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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**FOLLOW-UP ON DISABLED  
TITLE II BENEFICIARIES  
WITH EARNINGS REPORTED  
ON THE MASTER EARNINGS FILE**

**April 2009**

**A-01-08-28075**

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**AUDIT REPORT**

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## Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

## Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

## Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



# SOCIAL SECURITY

## MEMORANDUM

Date: April 15, 2009

Refer To:

To: The Commissioner

From: Inspector General

Subject: Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File (A-01-08-28075)

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) evaluated earnings reported to the Master Earnings File (MEF) for disabled individuals receiving Title II benefits.

## BACKGROUND

SSA pays disability benefits to eligible individuals under Title II of the *Social Security Act*.<sup>1</sup> An individual is considered disabled under the *Social Security Act* if he or she is unable to engage in any substantial gainful activity (SGA) because of a medically determinable impairment that (1) can be expected to result in death or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months.<sup>2</sup>

SSA defines SGA as work activity that involves significant physical or mental activities performed for pay or profit.<sup>3</sup> The Agency has criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA.<sup>4</sup> For example, for Calendar Year 2008, SSA generally considered earnings of \$940 per month to reflect SGA.<sup>5</sup>

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<sup>1</sup> The *Social Security Act* § 201 *et seq.*, 42 U.S.C. § 401 *et seq.*

<sup>2</sup> The *Social Security Act* § 223(d)(1), 42 U.S.C. § 423(d)(1).

<sup>3</sup> 20 C.F.R. § 404.1572.

<sup>4</sup> SSA, POMS, DI 10500.

<sup>5</sup> Special rules apply to individuals who are blind. We did not include blind individuals in our review.

## HOW WORK AFFECTS DISABILITY BENEFITS

Disabled beneficiaries are granted trial work periods during which they may test their ability to work while still receiving benefits.<sup>6</sup> If SSA determines a beneficiary continues to be disabled after the trial work period ends, benefits can continue to be paid during an extended period of eligibility.<sup>7</sup> During this period, SSA will pay benefits for any month in which the beneficiary does not engage in SGA. If the beneficiary engages in SGA at any time after the extended period of eligibility, eligibility for Title II disability benefit payments ends. However, individuals whose entitlement ended because of SGA may become entitled to benefits again if they are no longer engaging in SGA and continue to be disabled. (See Appendix B for additional background information.)

## DETECTING AND EVALUATING UNREPORTED EARNINGS

Although disabled beneficiaries are required to report work activity,<sup>8</sup> individuals do not always do so. Therefore, SSA uses its Continuing Disability Review Enforcement Operation to compare earnings reported on the MEF to the benefit rolls.<sup>9</sup> This Enforcement Operation identifies potentially unevaluated substantial earnings that may affect benefit entitlement and alerts SSA to review the earnings. SSA must perform a work-related continuing disability review (CDR) when earnings indicate the beneficiary has returned to work at the SGA level.<sup>10</sup> In 2004, the Agency implemented an automated system called eWork to assist in controlling and processing work-related CDRs.

In our July 2004 report, *Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File*, we stated that SSA did not evaluate all earnings reported to the MEF between 1996 and 2000 for disabled individuals receiving Title II benefits as of March 2002. We estimated that approximately \$1.37 billion in overpayments resulting from about 63,000 disabled beneficiaries' work activity was not identified. (See Appendix C for recommendations included in our prior report.)

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<sup>6</sup> SSA, POMS, DI 13010.035. Generally, beneficiaries are granted 9 trial work months (which do not need to be consecutive) during a rolling 60-month period.

<sup>7</sup> SSA, POMS, DI 13010.210. The extended period of eligibility begins with the month immediately following the completion of the trial work period and lasts 36 consecutive months.

<sup>8</sup> 20 C.F.R. § 404.1588.

<sup>9</sup> The MEF is a repository of earnings information maintained by SSA.

<sup>10</sup> 20 C.F.R. § 404.1590(b)(5). Because earnings posted to an individual's earnings record may include amounts that are not related to current work (e.g., bonuses, termination pay and sick pay), SSA must evaluate the earnings to determine whether they represent earnings from SGA performed after entitlement to disability benefits began.

To perform our follow-up review, we identified 25,904 disabled beneficiaries (from 1 Social Security number segment) who were receiving Title II benefits as of July 2007 and had earnings reported on the MEF between 2001 and 2006 that may impact their entitlement to benefits.<sup>11</sup> We randomly selected 275 cases from this population for detailed analysis. (See Appendix D for more information on our scope, methodology and sample results.)

## RESULTS OF REVIEW

The Agency made efforts to reduce overpayments resulting from work activity. However, we found that SSA did not evaluate all earnings posted to the MEF, and as a result, overpayments resulted from work activity.

