations are worth making; that they won't go uninvestigated. Striking this balance is difficult, and requires careful consideration of facts, opinions, and an ultimate assessment of what best meets our mission.

By the same token, a more recent facilitator case in San Diego illustrates how the decision to proceed with a particular individual, smaller-scale investigation can sometimes be made more easily than with the large, more complex cases.

In October 2011, we opened a joint investigation with the Department of Homeland Security into Dr. Robert Velasquez, a San Diego psychologist, based on information we received from an informant. Dr. Velasquez was allegedly producing fraudulent disability diagnoses and fabricating medical reports for Iraqi refugees for $200 each. These diagnoses and reports would allow the refugees to bypass the

English language and civics tests, accelerating their path to citizenship. It also allowed some of them to apply for and receive Social Security disability benefits for which they otherwise were not eligible.

In this case, we felt we would be able to have a large impact with a much smaller share of our investigative resources (and thus, the sacrifice of fewer individual cases) than the Seattle or Puerto Rico cases demanded. There was only one facilitator target, we had an informant, and the records needed to proceed were readily available.

Nevertheless, a successful outcome came only after many months of work: studying about 150 disability claims in which Dr. Velasquez was involved; coordinating with Homeland Security on the citizenship issues; conducting investigative operations, interviews, and auxiliary investigations by our Los Angeles CDI unit; and taking part in court proceedings. In August 2012, Dr. Velasquez pled guilty to making false statements in benefit applications and immigration documents. In May 2013, he was sentenced to 21 months in prison and two years' probation, and he was ordered to pay restitution of $1.5 million to SSA.

As a result of the Puerto Rico operation and other cases, we have also undertaken a nationwide review of all facilitator-fraud allegations received from SSA or DDS personnel in the last five years. The review of these allegations is one facet of the work being undertaken by the OIG's Disability Fraud Pilot, which commenced in July.

The pilot consists of an SSA Associate Chief Administrative Law Judge, a Deputy Assistant Inspector General for Investigations, and additional OIG investigative and audit personnel, all working to identify and develop allegations of facilitator fraud throughout the country. Through a variety of means, including data mining, the pilot seeks to identify high-dollar, high-impact cases involving doctors, lawyers, judges, and other middlemen conspiring with claimants to defraud SSA. This, together with our traditional investigative and audit work, emphasizes the continued OIG emphasis on reducing this type of disability fraud.

We are confident our new disability pilot can effectively identify and reduce facilitator fraud in the months and years to come. The pilot program will operate as an extension of our CDI program, which has for many years been successful in preventing disability fraud. As such, we continue efforts to identify and prevent disability fraud in Puerto Rico with the establishment of a CDI Unit in San Juan; as well as to look for opportunities to expand the CDI program across the country, given available resources and ability to secure law enforcement partners in specific locations.

In conclusion, the OIG has long placed an emphasis on facilitator fraud, as resources have allowed. The recent arrest operation in Puerto Rico is the culmination of a lengthy and complex investigation into widespread disability fraud scheme among doctors, a non-attorney claimant representative, and numerous beneficiaries.

Thank you again for the invitation to testify today, and I'd be happy to answer any questions.

Chairman JOHNSON. Ms. Disman, welcome. Please proceed.

STATEMENT OF BEATRICE DISMAN, REGIONAL COMMISSIONER, NEW YORK REGION, SOCIAL SECURITY ADMINISTRATION

Ms. DISMAN. Chairman Johnson, Ranking Member Becerra, Members of the Subcommittee, thank you for this opportunity to discuss Social Security's role in uncovering the complex disability fraud conspiracy in Puerto Rico. My name is Bea Disman. I am Social Security's Regional Commissioner for the New York Region. I have direct authority over the agency's operations in New York, New Jersey, Puerto Rico and the U.S. Virgin Islands. I began my career at Social Security as a field office employee in 1965. While much has changed since then, the agency's commitment to service and stewardship has never wavered.

Like you, I am outraged whenever anyone attempts to defraud the government. I am especially chagrined that a former Social Security employee acting as a nonattorney claimant representative was an integral part of the conspiracy uncovered in Puerto Rico. This individual betrayed his former colleagues by violating the public trust, and, frankly, I am incensed by his actions.

We applaud the recent news that law enforcement officials indicted the former employee, several physicians, and approximately 70 disability claimants for allegedly defrauding the disability program. While the Federal grand jury investigation continues, evidence suggests that the involved parties conspired to submit fabricated or exaggerated medical evidence in order to fraudulently obtain benefits. This criminal behavior is unconscionable, and we do not tolerate it.

In this case it was the diligent employees of the Puerto Rico DDS, funded and trained by Social Security, who first identified the fraudulent medical evidence. The DDS employees referred the allegation to us in March 2009 during an on-site visit by my regional office staff and the quality reviewers.

In November 2009, after completing additional analysis and case development, we referred the allegation along with information about the nonattorney representative to the Office of the Inspector General. In addition to referring the case to the OIG, we took aggressive steps to identify any additional cases and develop a process for reviewing the cases. These steps ensured that we could reliably handle any high-volume review that might result from the investigation.

We directed Federal resources to Puerto Rico to assist in the investigation, monitor the Puerto Rico DDS operations and help decide cases. We also redirected and trained staff on medical issues from our Puerto Rico field offices and our program service center in New York City. These additional staff resources were focused on Puerto Rico cases, including those involved in the investigation.

In addition, we authorized the New Jersey DDS to hire bilingual disability examiners to assist with Puerto Rico. Other DDSs, both inside and outside the New York region, provided workload assistance to the Puerto Rico DDS, which added more outside eyes to the cases being filed in Puerto Rico. A sustained, multiyear cross-training effort, as well as additional quality studies, further strength-

ened our work with the Puerto Rico DDS and ensured their quality continued to remain strong and the fraud identified.

Without question, our antifraud activities in Puerto Rico worked. They have shown that our frontline employees are the best defense against fraud. Over the years our emphasis on their role in the integrity of our programs and responsibilities for reporting fraud have strengthened our stewardship focus.

We have suspended over $130,000 in monthly benefits to the indicted individuals and their auxiliaries. As of today we are reviewing at least 6,600 disability applications in which we awarded benefits based in part on the medical evidence supplied by the doctors. These reviews will occur in New York City and in New Jersey. In redetermining these cases, we will disregard the tainted medical evidence. If the remaining evidence does not support our original allowance, we will suspend the benefits, providing the opportunity to submit additional medical evidence prior to a final determination. Beneficiaries will receive notification if we terminate their benefits and assess an overpayment.

If we suspect additional fraud of medical providers in any of these cases we review, we will refer that to the OIG for investigation and possible referral to the U.S. Attorney. Under a program we are considering for Puerto Rico based on success in other regions, our agency's attorneys may pursue cases not accepted for criminal prosecution by the U.S. attorney.

Looking ahead we know that it is critical that Congress fully fund our cost-saving program integrity activities while ensuring we have the resources to serve the deserving disability applicants who turn to us for help. Investigations are time-consuming and labor-intensive. In Puerto Rico it required close coordination between Social Security, the Puerto Rico DDS, and multiple layers of law enforcement. We need your support to keep the disability program strong.

Thank you, and I will do my best to answer any questions you may have, with the understanding that this is still an active grand jury investigation.

Chairman JOHNSON. Thank you for your testimony. I appreciate it.

[The prepared statement of Ms. Disman follows:]

COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

UNITED STATES HOUSE OF REPRESENTATIVES

SEPTEMBER 19, 2013

STATEMENT FOR THE RECORD

BEATRICE DISMAN
REGIONAL COMMISSIONER, NEW YORK REGION
SOCIAL SECURITY ADMINISTRATION

Chairman Johnson, Ranking Member Becerra, and Members of the Subcommittee:

Thank you for this opportunity to discuss our stewardship of the disability program.

My name is Bea Disman, and I am the Regional Commissioner of the Social Security Administration's New York Region. In this role, I have direct authority over the agency's operations in New York, New Jersey, Puerto Rico, and the United States Virgin Islands. This area encompasses an annual administrative budget of approximately $400 million for approximately 3,900 employees in 117 field offices and card centers, 4 teleservice centers, the Northeastern Program Service Center, and the New York Regional Office. More than 7 million beneficiaries receive over $88 billion in Social Security and Supplemental Security Income (SSI) benefits in the New York Region each year.

Like you, I am outraged whenever anyone attempts to defraud the disability program. I am especially chagrined that a former Social Security employee, acting as a non-attorney claimant representative, was an integral part of the complex conspiracy uncovered in Puerto Rico. This individual betrayed his former colleagues by violating the public trust. We applaud the recent news that law enforcement officials indicted the former employee, several physicians, and approximately 70 disability claimants for allegedly defrauding the disability program. While the Federal Grand Jury investigation is active and ongoing, evidence suggests that the involved parties conspired to submit evidence of fabricated or exaggerated medical conditions in order to fraudulently receive benefits.

This criminal behavior is unconscionable. Many deserving people with severe disabilities depend on their hard-earned Social Security benefits for life's necessities. This is especially true in Puerto Rico, where the inability to work due to severe disability is further exacerbated by high poverty and lower overall education levels. All members of the public rightfully expect that taxpayer dollars go towards paying benefits to only the right people in the right amount and at the right time. We understand and take this obligation seriously.

Mindful of our stewardship responsibility, we continuously work with our partners in the Office of the Inspector General (OIG) to root out fraud wherever we suspect it. This has been especially true during this long and complex investigation.

Key to our efforts is the robust fraud detection and referral process we have in place to identify, investigate, and prosecute fraud to the fullest extent of the law. All of our employees receive annual fraud awareness reminders, as well as training on fraud detection and prevention. There is an established process to forward fraud allegations to the OIG, which is responsible for fraud investigations and recommending cases to the United States Attorney's Office for possible prosecution.

In the recent case in Puerto Rico, it was the diligent employees of the Puerto Rico Disability Determination Services (DDS)—funded and trained by Social Security to make medical determinations—who first identified the criminal actions of the doctors. The DDS employees suspected fraudulent medical evidence was being submitted and referred the fraud allegation to us in March 2009 during an onsite visit of my staff and quality reviewers. After the

identification and analysis of a number of cases from the referred medical provider, we referred the fraud allegation along with information about the non-attorney representative to the OIG in November 2009. During that period, my staff also reviewed other cases from medical providers identified from other sources in Puerto Rico.

In addition to referring the case to the OIG, we took aggressive steps to identify any additional cases and develop a process for reviewing the cases. These steps ensured that we could reliably handle any high-volume case review that might result from the investigation. While our quality data had shown the Puerto Rico DDS performing similarly to very high regional and national averages, we needed to verify the data and isolate the fraud. We brought Federal resources to bear in Puerto Rico to assist in the investigation, monitor the DDS's operations, and help decide cases. We also redirected and trained staff on medical issues from our Puerto Rico field offices and our Northeastern Program Service Center in New York City. These additional staff resources were focused on Puerto Rico cases, including those involved in the investigation. In addition, we authorized the New Jersey DDS to hire bilingual disability examiners to assist with Puerto Rico cases. Other DDSs—both inside and outside the New York Region—provided workload assistance to the Puerto Rico DDS, which added more outside eyes to the cases being filed in Puerto Rico. Finally, a sustained, multi-year, cross-training effort, as well as additional quality studies, further bolstered our work with the Puerto Rico DDS and ensured that quality remained strong and the fraud identified.

Without question, our anti-fraud activities in Puerto Rico have worked. Those who committed fraud are being brought to justice, and we have suspended over $130,000 in monthly benefit payments for the month of August for the approximately 70 individuals that were indicted. We will review approximately 6,600 disability applications (out of the 185,000 in total current workers with approved disability applications in Puerto Rico) in which we awarded benefits based, in part, on medical evidence supplied by the involved doctors. In re-determining these cases, we will disregard the tainted medical evidence. If the remaining evidence does not support our original allowance, we will suspend the benefits, providing the opportunity to submit additional medical evidence prior to making a final determination. Beneficiaries will receive notification if we terminate their benefits and assess an overpayment. These reviews will occur outside Puerto Rico in New York City and New Jersey.

With the establishment of a Puerto Rico Cooperative Disability Investigations (CDI) unit this fiscal year (FY), which I will describe in greater detail later in my testimony, we have another tool in place to prevent the problems identified in Puerto Rico.

Looking ahead, we know that it is critical that Congress fully fund our cost-saving program integrity activities, while ensuring that we have the resources to serve the deserving disability applicants who turn to us for help. Investigations like the one in Puerto Rico are time-consuming and labor-intensive. It has required close coordination between Social Security, the Puerto Rico DDS, and multiple layers of law enforcement, including the OIG, the Federal Bureau of Investigation, the Puerto Rico Police Department, and the United States Attorney's Office.

Regrettably, over the past 2 years, Congress has appropriated $421 million less for program integrity reviews than what it authorized for us in the Budget Control Act of 2011 (BCA). Over

the past 3 years, we received an average of nearly a billion dollars less than what the President requested for our administrative budget. The net effect has been the loss of more than 11,000 employees at Social Security—that means drastically fewer people standing watch for the next attempted theft and drastically fewer people available to serve those who truly need us.

Aggressive Management Response in Puerto Rico

Sharing management information and best practices across Federal-State boundaries is integral to the public service we provide at Social Security. In Puerto Rico—a territory that accounts for less than 1 percent of our agency's disability benefit applications nationwide—a collaborative relationship with the New York Regional Office was the basis for uncovering the fraud conspiracy in March 2009.

At that time, staff from the New York Regional Office visited the Puerto Rico DDS to review the prior year's quality findings and discuss medical policy issues. Over the course of the visit, the Puerto Rico DDS medical consultants raised concerns regarding boilerplate medical evidence that was being submitted by a particular treating source. The New York Regional Office staff developed the evidence further and referred the case to the OIG. Thereafter, fraud referrals continued to be made by the Puerto Rico DDS and other components assisting in processing disability applications for Puerto Rico.

Key to generating the fraud leads, as well as interpreting many of the cases that the OIG investigated, were the Federal and State personnel that we either redirected or hired to scrutinize cases from Puerto Rico. Currently, we have dedicated 48 employees, located outside Puerto Rico, to do this work. They support the 64 disability examiners in the Puerto Rico DDS who make disability determinations.

We have 14 Federal employees from Puerto Rico offices adjudicating disability cases, monitoring trends, and referring information to the OIG investigation as appropriate. These employees also assist the Puerto Rico CDI unit by answering calls to the special fraud hotline that we established in Puerto Rico.

An additional 20 Federal bilingual employees will work in the Northeastern Program Service Center in New York City. They are trained disability examiners who work exclusively on disability cases from Puerto Rico, including cases related to the fraud investigation.

We then allocated another 14 hires to the New Jersey DDS to work exclusively on Puerto Rico cases, including cases related to the fraud investigation. These employees are also bilingual and trained disability examiners.

In addition, other Social Security Regional Offices and DDSs outside the New York Region have helped process Puerto Rico cases over the past several years. These Federal and State personnel are not a dedicated resource, but they have been available, as needed, to assist the Puerto Rico DDS with its case backlogs. For example, at this time, we have 9 Federal disability examiners in Dallas assisting the Puerto Rico DDS.

Through our efforts deploying outside assistance to the Puerto Rico DDS, we continue to validate the overall quality of the decisions being made in Puerto Rico, even while identifying areas for additional training and business process improvement. Importantly, at this point in time, we have seen no evidence that any current Federal or Puerto Rico DDS employee is involved in the fraud conspiracy.

We work with the Puerto Rico DDS on areas for improvement through hands-on training. In the area of quality, we helped the Puerto Rico DDS improve its disability case documentation. We sent a team of program experts from the New York Regional Office and Social Security Headquarters to Puerto Rico. They trained both DDS and hearing office employees on case development, medical policy, evidence assessments, and questionable medical assessments. The Puerto Rico DDS was also among the first places in the New York Region to implement the Electronic Claims Analysis Tool, or eCAT. This web-based tool helps disability examiners apply policies correctly throughout the disability decision-making process and provides a source of national programmatic management information on DDS determinations. We are examining eCAT information as confirmed by other management information sources and case reviews to identify programmatic trends at the DDS level.

We have also identified areas, unrelated to quality improvement and identifying fraud, for which we believe business process improvements could better help the Puerto Rico DDS manage its workloads. For example, when we noticed that the Puerto Rico DDS was not maximizing its technology system to better manage its backlogs, we arranged for Puerto Rico DDS officials to visit the Florida DDS, which used the same system, and to receive training.

In addition, a number of years ago we discovered that the parent agency of the Puerto Rico DDS and the Puerto Rico Department of Treasury were not making timely payments to medical providers. These providers were threatening to stop sending medical evidence or conduct consultative examinations needed for disability determinations. We developed a plan to pay these bills directly and this plan, with some modifications, has been ongoing for 7 years.

Along with the substantial assistance and training provided the Puerto Rico DDS, we have also relied upon our quality reviewers to take an independent look at specific data in Puerto Rico. They have identified areas for further study and management improvement in Puerto Rico; however, their data reflect our general experience on the ground that the quality of the decision-making is high. We continue to work with the Puerto Rico DDS to identify opportunities for further improvement and remain vigilant. Notwithstanding the complexity of the criminal conspiracy that we helped bring to light, we see no evidence of a systemic failure in the Puerto Rico DDS at this time.

Anti-Fraud Initiatives across the Country

Because the investigation in Puerto Rico is ongoing, I cannot discuss any more specifics of the case today. However, I will highlight for you the multiple anti-fraud activities we have in place across the country.

All of these activities stem from a strong agency culture of fraud detection and deterrence, and they are ingrained in our organization. For example, all 10 Social Security Regional Offices—including the New York Regional Office—have an anti-fraud committee co-chaired by the Regional Commissioner and OIG Special Agent-in-Charge. These committees meet on a quarterly basis to discuss fraud cases and trends, as well as ideas for possible anti-fraud projects. All regions also have a "Think Twice First" monthly bulletin, in which employees learn about fraud awareness and reporting, among other topics. Each year, our offices conduct fraud referral training, and the agency publicizes how to report fraud, waste, or abuse on its homepage, www.ssa.gov.