Based on our review, we estimate that approximately \$3.1 billion was overpaid to about 173,000 disabled beneficiaries because of work activity.<sup>12</sup> Although the Agency identified about \$1.8 billion of these overpayments to approximately 141,000 beneficiaries, we estimate about \$1.3 billion in overpayments to approximately 49,000 beneficiaries went undetected by SSA.<sup>13</sup> As of March 2009, the Agency had successfully recovered about \$615 million of the approximately \$3.1 billion overpaid due to work activity.

Furthermore, we estimate about 24,000 of the 49,000 beneficiaries were no longer entitled to disability benefits because of work activity. Finally, we estimate SSA will continue to incorrectly pay about \$382 million over the next 12 months to individuals who are no longer entitled to disability benefits if action is not taken by the Agency.

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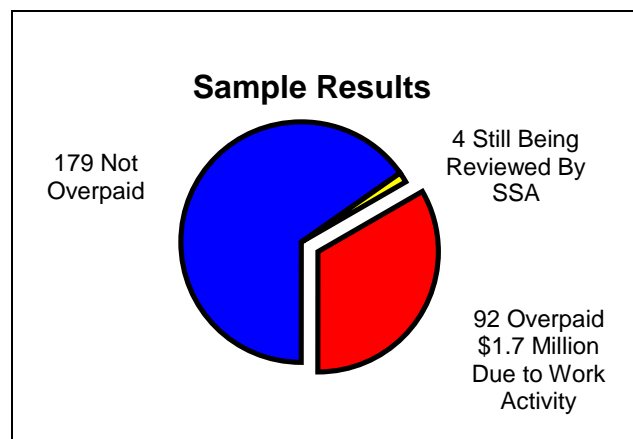
<sup>11</sup> The last 2 digits of the Social Security number are randomly assigned and can contain digits "00" to "99." Social Security numbers can be categorized into 20 segments, each containing 5 sequential groups of these digits. For this audit, we randomly selected Social Security numbers ending with the digits "50" to "54" from 1 Social Security number segment. In total, we estimate there are approximately 518,080 beneficiaries in all 20 segments.

<sup>12</sup> When primary workers are ineligible for benefits because of work activity, any auxiliary beneficiaries (e.g., spouses and children) are also ineligible. Therefore, our overpayment calculations and estimates include overpayments to the working beneficiaries as well as overpayments to auxiliary beneficiaries.

<sup>13</sup> The 49,000 beneficiaries include about 17,000 beneficiaries for whom SSA identified some of the overpayments resulting from work activity, but not all overpayments.

Of the 275 beneficiaries in our sample:

- 92 (34 percent) were overpaid about \$1.7 million because of work activity;<sup>14</sup>
- 179 (65 percent) were not overpaid despite earnings on the MEF;<sup>15</sup> and
- 4 (1 percent) were still being reviewed by SSA as of March 2009.



### **BENEFICIARIES OVERPAID DUE TO WORK ACTIVITY**

In total, 92 beneficiaries in our sample were overpaid about \$1.7 million due to work activity.<sup>16</sup> Although SSA identified about \$977,000 of these overpayments to 75 beneficiaries, the Agency did not evaluate all work activity for 26 beneficiaries. (The 26 beneficiaries includes 9 beneficiaries for whom SSA identified some of the overpayments resulting from work activity, but not all overpayments.) As a result, overpayments totaling about \$709,000 went undetected by the Agency to these 26 beneficiaries.<sup>17</sup> This includes

- 13 cases in which benefit entitlement terminated because the extended periods of eligibility ended and work continued,<sup>18</sup> and
- 13 cases in which the beneficiaries were not due some of the benefits paid to them because of their work in an extended period of eligibility.

<sup>14</sup> This includes four beneficiaries overpaid about \$97,000 for which SSA will post overpayments once it completes its review of the earnings.

<sup>15</sup> For example, SSA determined earnings for 100 beneficiaries were below SGA amounts and therefore did not result in overpayments. See Appendix E for additional reasons why beneficiaries were not overpaid despite their earnings.

<sup>16</sup> As of March 2009, SSA had recovered about \$326,000 (or 19 percent) of the \$1.7 million overpaid due to work from 66 beneficiaries. (The \$326,000 only includes amounts successfully recovered by SSA—it does not include any amounts waived or deleted by the Agency.)

<sup>17</sup> Overpayment periods ranged from 1 month to 81 months, with an average of 25 months and a median of 18 months.

<sup>18</sup> Because SSA performed work-related CDRs at our request, we estimate the Agency saved about \$203,000 by terminating benefit payments to these 13 individuals that otherwise would have been paid over the next 12 months.

## **Opportunities Existed to Identify and Evaluate Earnings**

In our prior audit, we identified past opportunities in which SSA may have been able to prevent overpayments resulting from work activity. Despite efforts to ensure earnings are evaluated, our current audit found that the Agency still missed the opportunity to evaluate sooner the earnings of all 26 beneficiaries with undetected overpayments.