Of course, our most important resource and first line of defense when it comes to fighting fraud are our dedicated employees across the country. They are highly trained professionals in the administration of the disability program, and they are both the best qualified and in the best position to identify and refer fraud. We support their efforts with a series of anti-fraud initiatives that target the investigation and prosecution of fraud.

As mentioned earlier, an important fraud investigation tool that we have in place are CDI units. CDI units investigate individual disability applications and beneficiaries to identify attorneys, doctors, translators, and other third parties, including non-attorney representatives, who facilitate disability fraud. The results of these investigations may be presented to Federal and State prosecutors for criminal or civil prosecution, as well as to the Office of the Counsel in the OIG for the imposition of civil monetary penalties. We may also impose sanctions on claimant representatives for violating agency ethical standards.

There are currently 25 CDI units operating throughout the United States with the most recent one established in Puerto Rico. According to the OIG, since the program's inception in FY 1998 through FY 2012, CDI efforts nationwide have resulted in $2.2 billion in projected savings to our disability programs and over $1.4 billion in projected savings to non-Social Security programs, such as Medicare and Medicaid. These savings are the result of CDI units opening about 40,000 cases and developing evidence to support about 30,000 actions, resulting in a denial, suspension, or termination of benefits.

We also continue to develop new initiatives to combat the kind of fraud uncovered in Puerto Rico. For example, according to the OIG, a new and very promising anti-fraud initiative just began as a pilot on July 1, 2013, and focuses on third-party facilitators, including medical providers and claimant representatives. The pilot combines the resources of the OIG with our hearings operation. Together, these investigators are looking at ways to mine our data to identify areas of suspicious behavior. If the pilot proves successful, it is anticipated that it would expand in FY 2015.

Simultaneously, we continue to ramp up our program integrity reviews, as well as our quality assurance activities, which can help us to detect fraud and remediate its effects. Through our efforts, we have achieved a very low incidence of fraud in our disability programs. In fact, in FY 2012, we made over 26,000 fraud referrals to the OIG nationwide, from which the OIG opened about 5,300 cases and referred 236 to the United States Attorney's Office for criminal prosecution. That same year, in Puerto Rico, we made 254 fraud referrals to the OIG, from

which the OIG opened 3 cases and referred none to the United States Attorney's Office.[1] Overall, in FY 2012, nearly 3.2 million people applied for disability under our disability programs, and about 15 million people received benefits.

Increasing Program Integrity Reviews and Decisional Quality

We are committed to protecting program dollars from waste, fraud, and abuse. The recent arrests in Puerto Rico demonstrate how seriously we take our responsibility to maintain the public's trust by effective stewardship of program dollars and administrative resources. While we recognize that not all improper payments result from fraud, we work diligently to correct them and pursue them wherever they may lead.

An important part of our program integrity activities are periodic medical re-evaluations, called continuing disability reviews (CDR), which we use to determine if beneficiaries are still disabled.

The FY 2014 President's Budget includes a special legislative proposal that would provide a dependable source of mandatory funding to significantly ramp up our program integrity work. These mandatory funds would replace the discretionary cap adjustments authorized by the BCA. These funds would be reflected in a new account, the Program Integrity Administrative Expenses account, which would be separate, and in addition to, our Limitation on Administrative Expenses account. If approved, the funds would be available for 2 years, providing us with the flexibility to aggressively hire and train staff to support the processing of more program integrity work.

Over the past several years, the annual appropriations process has not provided us with the resources necessary to conduct all of our scheduled CDRs. We estimate that each dollar spent on CDRs would save the Federal Government $9,[2] yet we have a backlog of 1.3 million CDRs.

In FY 2014, the proposal would provide $1.227 billion, allowing us to handle significantly more CDRs. With this increased level of funding, the associated volume of medical CDRs is 1.047 million, although it may take us some time to reach that level. For comparison, we conducted 443,000 CDRs in FY 2012. With your support, we could do much more.

In addition to program integrity reviews, strict adherence to our program rules improves our adjudicators' ability to identify fraud and reduces the potential for an improper payment. Accordingly, we have performance standards and multiple layers of quality review to ensure uniform and correct application of our program rules. In FY 2014, we will be establishing a new review process at the field office level. It is called the Continuous Quality Area Director Reviews Process. One of the areas reviewed will be front-end disability accuracy in field offices.

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[1] Puerto Rico referrals exclude those made by components outside Puerto Rico providing assistance in determining disability cases.

[2] Details can be found in the FY 2010 "Annual Report of Continuing Disability Reviews" at http://www.socialsecurity.gov/legislation/FY%202010%20CDR%20Report.pdf.

Having a scrupulous quality assurance (QA) operation is critical to ensuring programmatic compliance. We require all of the DDSs to have an internal QA function. In addition, our Office of Quality Performance (OQP) conducts QA reviews of samples of the initial, reconsideration, and CDR determinations of the DDSs. Between FY 2008 and FY 2012, OQP reviews showed that the DDSs improved their accuracy across the board. The DDSs increased their initial claims decisional accuracy from approximately 94.4 percent to 96.4 percent. They increased their reconsideration decisional accuracy from approximately 92.1 percent to 95.1 percent. Moreover, they increased their CDR decisional accuracy from approximately 96.8 percent to 97.9 percent.[3] For the same timeframe, the Puerto Rico DDS followed similar patterns. Initial decisional accuracy improved from approximately 92.7 percent to 98.1 percent. Reconsideration decisional accuracy increased from approximately 93.1 percent to 97.0 percent. Finally, CDR decisional accuracy increased from approximately 97.7 percent to 99.8 percent.

As required by the Social Security Act (Act), we also perform a pre-effectuation review of at least 50 percent of all DDS initial and reconsideration allowances for Social Security and SSI disability for adults. We likewise review a sufficient number of DDS CDR determinations that continue benefits. These pre-effectuation reviews, which are separate from the OQP reviews mentioned above, allow us to correct errors we find before we issue a final decision. The quality of the Puerto Rico DDS in these reviews is better than the national average. These reviews result in an estimated $751 million in lifetime program savings, including savings accruing to Medicare and Medicaid. Based on our most recent data, the return on investment is roughly $13 for every $1 of the total cost of the reviews.[4]

To improve the consistency and quality of DDS decisions, we established the Request for Program Consultation (RPC) process. The RPC process allows DDSs and our quality reviewers to resolve differences of opinion they have on cases that OQP has cited as deficient. In general, DDSs use the process to resolve the most complex cases. Our policy experts in headquarters thoroughly review these cases. We post all RPC resolutions and related data on our intranet site, accessible to every disability examiner, medical consultant, and QA and supervisory staff. The process serves several key functions. It provides real-life examples of proper policy application, identifies issues and areas for improved disability policy, and provides our Regional Offices and DDSs information to assess local quality issues. Since 2007, we have reviewed about 5,000 cases and posted their resolutions online. Further, the RPC team has worked directly with policy components to develop policy clarifications, training, and other resources that can further improve the consistency and quality of disability determinations at all adjudicative levels.

Conclusion

The criminal conduct that we first uncovered in Puerto Rico in 2009 was appalling. Working with the OIG, we are dismantling a complex conspiracy to defraud the Social Security disability program.

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[3] The percent is based upon a statistically valid sample of cases OQP reviews. It reflects the percent of cases reviewed where OQP agrees with the decision made by the DDS.

[4] Details can be found in the "Annual Report on Social Security Pre-effectuation Reviews of Favorable State Disability Determinations" at http://ssa.gov/legislation/PER%20fy11.pdf.

Key to our efforts was the robust fraud detection and referral process that we put in place to identify, investigate, and prosecute fraud to the fullest extent of the law. The process worked in Puerto Rico, and it continues to work nationwide.

We have already begun to take remedial action in Puerto Rico by reviewing the cases with tainted medical evidence, establishing a CDI unit, and vigorously pursuing additional anti-fraud activities both in the territory and nationwide. These efforts, combined with our other program integrity and QA activities, help minimize fraud in the disability program and support highly accurate decisions.

It is incumbent upon Congress to meet its responsibility to the taxpayer by adequately funding both our stewardship and service efforts so that only those who truly need us receive the help they deserve. We need your support to keep the disability program strong.

Chairman JOHNSON. Mr. O'Carroll, let me ask you a quick question. Has there ever been a case as big as this in the history of Social Security, in your opinion? Yes or no.

Mr. O'CARROLL. No, there has not been any one as big as this.

Chairman JOHNSON. Okay. I am glad you and your Acting Commissioner are convinced that fraud conspiracy is not limited to Puerto Rico since you have set up disability fraud pilot programs here in the United States focusing on third-party facilitators, claimant representatives and medical providers. It seems like everybody wants some of our money.

Ms. Disman, with respect to the Puerto Rico case, what is the total amount of fraudulent taxpayer-funded benefits paid out by Social Security? I expect it will reach millions of dollars.