### **Earnings Enforcements**

SSA's enforcement process had identified the earnings of all 26 beneficiaries with undetected overpayments. However, for 19 of these beneficiaries, the Agency did not evaluate those earnings' impact on benefits, and as a result, SSA was unaware the individuals were ineligible for benefits until our audit. According to the Agency, enforcement alerts are released to staff in large batches three times per year. Therefore, it could take staff months (or sometimes longer) to work the alerts.

For the remaining seven beneficiaries, the Agency initiated work-related CDRs but did not complete its review of the beneficiaries' earnings until our audit. For example, one beneficiary's earnings for 2002 through 2004 totaled about \$28,000. The Agency initiated a work-related CDR in 2005 and determined that the beneficiary was not due some benefits paid to him during his extended period of eligibility—but did not assess an overpayment. Based on our audit, SSA took action to post the overpayment totaling \$8,747.<sup>19</sup>

### **Benefit Increases**

Social Security benefits are based on a worker's earnings history. Therefore, when disabled beneficiaries return to work, their benefit amounts may increase (should they remain entitled to receive benefits).<sup>20</sup> Therefore, SSA periodically reviews earnings and recalculates benefit amounts to consider recent earnings not included in the original disability benefit calculation.

In 16 of the 26 cases with undetected overpayments, SSA performed benefit recalculations and increased benefit payments to beneficiaries without evaluating these earnings to determine whether the individuals engaged in trial work or SGA.<sup>21</sup> For example, one disabled beneficiary in our sample had earnings in 2005 and 2006 that were significant enough to cause his benefit amount to increase. SSA processed benefit recalculations and increased his benefit payments each year based

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<sup>19</sup> Based on the results of our sample, we estimate the earnings of about 49,000 beneficiaries were identified through SSA's enforcement process. In addition, we estimate the Agency initiated work-related CDRs but did not assess overpayments for approximately 13,000 of the 49,000 beneficiaries.

<sup>20</sup> Benefit amounts are based on the level of earnings resulting from work activity.

<sup>21</sup> All 16 beneficiaries also had earnings identified by SSA through its earnings enforcement process. Based on the results of our sample, we estimate SSA performed benefit recalculations and increased benefit payments to about 30,000 beneficiaries without evaluating work activity.

on his earnings. However, the Agency did not evaluate the earnings to determine whether the individual engaged in SGA. Based on our audit, SSA evaluated the earnings and found that the beneficiary's entitlement terminated because his extended period of eligibility ended and he continued to work. This beneficiary was overpaid \$70,987 from April 2005 to August 2008.<sup>22</sup>

### SSA's EFFORTS TO REDUCE OVERPAYMENTS DUE TO WORK ACTIVITY

Since our prior audit, SSA took the following actions to reduce overpayments resulting from work activity.

#### Improving Work-Related CDRs

In 2004, SSA implemented an automated system called eWork to assist in controlling and processing work-related CDRs. Prior to eWork, the Agency's CDR process required the use of multiple SSA systems. The eWork system allows SSA staff to process work-related CDRs using a centralized national database. According to SSA, this centralized system improves the work CDR process, and as a result, reduces overpayments resulting from work activity.<sup>23</sup>

Although our current audit still found that a substantial amount of overpayments went undetected by SSA, the number of work-related CDRs performed by the Agency has increased since SSA implemented eWork in 2004. In addition, the unit cost per work-related CDR has decreased each year since 2004 as shown in the table below.<sup>24</sup>

<b>Fiscal Year</b>	<b>Number of Work-Related CDRs Performed</b>	<b>Unit Cost per Work-Related CDR</b>	<b>Total Cost</b>
2004	109,127	\$519.13	\$57 Million
2005	140,670	\$511.77	\$72 Million
2006	175,644	\$460.57	\$81 Million
2007	173,895	\$449.18	\$78 Million
2008	170,664	\$397.45	\$68 Million

<sup>22</sup> This includes \$23,650 paid to the disabled beneficiary's two children.

<sup>23</sup> SSA, *Fiscal Year 2007 Performance and Accountability Report*, page 24.

<sup>24</sup> SSA, Division of Cost Analysis Reports, Fiscal Years 2004 through 2008.



According to Table 1, SSA performed 170,664 work-related CDRs in 2008 at a unit cost of \$397.45. Based on our review, we estimate about \$3.1 billion was overpaid to approximately 173,000 disabled beneficiaries (out of 518,080 in the estimated universe) because of work activity. To perform work-related CDRs for all 518,080 disabled beneficiaries, it would cost SSA about \$206 million (assuming the \$397.45 unit cost remains the same). This results in a potential benefit-cost ratio of \$15.0 to \$1.0.<sup>25</sup> Therefore, we believe SSA may achieve greater savings in the long-term if the Agency could provide the resources to perform work-related CDRs for all disabled beneficiaries with substantial earnings reported on the MEF.