Ms. DISMAN. At this point in time, Mr. Chairman, I do not have that figure because we are rereviewing all these cases, and our initial review of the 6,600 cases, which we have already started, shows a number of these people will continue to receive benefits because there is other medical evidence in the file even after we remove the tainted evidence. So we will be able to—after we finish the review be able to tell you what was involved with the tainted medical evidence and the amount of the benefits.

Chairman JOHNSON. Well, I know it is Social Security's idea to get payments out as fast as they can. Do you think we are doing it too fast without checking what the status of the claimant is?

Ms. DISMAN. In this situation it shows our frontline employees did their job and did the checking. What they uncovered was looking at template medical evidence, and they didn't stop there. They went ahead and followed the procedures that we have and the operating procedures that we have trained them on.

Chairman JOHNSON. Yes, but you already paid them.

Ms. DISMAN. Right, because based on other evaluation of the medical evidence in file and other factors—remember, this was fabricated medical evidence—it appeared that these people were eligible to meet the definition of disability.

Chairman JOHNSON. Do you think our taxpayers will be made whole? Yes or no.

Ms. DISMAN. I think our taxpayers will be made whole for those people we determine that are no longer eligible to receive disability.

Chairman JOHNSON. In other words, all that money that we put out is going to be paid back?

Ms. DISMAN. We are going to be charging overpayments if those decisions were based on fabricated medical evidence and cannot be supported, and they will be required to pay back the overpayments.

Chairman JOHNSON. How do you go about getting that?

Ms. DISMAN. Well, basically you ask them to pay the money back. You go through a process that gives them their due rights. But ultimately there is a request for the money.

Chairman JOHNSON. Okay. And how much is Social Security spending to deal with this fraud?

Ms. DISMAN. Well, during the review itself we are in the midst of determining what we will be spending on the review. I can tell you right now that the medical evidence in Puerto Rico is in Spanish, so that in order to start this review and to have it done by peo-

ple that are not just bilingual and biliterate, we have had to translate a number of the medical documents, and that is hard to do because you have to be more than bilingual, you have to be biliterate in medical. So we have already spent $3 million in a contract to do the translation. We are right now factoring all the costs, and I will provide that for the record as soon as we finish putting that together.

[Transcript Insert 1 follows:]

As of October 31, 2013, the cost for our review of the approximately 6,600 cases from the investigation in Puerto Rico is projected to be $5.3 million.

Chairman JOHNSON. So usted no hable espanol?

Ms. DISMAN. It is not just speaking Spanish, it is reading complex medical terms. And I do agree with you, because I know you have spent, Chairman Johnson, some time in Puerto Rico.

Mr. BECERRA. But he is a Texan. He knows everything.

Chairman JOHNSON. Ms. Disman, I want to turn to the findings of a GAO study released last week on overpayments. It found that Social Security paid out $1.3 billion in disability that were wrong mostly because the individuals earned over the legal limit during the 5-month waiting period before they received their first check. The problem was simple: Social Security did not catch the earnings if they occurred the year before the year benefits were first paid.

Now, this seems like a problem that ought to be able to be solved by a high school computer student. Why hasn't this been addressed, and can you give me an assurance it will be, and when?

Ms. DISMAN. Well, Mr. Chairman, I read the GAO report as you did, and I have been involved in the enforcement operation as being Regional Commissioner for years. I can tell you that the enforcement operation is very complex, and it requires complicated work by our program service center employees as well as our field employees.

In reading the GAO report, and also talking to our policy people, I know that we are going to have to go look behind the cases because GAO did not do any analysis. If someone has worked during a waiting period, it may be an unsuccessful work attempt, there needs to be a look at the cases itself.

However, we agreed to look at those cases. We also agreed to look at GAO's recommendation, that we take a look at what the cost would be and the resources for us to obtain this information during the waiting period, understanding that if we did this, we may not be able to do something else given our budgets and what we are dealing with.

Also, there are two proposals in the President's budget to deal with exactly this issue. One deals with going to a quarterly wage reporting. You know now it is yearly, so that by the time the data come to us, enforcement is already late. And the second is to continue and redelegate our demonstration authority to go ahead and experiment with different ways of counting earnings for the dis-

ability beneficiaries. And we have been experimenting with different demonstrations to see if we can simplify the program and still get at the heart of the issue of enforcement.

Chairman JOHNSON. Have you been down there yourself?

Ms. DISMAN. Where?

Chairman JOHNSON. Puerto Rico.

Ms. DISMAN. Oh, I have been down to Puerto Rico over the years. I must admit I go in August when it is 100 degrees. But having said that, you have very dedicated Social Security employees in Puerto Rico. They are really dedicated to the mission. I can tell you that this fraud investigation and this conspiracy, if you talk to my employees on the frontline, they are incensed and upset, and a number of them knew the retired Social Security employee, and they are beside themselves.

Chairman JOHNSON. Well, GAO says it urged Social Security to use other verification sources since 2004, but you didn't. In responding to the GAO report, Social Security referred to the, quote, "strategic plan goal of preserving the public trust and improving payment accuracy" as one of your highest priorities. Is that true?

Ms. DISMAN. Well, our highest priority is to ensure the public trust. I take stewardship responsibility personally. I have over the years been one of the foremost supporters of antifraud activities within Social Security. As a matter of fact, the inspector general and I set up antifraud committees in the regions, which are chaired by both of us.

Chairman JOHNSON. When did you do that?

Ms. DISMAN. We set that up a good 10 years ago that we have been working on that. We bring in line management. We identify various trends.

So I will tell you, for a while I was the operations lead on antifraud—I want to say antifraud, not fraud—and I take this seriously and to heart, because when I was trained as a claims representative, that motto, we get the right check to the right person on time, is our foundation.

Chairman JOHNSON. Well, you need to do both, and I am told that, you know, some people think you are more interested in cutting checks than trying to prevent fraud, and I hope that is not true.

How can we believe the agency's statement that payment accuracy is the highest-step priority when the actions here say something different?

Ms. DISMAN. Well, Mr. Chairman, I think you can see the actions here were a complex conspiracy, and if you actually look at the information of our accuracy of the data of Puerto Rico, they are equal or better than the national average, and, you know, we have an independent quality organization that looks at that.

Chairman JOHNSON. Well, as the New York Regional Commissioner, you are responsible for overseeing the Puerto Rico Disability Determination Program; is that correct?

Ms. DISMAN. That is correct.

Chairman JOHNSON. And I would like to get your attention to the slide, if they can put it up on the screen. I think the staff gave you a hard copy of that.

Ms. DISMAN. I don't have it, and let me see if I can see it. I can't see it, but I understand what it is showing.

Chairman JOHNSON. Okay. You understand it just shows that the allowance rates in Puerto Rico are way above the national average anywhere else, like double and triple, and it was pointed out in a Wall Street Journal article from March of 2011, which we will insert in the record without objection.

[The Wall Street Journal article follows:]

"Insolvency Looms as States Drain U.S. Disability Fund"[1]
Wall Street Journal
March 22, 2011

CAGUAS, Puerto Rico—This mountainside town is home to a picturesque cathedral, a tobacco museum and a Wal-Mart Supercenter. Another defining feature: Caguas's 00725 zip code has more people who receive a disability check than any other in the U.S.

Puerto Rico has emerged in recent years as one of the easiest places in the U.S. to get payments from the Social Security Disability Insurance program, created during the Eisenhower administration to help people who can't work because of a health problem. In 2010, 63% of applicants there won approval, four percentage points higher than New Jersey and Wyoming, the most-generous U.S. states. In fact, nine of the top 10 U.S. zip codes for disabled workers receiving benefits can be found on Puerto Rico.

The SSDI is set to soon become the first big federal benefit program to run out of cash—and one of the main reasons is U.S. states and territories have a large say in who qualifies for the federally funded program. Without changes, the Social Security retirement fund can survive intact through about 2040 and Medicare through 2029. The disability fund, however, will run dry in four to seven years without federal intervention, government auditors say.

In addition to the uneven selection process, SSDI has been pushed to the brink of insolvency by the sour economy. A huge wave of applicants joined the program over the past decade, boosting it from 6.6 million beneficiaries in 2000 to 10.2 million in 2010. New recipients have come from across the country, with an 85% increase in Texas over 10 years and a 69% increase in New Hampshire.

Over the years, Puerto Rico's dependence on SSDI has grown particularly stark, exacerbated by the closure of factories and U.S. military installations, an exodus of skilled workers and a number of corruption scandals.

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[1] "Insolvency Looms as States Drain U.S. Disability Fund", Wall Street Journal, Damian Paletta, March 22, 2011.

Seated next to a wooden statue of an angel in his office, Pedro Torres-Morales, a doctor in the south Puerto Rican town of Maunabo, described the situation as "a political problem, an economic problem, a health problem, a social problem."

To others, it's mainly a matter of abuse. "The mentality is that it's 'big, rich Uncle Sam's money,'" said Ivan Gonzalez-Cancel, a prominent Democrat and cardiac surgeon in San Juan who is planning to run for governor in 2012 for the New Progressive Party. He said the system is rife with corruption, something local and federal officials deny.