### **Benefit Offset Pilot Demonstration**

In August 2005, SSA initiated the Benefit Offset Pilot Demonstration Project in four States to test the effects of reducing disability benefits by \$1 for every \$2 of earnings over SGA during the extended period of eligibility.<sup>26</sup> According to SSA, the project will allow beneficiaries to face a gradual reduction in benefits by eliminating the abrupt loss of benefits that occur when earnings exceed SGA.<sup>27</sup> Currently, SSA will not pay benefits for any month during the extended period of eligibility for which the beneficiary engages in SGA. Therefore, this demonstration project would reduce overpayments resulting from beneficiaries' work activity since beneficiaries may still be due a portion of benefits when earnings exceed SGA. The overall goal of this pilot is to provide information that will be used to develop a national project. The pilot is expected to end in April 2009.

## **CONCLUSION AND RECOMMENDATION**

We found that SSA did not evaluate all earnings for disabled individuals, and as a result, overpayments existed because of work activity. Our current review estimates that approximately \$3.1 billion in overpayments existed because of disabled beneficiaries' work activity. Although SSA identified about 58 percent of these overpayments, we estimate the remaining 42 percent—approximately \$1.3 billion—went undetected by the Agency. In addition, we estimate SSA will continue to incorrectly pay about \$382 million over the next 12 months to disabled beneficiaries no longer entitled to benefits if the Agency does not act.

We recognize SSA's efforts to improve the work-related CDR process. In addition, we acknowledge the Agency's limited resources with which to perform this workload.

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<sup>25</sup> We conducted the following analysis to calculate the benefit-cost ratio: 518,080 beneficiaries in the estimated universe multiplied by \$397.45 unit cost per work-related CDR in 2008 equals \$205,910,896. Dividing the estimated \$3.1 billion in overpayments by the \$205,910,896 cost to perform the CDRs equals \$15.0.

<sup>26</sup> The pilot will also test the effects of extending the extended period of eligibility from 36 months to 72 months. The four States included in the pilot are Connecticut, Utah, Vermont and Wisconsin.

<sup>27</sup> SSA, *Fiscal Year 2007 Performance and Accountability Report*, page 22.

However, we believe SSA may achieve greater savings in the long-term if it could provide the resources to perform more work-related CDRs.

Therefore, since a significant portion of Title II funds have been overpaid, we recommend SSA develop and implement a plan to allocate more resources to timely perform work-related CDRs—and assess overpayments resulting from work activity—for cases identified by the Agency's earnings enforcement process.

## **AGENCY COMMENTS**

SSA agreed with the recommendation (see Appendix F).

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", written in a cursive style.

Patrick P. O'Carroll, Jr.

# *Appendices*

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APPENDIX A – Acronyms

APPENDIX B – Background

APPENDIX C – Status of Recommendations from Prior Audit

APPENDIX D – Scope, Methodology and Sample Results

APPENDIX E – Beneficiaries Not Overpaid Despite Earnings

APPENDIX F – Agency Comments

APPENDIX G – OIG Contacts and Staff Acknowledgments

## Acronyms

CDR	Continuing Disability Review
CDREO	Continuing Disability Review Enforcement Operation
C.F.R.	Code of Federal Regulations
DCF	Disability Control File
MEF	Master Earnings File
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SGA	Substantial Gainful Activity
SSA	Social Security Administration
U.S.C.	United States Code

## Background

Title II of the *Social Security Act* provides benefits to individuals who—having insured themselves for benefits through sufficient, recent work under Social Security-covered employment—have lost their ability to work because of a severe, long-term disability.<sup>1</sup> In addition, the program also provides benefits to disabled adult children and disabled widow(er)s of insured workers.<sup>2</sup> The number of beneficiaries and total monthly benefits paid in December 2007 are shown in the table below.<sup>3</sup>

As of December 2007	BENEFICIARIES		BENEFITS PAID	
	Number	Percent	Dollars (millions)	Percent
Disabled Workers	7,098,723	87%	\$7,127	91%
Disabled Adult Children	794,677	10%	\$525	7%
Disabled Widow(er)s	224,982	3%	\$145	2%
<b>Total</b>	<b>8,118,382</b>	<b>100%</b>	<b>\$7,797</b>	<b>100%</b>

### THE DEFINITION OF DISABILITY

The Social Security Administration (SSA) considers an individual to be disabled if he or she is unable to engage in any substantial gainful activity (SGA) because of an impairment that (1) can be expected to result in death, or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months.<sup>4</sup>

### SUBSTANTIAL GAINFUL ACTIVITY

The *Social Security Act* grants SSA the authority to establish criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA.<sup>5</sup> The Agency defines SGA as work activity that involves significant physical or mental activities performed for pay or profit. Work may be substantial even if it is seasonal or part-time, or if the individual does less, is paid less, or has less responsibility than in previous work. Work activity is gainful if it is the kind of work usually done for pay or profit, whether or not a profit is realized.