Unlike Medicare or the Social Security retirement fund, which provide benefits mostly based on age, SSDI decisions are based in large part on medical opinions, which can vary from doctor to doctor, state to state.

Because someone else pays the bills, local officials have little incentive to keep the numbers low. The feds have tried to enforce consistency, but the process relies heavily on the judgment of doctors and administrative law judges who hear appeals.

Benefits can be modest: In 2009, they averaged $1,064 a month. But the program opens up access for recipients to other government programs, multiplying the ultimate cost to taxpayers.

Anyone who spends two years on SSDI qualifies for the Medicare health program, which usually is available only for those 65 years old and older. SSDI recipients tend to remain tethered to the program for years, and the government's lifetime financial commitment averages $300,000 per person, estimates David Autor, an SSDI expert who teaches at the Massachusetts Institute of Technology. "The system has profound problems," Mr. Autor said.

SSDI's financial woes pose a major test for the White House and Congress, which have been reluctant to tackle the budget-busting costs of entitlements.

Analysts who track the program say the only short-term way to save it without raising taxes would be to fold it into the fund that pays Social Security. That would likely force retirees to face benefit cuts two or three years sooner than they otherwise would have done, because SSDI costs would diminish retirement funds.

Supporters say SSDI serves a vital need for millions of people who have paid into the system, qualify for the benefits and depend on the income. Some contend its problems can be fixed by raising taxes or by diverting money from the Social Security fund for retirees.

"This is a program of crucial importance to every working American and his or her family," said Nancy Altman, co-director of Social Security Works, a group that fights cuts in Social Security benefits.

Critics have raised concerns about the solvency of the program, backed by a report last year from the nonpartisan Government Accountability Office alleging that the government was paying benefits to some people who didn't deserve them.

Millions of Americans fund the program through a portion of the Federal Insurance Contributions Act tax that's tied to their income.

The disability insurance trust fund was created in 1957 to provide a backstop to people who worked several years before suffering a debilitating illness or injury. Disability beneficiaries can now include those with cancer, chronic back pain, persistent anxiety and schizophrenia.

Applicants should no longer be able to work in a substantial, gainful way, and must provide medical records affirming the likelihood the applicant won't be able to work for at least another year, or that their health problems would eventually result in death.

The program has been a feature in agricultural, manufacturing and urban communities across the U.S., particularly where unemployment rates are high. As a percentage of total population, more SSDI money flows to West Virginia than anywhere else, according to government data. Experts attribute high concentrations there to unemployment and health problems related to manual labor.

Still, West Virginia has one of the highest rejection rates of applicants anywhere in the country, with just 36.7% of applicants making it into the programs on their initial applications last year, compared to a national average of 46.9%.

In 2005, SSDI began spending more money than it brought in through tax receipts. In 2010, the number of beneficiaries grew by 489,488, the largest one-year increase ever. It is projected to spend $153 billion on benefits and other costs in 2015, $22 billion more than it brings in through tax revenue and other income. Its surplus funds built up over the years are expected to be extinguished in four to seven years.

Puerto Rico has long had an outsize reliance on disability benefits. The island has had a double-digit jobless rate for most of the past 30 years, settling at 15.7% at the end of December. Doctors here say as people find it harder to get a job, they apply for disability benefits.

Even though Puerto Rico's population fell in the past 10 years, from 3.8 million people in 2000 to roughly 3.7 million today, the number of people on SSDI rose 25% from 2000 through 2009 to 188,298. The Social Security Administration sent roughly $163 million a month in SSDI benefits to Puerto Rico in 2009, the last available full-year data, accounting for 2% of the program's total spending.

In 2006, just 36% of applicants in Puerto Rico were approved for benefits. By 2010, the rate had rocketed. In December, 69% of applicants were approved, the highest one-month approval rate by any state or U.S. territory since 2002.

On a recent weekday, 20 people waited for their names to be called inside the Social Security Administration's third-floor office in Caguas under framed portraits of President Barack Obama, Vice President Joseph Biden and SSA Commissioner Michael Astrue.

The pale-blue room looked like any other government office, with 22 customer-service windows and a white SSA seal on the glass door.

Twenty-seven miles away is the zip code with the second-most SSDI beneficiaries— 00767—home to the coastal town of Yabucoa and its 22% unemployment rate. At the end of 2009, 3,385 people, about 15% of its residents, received SSDI benefits.

Lissette Franceschi, from Peñuelas, Puerto Rico, lost her job as a hospital nurse during a round of layoffs in 2008. The 54-year-old fell into a depression that she said required psychiatric help. "I had panic attacks, I couldn't go out alone, I couldn't drive," she said. "There was no way I could work."

Seven months after her layoff, in late 2008, she applied for SSDI and was denied for "insufficient information." Later, a bone scan detected she had an incipient form of arthritis, and she applied again in early 2009. In November 2010, she told her story to a judge, detailing her layoff, the depression and her arthritis. She was granted $1,084 a month in benefits, retroactive to when she filed in early 2009.

Marcos Rodriguez-Ema, chief of staff to Puerto Rico Gov. Luis Fortuno, said he couldn't explain why the island's approval rate has spiked. He speculated more people were pursuing cases because it was harder to find jobs and decent health care. He said it wasn't the result of any change in policy on the island.

Beatrice Disman is in charge of the Social Security Administration's New York region, which oversees operations in Puerto Rico. She said the island has to follow national regulations. "They are not free to do things on their own," she said. "How you make a disability decision is the same in Puerto Rico as is it in New York, and they must follow the same rules."

She said a routine external review found that cases in Puerto Rico were decided accurately 99% of the time in 2010. One reason the approval rate has increased is that the government has hired more people in recent years to process applications for benefits, which has expedited the process, Ms. Disman said.

Government officials say there are a number of checks in place to prevent inconsistencies, including backup screenings conducted remotely, meant to stop people from obtaining benefits who don't meet federal standards.

Doctors, lawyers, and others say standards are left to the interpretation of the many officials involved in the process, which makes it easier for people to get into the system. The $1,000-a-month SSDI check can pay almost as much as a low-wage job in Puerto Rico, and it comes with access to health care.

Administrative law judges in Puerto Rico, who make decisions in cases that are initially rejected or need further review, approved full or partial benefits in 80% of the cases they reviewed in fiscal 2010, according to data reviewed by The Wall Street Journal. One judge in San Juan, Manuel del Valle, approved 98% of the cases brought to him during that span, according to data reviewed by The Wall Street Journal. Mr. del Valle, through a Social Security spokesperson, declined to comment.

Doctors in the area say applicants are still pouring into the system. Several said the SSDI program has become so large, and in some cases so dependent on medical opinions, that patients have worked out which doctors and government officials are less stringent, a phenomenon that lawyers in the U.S. said is also occurring in different parts of the country. They say this explains the high concentrations of beneficiaries in certain areas.

"I tell my secretary that I won't see someone in my office just to fill out forms for the Social Security Administration," said Carlos G. Diaz Silva, a doctor from the southern town of Ponce, who until recently headed the Puerto Rico chapter of the American Psychiatric Association. "It makes me very uncomfortable because there's already an economic consideration."

Chairman JOHNSON. And show the next slide, please.

That table shows the percent of beneficiaries nationwide, and the percentage of beneficiaries diagnosed with a mental disorder in Puerto Rico is at least 10 percent higher than the national average for all years. The percentage with a mood disorder is more than double the national average. And this is important since we have been told back problems and affective disorders, including mood disorders, were alleged by most of the beneficiaries who were arrested. Assuming you saw both the award rate and the diagnosis trends when they happened, what action did you take and when, and what was the result?

Ms. DISMAN. Well, we have taken multiple actions in Puerto Rico. We have actually had a multipronged approach. We have had our quality reviewers and my own disability staff visit Puerto Rico and do extensive training. As a matter of fact, when we found out about the allegation of the doctors, we were there training them on the medical documentation of the file, how to identify suspect medical evidence, going over the risk factors for fraud and similar faults. Two of the categories in those risk operations for operations deals with affective disorders as well as back disorders, going through what the factors are for them to look at.

We did more than that. We did very special training in July of 2011 where we brought together the ALJs and our DDS examiners. We had headquarters, we had our own people from the region, we had quality, going over again the characteristics of affective disorders, similar fault, and actually going through how you deal with the files for inconsistency when you see the types of trends. We do have very specific operating procedures for them to follow, and they have continued to do the referrals.

But I do have to say allowance rates make up a total—a composite of a number of factors. It is not just what you are seeing with this conspiracy. It really does depend on the demographics of a population, it depends on the age, it depends on the education, it depends on the poverty level that exists, it depends on the jobs and the economy.

So you can't draw a conclusion just by looking at the allowance rate, but you have to look behind it. We also asked for a special study where they did a 1,000-case analysis of what the Disability Determination Service was doing, and when they looked at those cases, they also made special referrals to the OIG, but at the same time they determined that the quality and accuracy of the decision making was equal to or better than the national average.

In addition, as I have said before, we have had help from outside my region as well as within the region. So I really established eyes and ears to look at these cases to see if we could pick up any special trends and analysis and continue with the reporting of fraud.