<sup>1</sup> The *Social Security Act* §§ 223 *et seq.*, 42 U.S.C. § 423 *et seq.* Generally, when disabled workers are entitled to benefits, their spouses and children may also be entitled as auxiliary beneficiaries. The *Social Security Act* §§ 202 (b), (c) and (d), 42 U.S.C. §§ 402 (b), (c) and (d).

<sup>2</sup> The *Social Security Act* §§ 202 (d), (e) and (f), 42 U.S.C. §§ 402 (d), (e) and (f).

<sup>3</sup> SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2007*, page 21.

<sup>4</sup> The *Social Security Act* § 223(d)(1), 42 U.S.C. § 423(d)(1).

<sup>5</sup> The *Social Security Act* § 223(d)(4)(A), 42 U.S.C. § 423(d)(4)(A).

According to SSA, usually the best measurement of a person's ability to work is the amount of pay received.<sup>6</sup> For example, for Calendar Year 2008, the Agency generally considered earnings of \$940 per month to reflect an individual's ability to engage in SGA. However, the Agency only considers wages earned through an individual's own effort in determining whether the SGA level is met. For example, if it is necessary for an employer to provide special help for an individual to work, the value of such special assistance may be considered a subsidy and deducted from earnings. In addition, impairment-related work expenses incurred by a disabled individual are also deducted from earnings before determining whether earnings reflect SGA. Therefore, SSA considers only the earnings based on the individual's own productivity in determining whether earnings reflect SGA.

## **HOW WORK AFFECTS ENTITLEMENT TO BENEFITS**

SSA encourages disabled individuals to return to work.<sup>7</sup> For this reason, beneficiaries who continue to have disabling conditions are granted trial work periods during which they may test their ability to work while still receiving their benefits.

## **THE TRIAL WORK PERIOD**

Generally, when 9 trial work months are successfully completed within a 60-month period, SSA should evaluate the beneficiary's work activity to determine whether the individual is able to engage in SGA. If a beneficiary demonstrates the ability to engage in SGA after the trial work period ends, the Agency determines the individual's disability has ceased and benefit payments end after a 3-month grace period.

## **EXTENDED PERIOD OF ELIGIBILITY**

If a beneficiary still has a disabling impairment but continues to work despite his or her disability, benefits can be reinstated during the 36-month period after the trial work period. SSA will pay benefits for any month during this 36-month extended period of eligibility in which the beneficiary does not engage in SGA (provided the beneficiary continues to have a disabling impairment). If the beneficiary engages in SGA at any time after the extended period of eligibility, eligibility for Title II disability benefit payments ends.<sup>8</sup>

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<sup>6</sup> SSA, POMS, DI 24001.025. A.

<sup>7</sup> SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2007*, page 6.

<sup>8</sup> SSA reported that it terminated benefits to 33,381 disabled beneficiaries during calendar year 2007 because the beneficiaries were performing SGA. (SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2007*, page 120.)

## **REESTABLISHING ENTITLEMENT**

Individuals whose entitlement to benefits ended because of SGA may become entitled again, if they are no longer engaging in SGA and they still have disabling impairments.

## Status of Recommendations from Prior Audit

In July 2004, we issued a report, *Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File (A-01-03-13019)*. The following tables list the recommendations from the prior report, the Social Security Administration's (SSA) actual/proposed actions when the report was issued, and the status as of March 2009.

<b>Recommendation 1 – Review past cases where significant earnings are present on the MEF and no determination has been made regarding trial work and/or SGA.</b>	
SSA's Comments and/or Actions from July 2004 Report	SSA agreed to review cases with significant earnings on the Master Earnings File (MEF) where no determination had been made regarding trial work/Substantial Gainful Activity (SGA) and take action where it was cost beneficial to do so and as resources permitted.
Status as of 2009	Although SSA originally agreed with this recommendation, it later reversed its position and decided not to work past cases. SSA stated it would not be a prudent use of its limited resources to review work that had already been closed out. However, our recommendation referred to cases not previously worked by SSA.