In addition to that, I have taken my own Federal resources from my field offices in Puerto Rico, and I could ill afford it, to devote them to training them on medical decisions and looking at specific cases.

So I actually looked at, in working with the OIG, cases from specific areas in Puerto Rico to try to identify patterns. We would move it to ZIP codes and establish information that the OIG could use.

Chairman JOHNSON. When did she first inform you of this effort?

Mr. O'CARROLL. Well, Chairman, we have been working in conjunction with Regional Commissioner Disman and her office right from the beginning in 2009 when we heard about this. From there on we started referring cases to her for review. So we have been pretty much working united on this thing for the last few years.

Chairman JOHNSON. Were you satisfied with what the answers were that you were getting?

Mr. O'CARROLL. Yes. As we keep going with this, it is so complicated on it, and there are so many different tentacles to this situation, it has taken a lot of interaction back and forth and education on the part of our agents in terms of reviewing files, and I have got to say it has been a very good cooperation on this one.

Chairman JOHNSON. Well, you know, if the Federal quality reviewers are saying the decisions are right, either we have got more fraudulent evidence out there, or we really need to take a good look at the statute defining disability.

Mr. Becerra, do you wish to question?

Mr. BECERRA. Yes, Mr. Chairman, thank you.

And I think the admonishment that the Chairman just made is, I think, something all of us would agree with at this dais, and that is that we have to hunt this stuff down as quickly as we can. No one wants to see any kind of report of fraud, because it is what undermines the confidence that the people have that when they pay these Social Security contributions, these taxes to Social Security, that they will be used for the right purposes.

So we appreciate, Ms. Disman, everything that your people have done, especially the line workers who often times don't get to be here to explain exactly what they have done. Please tell them that we appreciate that they were the ones that detected this, and that we hope they have the resources they will need to continue to be able to continue to do that. By the way, I also hope that you are able to keep those experienced staff, who probably have the knowledge it takes to sort of understand when something looks a little fishy on those applications.

So I think you answered the first question I was going to ask, and that is what are you doing today to try to make sure you can prevent this type of fraud from occurring again when the Chairman asked some questions.

So let me ask this: It all seems to hinge on this former employee who knew how the office operated, who sort of understood what your reviewers are looking for to determine if an application passes that bar so that it goes to the next step of getting closer to being approved.

I agree with you and your line workers that if you could descend on this guy with every tool you have, we should, because he breached a trust. He learned the system, and then once he left and probably took a decent retirement with him, he still went ahead and shafted the very system that helped him. Those kind of guys don't even belong behind bars.

Anyway, I would say that what you should do is give us a sense. There are probably several other people who have learned the system, understand what your disability reviewers are looking for, and

therefore could tailor this fabricated evidence to look like they qualify. And unless you are really good—it is like when Sam, the chairman, and I talk about these fake IDs that are used to do all sorts of things including getting employment, an employer looks at this thing, and this looks like a real Social Security or a real driver's license, and, lo and behold, it is fake.

How do you get to the point where you can prevent that from occurring? Because there are a whole bunch of former Social Security employees who are probably doing great work defending a lot or representing a lot of future beneficiaries or beneficiaries today. We don't want to indict everyone who just happens to have done good work and knows the system, but how do you make sure that those who know how they might be able to game the system aren't doing that?

Ms. DISMAN. Well, I have to agree with your comments about the former employee, and one of the things that I hope is that this indictment and what has taken place in Puerto Rico serves as a notice to any former employee and anyone that we will find the fraud, we will investigate it, and you will face criminal charges and perhaps imprisonment.

I will tell you we used this opportunity of the indictment to send out a message throughout Social Security to talk about what took place, to remind people about reporting it, how to report it, what to look for, and to continue to do it. How we really save this—and this hotline that the inspector general mentioned is bringing in information as to some other nonattorney reps that may exist. We do not know yet if they are former employees or just nonattorney reps.

Having said that, I can't say a lot more because there is a grand jury investigation, but I will tell you that we are looking very closely at cases. We are trying to come up with patterns. It takes resources. I can tell you my regional office that helped do all this analysis and is working with the inspector general is down 22 percent in the last 3 years.

I have moved resources from doing other work that Social Security requires to focus on this investigation. And this investigation will take place, and others, by doing on-the-ground work, analytical work, hard work. But I do want to send a message to anyone that is out there: If you commit fraud against our programs, we will find it, and the Inspector General will find it, and you will serve the appropriate sentence.

Mr. BECERRA. Well, I hope you can communicate to the U.S. attorney who is handling the prosecutions in this case that we hope that they throw not just the book, but the kitchen sink at these guys, including the doctors, because the doctors made it possible for this medical evidence to look real. And this former employee should be severely punished however the law allows it, but those doctors as well. Too often these professionals who abuse their own license to practice get off very easily, and before you know it, they are out there practicing again.

I hope you can send a very clear message, especially, Mr. O'Carroll, as you said, this is the worst case of conspiracy and fraud that we have seen under SSA, that you will descend on these individuals as aggressively as you can. And if there is anything we can do to help by contacting the Department of Justice or the U.S.

attorney to say, we need you to set an example so you don't have to come and testify in the future about these kinds of fraud cases, let us know, because this is—and I think this is a small, minute fraction, but it does spoil it for all those hard-working Americans who ultimately do qualify, are truly eligible for the benefit that they have paid for.

So we urge you to continue to work. We thank you for what you are doing. And know that you have the support of, I think, this Congress to try to really go aggressively at any fraud that may occur out there. And I hope that we heed your guidance about resources; that you can only do so much and stretch a dollar so far in trying to get this done. And it is pound foolish to cut your resources and then find the fraud occurred because you don't have the personnel available to sort of catch it, and then have to spend lots of money and a lot of your personnel resources to now try to go after the bad guys who defrauded the system.

But thank you very much for being here and for all your testimony.

Chairman JOHNSON. Thank you, Mr. Becerra.

Mr. Renacci, would you care to question?

Mr. RENACCI. Thank you, Mr. Chairman, and I thank the witnesses for their testimony.

Ms. Disman, you sound sincere, and I heard you say one of your mottos was "right check to the right person," and clearly there was some systematic failures that occurred. So let's not talk about Puerto Rico as much as maybe you can help me with your office and other offices in the country.

I guess I am concerned about uniform qualifications for DDS examiners. Can you tell me the qualifications of the examiners in the facilities that you oversee? And what I am asking is I understand some have high school educations, all the way to graduate school. What is their background and experience, because these are the frontline people.

Ms. DISMAN. Well, I think to understand it, the DDSs are State employees or Commonwealth employees, and so they are not actually employed by Social Security. We pay the freight for it, the costs of it, and we train them. The States have different standards as to the qualifications for the employees. In most places it is a college graduate. For example, in the State of New York they have even nurses that are already come up and be disability examiners.

So it varies by State. But we also do a very extensive disability training program for them. So they are not really considered proficient for about a 2-year period. They go through stage training. And we also—they are tested, they are mentored. So it is a very, very intense program for it.

And, again, qualifications vary, but we have been looking at this on a national level in Social Security. There has been a task force looking at what type of standards should we try to set. And since I am not responsible for policy, there is a task force working on it, and I can get more information for the record for you.

Mr. RENACCI. I would appreciate that.

[Transcript Insert 2 follows:]

We have pursued multiple initiatives over several years in support of establishing a national disability examiner (DE) certification program.

- In 2001, we contracted with the Chauncey Group, International, to describe a certification process for State DEs and to assess the feasibility of a process with the Federal/State relationship.

- In 2007, we convened a workgroup to further explore the value of DE certification and make recommendations. The workgroup delivered a final report to serve as a flexible model for action on a variety of issues, including DE certification.

- Subsequently, we implemented various national training initiatives to ensure all DEs uniformly apply our rules, including greater use of a training advisory cadre and the creation of interactive training videos along with shared online software and programs. We also recently updated the national DE basic training program.

Challenges remain in establishing a national DE certification program. These challenges vary by State and include State bargaining agreements, implementation costs, staffing furloughs, hiring freezes, employee recruitment and retention, demographics, economic conditions, and the needs of the social safety net programs in each State. Due to the complexity of these challenges and limited resources, we have not moved forward with a national DE certification program.

Mr. RENACCI. But you do agree there could be a high school graduate and a graduate student, and they are making some of the up-front decisions?

Ms. DISMAN. It could be from high school through graduate or postgraduate.

Mr. RENACCI. They have the training—you said they have a 2-year training, but they could be making decisions during that training process, correct?

Ms. DISMAN. They make decisions, but there is a quality control in the DDSs. There is an internal quality. They don't function on their own. They also have to pass a number of tests in order to succeed. So they are not left to their own devices, because we all collectively know that the medical decision that they make is a gateway, and we want to make sure that that medical decision is appropriate.

Mr. RENACCI. Mr. O'Carroll, can you tell me, were video hearings used in some of the Puerto Rico cases?

Mr. O'CARROLL. Mr. Renacci, no, I am not familiar with whether videos were used in those hearings.

Mr. RENACCI. Do you know, Ms. Disman?

Ms. DISMAN. I do not know, but I will tell you in looking at the universe of cases, very few of the 6,600 cases that we are looking at that are involved actually were made at the ALJ level. So it is a small amount. It is about 100.

Mr. RENACCI. Do you know how much use we have of video hearings? Across the country I am talking about.

Ms. DISMAN. Since that is not my area of responsibility, if I can get the information for the record, I would be glad to provide it.

[Transcript Insert 3 follows:]

Video Hearings – FY 2013 (thru 8/30/13)			
Month/Year	**VHs Held**	**All Hearings Held**	**VHs % of All Hearings**
Oct 2012	12,490	51,529	24.24%
Nov 2012	15,031	63,300	23.75%
Dec 2012	12,012	48,660	24.69%
Jan 2013	12,457	48,525	25.67%
Feb 2013	15,490	57,241	27.06%
Mar 2013	19,143	71,748	26.68%
April 2013	15,640	57,198	27.34%
May 2013	18,465	66,810	27.64%
June 2013	14,823	55,749	26.59%
July 2013	12,992	49,088	26.47%
Aug 2013	17,307	63,994	27.04%
Totals	**165,850**	**633,842**	**26%**

Mr. RENACCI. Mr. O'Carroll, do you know? Is there a backlog, and is there a reason we are using, or how many we are using? I am just trying to get systematic.

Mr. O'CARROLL. I don't have a number. I will get it to you. But we have done some work, and we are supportive of it.

Mr. RENACCI. Mr. O'Carroll, can you tell me a little about the hurdles OIG has to overcome in order to prosecute those that defraud SSA?

Mr. O'CARROLL. Yes, and this is—probably a good example of it is that in order to do a prosecution, it requires a lot of criminal evidence and a lot of background on it. And I guess, again, in this case here where we had the cooperation of the U.S. Attorney's Office, and we were working with them, it was probably a little bit easier than we have it in any other districts on it in terms of that when we are making our presentations to U.S. Attorney's Offices, we are kind of in line with all the other Federal agencies, and oftentimes the fraud against SSA is usually in smaller amounts of money than what U.S. Attorney's Offices are looking to do their prosecutions on.

So I guess the long answer to this thing is that it is very difficult to get prosecutions when you are competing against, you know, bank robbers or whatever on it, but we do do a lot. We use the State, we use local prosecutions as well as Federal, and we also use civil monetary penalties, again, to assert fines and penalties on people.

Mr. RENACCI. I would just say in conclusion, and I am running out of time, that in the private sector—and, of course, I was in investigations from a CPA standpoint, many financial institutions—even though one person may have caused the problem, there are usually systematic issues that allowed that one person to cause that problem. So I am hoping that we are looking across the board at all our systems. And I thank you for your testimony.

I yield back.

Chairman JOHNSON. Mr. Kelly, do you care to question?

Mr. BECERRA. Why don't we just reduce the time for each of the two so that way we can make sure we make votes.

Chairman JOHNSON. I will give you a minute.

Mr. KELLY. All right. Just very quickly. Thank you.

I think my concern is because when you look at the amount of money that we are talking about, and are we talking about very small percentages, but a very small percent on a very large sum is great. And I think the integrity of the program always does come down to there are certain people that just find a way, as Mr. Renacci said, with these systemic opportunities.

I look at Puerto Rico that has an unemployment somewhere beyond 13, 14 percent, so they are going to find a way to make money somewhere or get revenue somewhere. So you look to where the low-hanging fruit is, and apparently they found a way to gain revenue.

I know this is tough, and I know you are trying to do an awful lot of things, but I see you have done a good job of redeploying some of your funds and looking at prioritizing your spending, and in a time when things get tough and coming out of the private sector, sometimes you don't have a choice, you just have to prioritize.

I think what you have done is quite wise, although the amount of this is staggering.

The chances of us ever getting that money back, slim to none? I mean, seriously, how much—what is the total amount? I mean, it runs into the billions, right, in overpayments or fraudulent payments?

Ms. DISMAN. At this point I cannot tell you that because we are reviewing our 6,600 cases, and from our initial review of some of the cases, we just started this review, people have other medical evidence that would sustain it. So, for example, I am seeing medical evidence from the Veterans Administration and other places. So you can't make the assumption because we identified 6,600 cases that had these medical providers, that ultimately it was based on that that made the decision.

Mr. KELLY. But in my own business, having dealt with when you get to the situation of accounts payable and them being overdue, the longer they are overdue, the less chance you have of recovering. So the recovery process on this—and we are talking in the billions of dollars in overpayments; is that correct?

Ms. DISMAN. I don't think you are talking about billions.

Mr. KELLY. Okay. All right. The chances of getting any of that money back?

Ms. DISMAN. I think there is a good chance, because we have a very good debt process. And ultimately, remember, these people came on our rolls when they age. There is such a thing called retirement. There is offsets. There is a lot of other things we can do.

I think the bottom line is we have to finish this rereview to see how many people really are involved and would no longer be eligible for benefits. And we intend to take the full action in recovering these overpayments.

Mr. KELLY. My concern is always that, you know, there is a way of running out the clock on this stuff, and after a point the cost of recovery is greater than what you can possibly recover, because usually the recovery amount is very small.

But I am going to yield back, Mr. Chairman, because we are running out of time, and I think Mr. Thompson has a question. Thank you all for being here.

Chairman JOHNSON. Thank you all for your questions.

Mr. Thompson, do you care to question?

Mr. THOMPSON. Thank you, Mr. Chairman, and thank you to all of you for being here. Just a couple of things.

You had mentioned, ma'am, that there is a policy part of this, and as you figure out what sort of policy is needed or needed to be changed, I would hope that you would consider our subcommittee so we can help facilitate that if any of that has to be done statutorily.

In regard to getting the money, first, I couldn't agree more with Mr. Becerra and his comments on the fact that there is a special place in hell for people who would cheat this critical system, a system that is important to so many people. So I would hope that you would take every effort to make sure that whatever punishment is available, that it is doled out, because that sends a strong message to other folks. And we have all seen too many times when people

who perpetrate this type of foul behavior walk. It is not right. So I hope you would do that.

In regard to getting the money back, I think there is two kinds of money that we are talking about. There is the money that was paid out that shouldn't have been paid out, and I trust that your comments about getting that back, that you are going to do everything you can. But how about the money that it is costing us to go after this? You have had to rearrange priorities. We are spending a lot of dough to track these guys down, to investigate this. Is there a policy in place that allows us to go back and capture that?

Ms. DISMAN. Well, I think I would have to yield to that to the Inspector General since he is involved with the U.S. attorney on recovery of assets.

Mr. O'CARROLL. Mr. Thompson, in fact we have been in touch with the U.S. Attorney's Office a number of times over the last few weeks. But one of the issues that happened when we made the arrest on, in fact, the former SSA employee was we seized $1.7 million worth of assets from him. Those assets were turned over to the Justice Department as assets, and eventually what will happen is that if a judge in the case assesses that he has to repay money to SSA, SSA can petition Justice Department to get at those seized assets.

Mr. THOMPSON. But what I am talking about is not just the money they took inappropriately, but the cost of figuring this out and trying to get that. Can we get payment for that?

Mr. O'CARROLL. I would like to see a way that we can penalize them that way, and I think that we can probably put that before the judge.

Mr. THOMPSON. I think we should look at that. I think that would be important to do.

Mr. O'CARROLL. We will do that.

Mr. THOMPSON. Thank you.

Chairman JOHNSON. We have got votes going on. Mrs. Black, I am sorry. Have you got a quick question?

Mrs. BLACK. They can get back to me on this. I am just curious about when we look at recovery, not in this particular incident, but in recovery across the board, I am very interested in what percentage—looking over maybe a 10-year period, what percentage do we actually recover? And in that I would also like the figure what is the cost of the recovery? That should be one area. And then the other is the actual dollars that were inappropriately committed to the client, how much of that do we actually get back? So two different areas.

Thank you, Mr. Chairman. I appreciate it.

[Transcript Insert 4 follows:]

Our systems do not identify overpayments and recovery data specific to improper payments. The following chart shows our recovery activity for all benefit overpayments. Improper payments are resident within these data.

Overpayment Recovery Data FY 2003 - FY 2012										
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Amount of Overpayments Available for Recovery ($ in billions)	$10.95	$11.45	$12.65	$14.20	$15.07	$16.47	$17.64	$18.38	$19.48	$20.32
Amount of Overpayments Recovered ($ in billions)	$1.89	$1.85	$2.03	$2.35	$2.48	$2.83	$3.06	$3.14	$3.20	$3.26
Percentage of Overpayments Recovered	17.27%	16.19%	16.07%	16.52%	16.46%	17.18%	17.33%	17.09%	16.43%	16.05%
Cost to Recover $1	$0.10	$0.09	$0.09	$0.08	$0.07	$0.07	$0.06	$0.07	$0.08	$0.07

Chairman JOHNSON. You know, we have got to get serious about better protecting this program which is paid for by America's hard-working wage earners, and Americans want, need and deserve no less.

I thank you all for being here today. And we have votes, so we are going to call it a day. With that, the subcommittee stands adjourned. Thank you for being here.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned.]