**Recommendation 2 – Ensure that future earnings enforcements are adequately controlled by management and resolved timely.**

<p>SSA's Comments and/or Actions from July 2004 Report</p>	<p>SSA agreed with this recommendation. The Agency stated it was tracking earnings enforcement through its Continuing Disability Review Enforcement Operation (CDREO) system. SSA also stated that the CDREO system had been integrated with the Agency's Disability Control File (DCF), which controls the earnings enforcement issues that the CDREO system generates. SSA was also analyzing a comprehensive matching interface that would provide verification of earnings for both Title II and XVI beneficiaries and ensure earnings enforcement actions generated by the CDREO system were controlled until completed. The Agency also stated it had initiated steps to improve and accelerate the process of wage reporting for individuals who returned to work.</p>
<p>Status as of 2009</p>	<p>CDREO was integrated with the DCF. In addition, the Agency stated it had implemented a matching interface to verify earnings for both Title II and XVI beneficiaries. Furthermore, Area Work Incentive Coordinators were established to assist in monitoring work-related issues and help ensure earnings enforcements are properly managed and resolved timely. Despite significant efforts to implement this recommendation, our current audit estimates about 49,000 beneficiaries with undetected overpayments had earnings that were identified by SSA through its earnings enforcement process; however, the earnings were not evaluated to determine their impact on benefit entitlement.</p> <p>In 2004, SSA also implemented eWork, which allows SSA staff to process work-related continuing disability reviews (CDR) using a centralized national database. According to SSA, this centralized system improves the work-related CDR process, and as a result, reduces overpayments resulting from work activity. Although we recognize SSA's efforts to improve the work-related CDR process, our current audit still estimates that approximately \$3.1 billion in overpayments resulted from disabled beneficiaries' work activity. Although SSA identified about 58 percent of these overpayments, we estimate the remaining 42 percent—approximately \$1.3 billion—went undetected by the Agency.</p> <p>SSA also conducted an analysis of the Office of Child Support and Enforcement database of new hires to determine whether a match with this database would be useful to SSA in identifying unreported work activity. SSA concluded that an ongoing matching operation with the new hires database—and the early knowledge of new employment—would have little, if any, effect in reducing improper payments. The Agency found that an ongoing matching operation would not suspend or terminate disability benefits any sooner than the Agency's work-related CDR process.</p>

**Recommendation 3 – Ensure that earnings reported on the MEF or disclosed on beneficiary-completed forms are evaluated when medical CDRs are performed or mailer CDR forms are received.**

SSA's Comments and/or Actions from July 2004 Report	SSA agreed with this recommendation. The Agency stated it was providing employment support training to all direct service employees that would help ensure all reported earnings are evaluated. SSA also stated the DCF now had the ability to control both a pending work issue and an appending medical issue at the same time. Before November 2002, SSA could only control one issue at a time.
Status as of 2009	SSA provided employment support training to all direct service employees in the fall of 2003. In addition, the implementation of eWork in 2004 assisted the Agency in controlling and processing both disability work activity and work-related CDRs.

**Recommendation 4 – Ensure that earnings resulting in benefit increases are evaluated to determine whether trial work activity and/or SGA were performed.**

SSA's Comments and/or Actions from July 2004 Report	SSA agreed with this recommendation stating that by enhancing its ability to control and timely resolve earnings enforcements (as previously described), it would also be able to ensure earnings resulting in benefit increases are evaluated. All earnings that would be indicative of a return to work and that would result in a benefit increase would trigger controlled earnings enforcement actions.
Status as of 2009	Despite efforts to implement this recommendation, our current audit estimates the Agency performed benefit recalculations and increased benefit payments to about 30,000 beneficiaries without evaluating whether the earnings resulted from trial work activity or SGA.

The following table compares the populations and results from our prior audit with our current audit.

	Prior Audit	Current Audit
Population (one segment)	29,871 Beneficiaries Receiving Benefits as of March 2002	25,904 Beneficiaries Receiving Benefits as of July 2007
Years of Earnings Reported to the MEF	1996 to 2000	2001 to 2006
Overpayments Due to Work Activity	\$3.2 Billion	\$3.1 Billion
Overpayments Identified by SSA	\$1.8 Billion	\$1.8 Billion
Overpayments Undetected by SSA	\$1.4 Billion (or 44 percent)	\$1.3 Billion (or 42 percent)

## Scope, Methodology and Sample Results

To accomplish our objective, we:

- Reviewed applicable sections of the *Social Security Act* and the Social Security Administration's (SSA) regulations, rules, policies and procedures.
- Reviewed prior Office of the Inspector General reports.
- Obtained a file of all disabled Title II beneficiaries from 1 of 20 Social Security number segments who were receiving benefits as of July 2007.<sup>1</sup> We then determined which of these beneficiaries had earnings reported on the Master Earning File (MEF) for years 2001 to 2006. We further narrowed this population by excluding cases in which
  1. the beneficiaries were entitled to disability benefits based on blindness or
  2. the reported earnings were in the year of, or before, the beneficiaries' current date of entitlement for benefits.
- Identified a population of 25,904 beneficiaries with earnings reported on the MEF between 2001 and 2006 that may impact their entitlement to benefits.
- Selected a random sample of 275 cases from the population we identified for detailed analysis. Specifically, we analyzed available information on the Agency's systems to determine whether SSA evaluated the reported earnings and adjusted benefit payments, as appropriate. For cases in which we needed additional information, we requested the assistance of SSA to determine whether the earnings represented work activity that impacted entitlement to benefits. For cases in which overpayments resulted due to work activity, we determined the amount successfully recovered by SSA. In addition, for cases in which overpayments resulted due to our audit, we determined whether opportunities existed to identify and evaluate the earnings sooner.

We performed our audit between May 2008 and March 2009 in Boston, Massachusetts. We tested the data obtained for our audit and determined them to be sufficiently reliable to meet our objective. The principal entities audited were the Offices of Employment

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<sup>1</sup> The last 2 digits of the Social Security number are randomly assigned and can contain digits "00" to "99." Social Security numbers can be categorized into 20 segments, each containing 5 sequential groups of these digits. For this audit, we randomly selected Social Security numbers ending with the digits "50" to "54." For our prior review, we sampled cases with Social Security numbers ending with digits "55" to "59."

Support Programs and Disability Programs under the Deputy Commissioner for Retirement and Disability Policy, and the Office of Disability Determinations and SSA's Field Offices and Program Service Centers under the Deputy Commissioner for Operations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## SAMPLE RESULTS

<b>Table D-1: Population and Sample Size</b>	
Population (one segment)	25,904
Sample Size	275
Estimated Number of Beneficiaries in the Universe (Population of audited segment multiplied by 20)	518,080

<b>Table D-2: Overpayments Due to Work Activity<sup>2</sup></b>	<b>Number of Beneficiaries</b>	<b>Dollars</b>
Sample Results	92	\$1,686,409
Point Estimate	8,666	\$158,853,595
Projection Lower Limit	7,452	\$120,159,873
Projection Upper Limit	9,949	\$197,547,318
Estimate in 20 Segments (Point estimate multiplied by 20)	173,320	\$3,177,071,900

Note: All Projections are at the 90-percent confidence level.

<b>Table D-3: Overpayments Due to Work Activity Identified by SSA Prior to Our Audit</b>	<b>Number of Beneficiaries</b>	<b>Dollars</b>
Sample Results	75	\$977,350
Point Estimate	7,065	\$92,062,816
Projection Lower Limit	5,931	\$68,918,296
Projection Upper Limit	8,293	\$115,207,336
Estimate in 20 Segments (Point estimate multiplied by 20)	141,300	\$1,841,256,320

Note: All Projections are at the 90-percent confidence level.

<sup>2</sup> When primary workers are ineligible for benefits because of work activity, any auxiliary beneficiaries (e.g., spouses and children) are also ineligible. Therefore, our overpayment calculations and estimates include overpayments to the working beneficiaries as well as auxiliary beneficiaries during the current entitlement for benefits.

<b>Table D-4: Overpayments Not Identified by SSA<sup>3</sup></b>	<b>Number of Beneficiaries</b>	<b>Dollars</b>
Sample Results	26	\$709,059
Point Estimate	2,449	\$66,790,779
Projection Lower Limit	1,742	\$36,733,160
Projection Upper Limit	3,330	\$96,848,399
Estimate in 20 Segments (Point estimate multiplied by 20)	48,980	\$1,335,815,580

Note: All Projections are at the 90-percent confidence level.

<b>Table D-5: Overpayments Successfully Recovered by SSA</b>	<b>Number of Beneficiaries</b>	<b>Dollars</b>
Sample Results	66	\$326,438
Point Estimate	6,217	\$30,749,273
Projection Lower Limit	5,137	\$21,616,124
Projection Upper Limit	7,406	\$39,882,421
Estimate in 20 Segments (Point estimate multiplied by 20)	124,340	\$614,985,460

Note: All Projections are at the 90-percent confidence level.

<b>Table D-6: Benefits SSA Will Continue to Pay to Disabled Beneficiaries No Longer Entitled to Benefits Due to Work Activity</b>	<b>Number of Beneficiaries</b>	<b>Dollars</b>
Sample Results	13	\$202,536
Point Estimate	1,225	\$19,078,155
Projection Lower Limit	733	\$9,709,897
Projection Upper Limit	1,916	\$28,446,413
Estimate in 20 Segments (Point estimate multiplied by 20)	24,500	\$381,563,100

Note: All Projections are at the 90-percent confidence level.

<b>Table D-7: Number of Beneficiaries' Earnings Identified Through SSA's Enforcement Process</b>	<b>Number of Beneficiaries</b>
Sample Results	26
Point Estimate	2,449
Projection Lower Limit	1,742
Projection Upper Limit	3,330
Estimate in 20 Segments (Point estimate multiplied by 20)	48,980

Note: All Projections are at the 90-percent confidence level.

<sup>3</sup> The 26 beneficiaries with undetected overpayments include 9 beneficiaries for whom SSA identified some of the overpayments resulting from work activity, but not all overpayments.