[Questions for the record follow:]

The Honorable Sam Johnson

SOCIAL SECURITY
Office of Operations

January 14, 2014

The Honorable Sam Johnson
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your November 8, 2013 letter requesting additional information to complete the record for the hearing on Puerto Rico. Enclosed you will find the answers to your questions.

I hope this information is helpful. If I may be of further assistance, please do not hesitate to contact me, or have your staff contact Scott Frey, our Deputy Commissioner for Legislation and Congressional Affairs, at (202) 358-6030.

Sincerely,

Beatrice M. Disman
Regional Commissioner, New York Region

Enclosure

Questions for the Record
For the September 19, 2013 Hearing
On Puerto Rico

Questions from Chairman Sam Johnson

1. **In 2006, the Puerto Rico Department of Treasury stopped paying certain bills for the Disability Determination Services (DDS) yet the Social Security Administration (SSA) is still paying some of the DDS's bill directly. How often has the SSA had to take over the direct payment of a DDS's bill for a State or Commonwealth?**

   We have never had to pay DDS invoices for any other State, Commonwealth, or the District of Columbia to the extent we paid DDS bills for Puerto Rico. In a very few cases over the years, we have had to help States out. For example, in the mid-1990s, we had to pay for the systems maintenance contract and some other related bills for the District of Columbia DDS.

2. **In your testimony, you indicate that there are a number of other Federal and State examiners processing Puerto Rico's work. The SSA has the authority to make disability decisions if a State is failing to make decisions in accordance with the regulations. Under what conditions would you consider federalizing the disability determination process in a State or Commonwealth? What additional tools in the statute would enhance the ability to ensure compliance by a DDS?**

   Section 221(b) of the Social Security Act (Act), 42 U.S.C. § 421, and our regulations set forth the conditions under which we could federalize a DDS. We may federalize a DDS if we find after notice and opportunity for a hearing that it has substantially failed to make disability determinations in a manner consistent with the Commissioner's regulations and other written guidelines. The Federal assumption of the State's disability determination function could not take place until 180 days after the finding of substantial failure and until after: 1) we develop a plan and procedures to provide the affected DDS employees preference over any other individual in filling an appropriate employment position; and 2) the State has made fair and equitable arrangements to protect the interests of employees displaced by the federalization of the DDS. Under our regulations, we may make a finding of substantial failure only after we have provided the DDS technical and managerial support to improve its performance. 20 CFR 404.1670.

   We believe that current statutory authority in section 221 of the Act provides adequate statutory tools. Moreover, we believe it reflects congressional intent that the States continue to administer the disability determination function, with Federal oversight in performance criteria, fiscal control procedures, and other rules designed to assure equity and uniformity to State agency disability determinations.

3. How are employees trained to recognize fraud? Please be as specific as possible. How often does that training occur?

We emphasize detecting and investigating program fraud. We train our front-line employees, including claims representatives in our field offices and disability examiners in the State and Commonwealth DDSs, during their initial training program. Furthermore, all employees receive continuing training in the form of mandatory annual security reminders, programs and policy issuances, videos on demand, and office visits by executives from SSA and the Office of the Inspector General (OIG).

When our field office employees uncover potential fraud while performing daily responsibilities, they are instructed to report all (non-SSA employee) fraud allegations to the OIG Office of Investigations Field Division using the online electronic referral form, e8551. We provide periodic reminders to employees on how to fill out the e8551, and maintain policy to instruct employees on its use.

The following are some recent examples of national and New York Region training initiatives:

- **August 21, 2013:** The Deputy Commissioner for Operations issued a broadcast message to all Operations staff, focusing on the importance of identifying and referring fraudulent activity. The message included a list of our fraud reporting mechanisms and how they should be used.

- **July 2013:** All Puerto Rico DDS employees completed annual mandatory security awareness training, which we provide pursuant to the Federal Information Security Management Act. This session included a detailed discussion of how to detect and refer cases involving fraud and similar fault.

- **May 2013:** The Puerto Rico DDS conducted a fraud prevention refresher training for its staff.

- **January 2013:** A monthly Operations security training initiative, titled "Think Twice First," dealt with the importance of reporting fraud through our agency's processes. This training session was mandatory for all of Operation's front-line employees. It stressed the importance of identifying potential fraudulent situations and referring them to the OIG.

- **December 11, 2012:** The New York Region issued policy guidance to all of its offices, announcing the formation of a Cooperative Disability Investigation Unit in Puerto Rico. This guidance included tips and reminders regarding the fraud referral process.

- **August 2011:** Mood Disorder Training was conducted for the Puerto Rico DDS and all Office of Disability Adjudication and Review offices in the Commonwealth. A significant portion of this training focused on tools our employees should use to evaluate questionable medical evidence, detect potential fraud and similar fault, and refer cases for investigation.

- **April 2011:** The New York Region issued a special fraud message to all SSA components that were processing or reviewing claims from Puerto Rico. It asked those components to be alert to potential fraudulent activity and to refer those cases to the OIG where appropriate.

Additionally, each region hosts a Regional Anti-Fraud Committee that meets to discuss and promote ongoing anti-fraud initiatives. The Committee sessions provide an opportunity to review the nature of the fraud referrals from SSA components and discuss techniques to encourage referrals and streamline our processes. Also, the Committee shares ideas regarding areas that have potentially fraudulent activity that the OIG should examine.

4. **DDS examiners make decisions based on medical evidence submitted by doctors, yet that evidence has to be consistent with the claimant's allegations and other medical evidence in the file. With regards to the Puerto Rico disability fraud scheme, was every document placed in these files fabricated? As three doctors were among those arrested in Puerto Rico, what is the nature of the review DDSs and ALJs are required to do before accepting medical evidence from a doctor? How is compliance with these instructions, along with instructions for the weighing of evidence, enforced?**

As I mentioned in my testimony, we will review at least 6,600 disability applications in which we awarded benefits based, in part, on medical evidence supplied by the indicted doctors. In redetermining these cases, we will disregard the tainted medical evidence. If the remaining evidence does not support our original allowance, we will suspend the benefits and provide an opportunity to submit additional medical evidence prior to issuing a final determination.

Based on our recent experience, most of these applications had medical evidence from doctors who were not implicated in the fraud scheme. At this point in our review, we cannot predict the number of continued benefits based on the remaining evidence in file.

Our regulations set forth the criteria for weighing medical evidence, including opinion evidence. See, for example, 20 CFR 404.1520b, 404.1527, 416.920b, and 416.927. We require disability decision-makers to follow these criteria when deciding a disability claim, and provide relevant training to assist them. For example, in August 2011 we provided mood disorder training that included instructions regarding the appropriate sources and use of evidence in establishing medically determinable impairments, evaluation of symptoms, assessing credibility, and medical source opinions.

5. **What is the cost per case at the initial, reconsideration, hearing and Appeal Council levels? If possible, for initial decisions, please provide a separate break out of costs for those cases processed by the State DDS, Extended Service Teams, and Federal component costs. Please provide these costs for Fiscal Years 2011, 2012, and 2013.**

The table below provides the total agency cost per case of claims at the initial, reconsideration, hearing, and Appeal Council levels for fiscal year (FY) 2011 and FY 2012. FY 2013 data is not yet available. We cannot provide a break out of costs for cases processed by the State DDS, Extended Service Teams, or Federal disability processing units.

Level	Unit Cost FY 2011	Unit Cost FY 2012
Initial Disability Claims	$1,058	$1,036
Reconsiderations	$ 679	$ 666
Hearings	$2,752	$2,771
Appeals Council Reviews	$1,405	$1,181

6. **During the hearing, you discussed a number of ways Puerto Rico is different from the rest of the country. How do you explain the difference in award rates in Puerto Rico compared with the rest of the nation? Also, what explains the increase in initial awards from 43 percent in 2008 to over 59 percent in 2009, and 65 percent in 2011?**

Puerto Rico is different from the rest of the country in several ways that could potentially contribute to a higher award rate. When compared to the rest of the country, the population in Puerto Rico has the following characteristics that are associated with a higher likelihood of an award:

- **Older ages.** According to the data published in our 2012 Annual Statistical Report on the Social Security Disability Insurance Program, about 76 percent of disabled worker beneficiaries in Puerto Rico are ages 50 or older compared to only about 71 percent in the United States.

- **Low education levels.** According to the Census Bureau's 2012 American Community Survey, approximately 27.4 percent of the Puerto Rico population ages 25 and older has not attained a high school degree compared to only approximately 13.8 percent in the United States.

- **Higher Prevalence of Disability and Poor Health.** According to the 2012 American Community Survey, approximately 18.1 percent of people in Puerto Rico ages 18 to 64 report a disability compared to only approximately 10.1 percent in the United States. Similarly, the 2012 Centers for Disease Control Behavioral Risk Factor Surveillance System data show approximately 36.1 percent of the population in Puerto Rico is in poor or fair health compared to only approximately 16.9 percent in the United States.

The alleged fraud that is under investigation now may have also affected award rates. We are carefully reviewing cases and will know more about the impact of the alleged fraud after we complete the investigation.

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