<b>Table D-8: Number of Beneficiaries SSA Initiated Work-Related Continuing Disability Reviews but Did Not Assess Overpayments</b>	<b>Number of Beneficiaries</b>
Sample Results	7
Point Estimate	659
Projection Lower Limit	313
Projection Upper Limit	1,221
Estimate in 20 Segments (Point estimate multiplied by 20)	13,180

Note: All Projections are at the 90-percent confidence level.

<b>Table D-9: Number of Beneficiaries SSA Performed Benefit Recalculations and Increased Benefit Payments Without Evaluating the Beneficiaries' Work Activity</b>	<b>Number of Beneficiaries</b>
Sample Results	16
Point Estimate	1,507
Projection Lower Limit	957
Projection Upper Limit	2,250
Estimate in 20 Segments (Point estimate multiplied by 20)	30,140

Note: All Projections are at the 90-percent confidence level.

<b>Table D-10: Number of Beneficiaries SSA Identified Some of the Overpayments Resulting from Work Activity, but Not All Overpayments</b>	<b>Number of Beneficiaries</b>
Sample Results	9
Point Estimate	848
Projection Lower Limit	447
Projection Upper Limit	1,458
Estimate in 20 Segments (Point estimate multiplied by 20)	16,960

Note: All Projections are at the 90-percent confidence level.

## Beneficiaries Not Overpaid Despite Earnings

For 179 of the 275 cases in our sample, earnings reported on the Master Earnings File did not result in overpayments. The following table describes the various reasons why the beneficiaries were not overpaid despite their earnings.

Reasons Why Beneficiaries Were Not Overpaid	Number of Beneficiaries
Earnings were below Substantial Gainful Activity (SGA) amounts. <sup>1</sup>	100
Earnings resulted from trial work activity only. <sup>2</sup>	38
Earnings represented special wage payments (e.g., sick pay).	20
Earnings resulted from subsidized work. <sup>3</sup>	9
Earnings were substantial, but SSA stopped benefits timely and no overpayments resulted.	5
Earnings resulted from unsuccessful work attempts. <sup>4</sup>	4
Earnings did not belong to the beneficiary.	3
<b>Total</b>	<b>179</b>

<sup>1</sup> An individual is considered disabled under the *Social Security Act* if he or she is unable to engage in any SGA because of a medically determinable impairment that (1) can be expected to result in death or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months. The *Social Security Act* § 223(d)(1), 42 U.S.C. § 423(d)(1). The Agency has criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA. (SSA, POMS, DI 10500) For example, for Calendar Year 2008, SSA generally considered earnings of \$940 per month to reflect SGA.

<sup>2</sup> This includes two beneficiaries who died before they completed their trial work periods.

<sup>3</sup> SSA only considers wages earned through an individual's own effort in determining whether earnings represent SGA. Therefore, if it is necessary for an employer to provide special help for an individual to work, the value of such help is considered a subsidy and deducted from earnings before determining whether the earnings represent SGA. SSA, POMS DI 24001.025.A.

<sup>4</sup> SSA defines unsuccessful work attempts as efforts to do substantial work that discontinue after a short time. SSA, POMS, DI 10501.055. The Agency does not consider wages earned during unsuccessful work attempts in its determination of SGA.

## Agency Comments





## SOCIAL SECURITY

Date: April 2, 2009

Refer To: SIJ-3

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

From: James A. Winn /s/  
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File" (A-01-08-28075)—  
INFORMATION

Thank you for the opportunity to review and comment on the draft report. We appreciate OIG's efforts in conducting this review. Our response to the report recommendation is attached.

Please let me know if we can be of further assistance. Please direct staff inquiries to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S DRAFT REPORT,  
"FOLLOW-UP ON DISABLED TITLE II BENEFICIARIES WITH EARNINGS  
REPORTED ON THE MASTER EARNINGS FILE" (A-01-08-28075)**

Our response to your specific recommendation is as follows.

**Recommendation**

Develop and implement a plan to allocate more resources to timely perform work-related continuing disability reviews (CDRs)---and assess overpayments resulting from work activity---for cases identified by the agency's earnings enforcement process.

**Comment**

We agree. With the resources provided by the Recovery Act and our fiscal year 2009 appropriations, field offices will be able to reduce the pending levels of workloads, including work CDRs.

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Judith Oliveira, Director, Boston Audit Division

Jeffrey Brown, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Kevin Joyce, IT Specialist

Melinda Padeiro, Senior Auditor

Kathleen Toli, Auditor

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-01-08-28075.

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Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate

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Chairman and Ranking Minority Member, Subcommittee on Social Security Pensions and Family Policy

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Social Security Advisory Board

## **Overview of the Office of the Inspector General**

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

### **Office of Audit**

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

### **Office of Investigations**

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

### **Office of Counsel to the Inspector General**

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

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

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