



SOCIAL SECURITY

MEMORANDUM

Date: June 17, 2010

Refer To:

To: The Commissioner

From: Inspector General

Subject: 2010 Cost-of-Living Adjustment Notices with Incorrect
Payment Dates (A-02-10-20107)

The attached final quick response evaluation presents the results of our review. Our objective was to determine why incorrect payment dates were included in some 2010 Cost-of-Living Adjustment (COLA) notices sent to beneficiaries and to assess the steps the Social Security Administration took to prevent a recurrence. We also determined the costs related to the erroneous 2010 COLA notices and whether the notices met other quality standards.

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachment

QUICK RESPONSE EVALUATION

2010 Cost-of-Living Adjustment Notices with Incorrect Payment Dates

A-02-10-20107



June 2010

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.

OBJECTIVE

Our objective was to determine why incorrect payment dates were included in some 2010 Cost-of-Living Adjustment (COLA) notices sent to beneficiaries and to assess the steps the Social Security Administration (SSA) took to prevent a recurrence. We also determined the costs related to the erroneous 2010 COLA notices and whether the notices met other quality standards.

BACKGROUND

Since June 1975, annual increases in Social Security benefits have been based on increases in the cost of living. Before 1975, general benefit increases were provided only by specific legislative amendments. Beginning in 1983, the COLA was effective in December rather than June. A COLA is due whenever the Consumer Price Index (CPI) rises.¹

Social Security beneficiaries did not receive a COLA in January 2010 because the CPI did not increase. SSA still sent a COLA notice to its beneficiaries since it contained other important information. For example, there was a rise in 2010 Medicare premiums that affected some beneficiaries.

Payment Cycling

For many years, SSA issued Old-Age, Survivors and Disability Insurance (OASDI) benefit payments on the third of the month although the *Social Security Act* does not require payments on that date. Over the years, this pattern has resulted in an increasingly uneven workload pattern that has negatively affected the public's ability to access SSA field offices and the Agency's 800-number at the beginning of each month.

SSA decided to create 3 additional days throughout the month on which to pay recurring monthly OASDI benefits for newly entitled individuals. The current delivery schedule is called payment cycling.²

Since June 1997, SSA has delivered recurring OASDI benefits on 4 days throughout the month: on the third of the month and on the second, third, and fourth Wednesdays of the month. Beneficiaries who already received their benefits on the third of the month continued to be paid on that date.

¹ The *Social Security Act*, § 215(i), 42 U.S.C. § 415(i) (*see also*, 20 C.F.R. §§ 404.270-404.278) specifies a formula for determining each COLA. In general, a COLA is equal to the percentage increase in the CPI for Urban Wage Earners and Clerical Workers from the third quarter of 1 year to the third quarter of the next.

² SSA, Program Operations Manual System (POMS), GN 02407.005, *Payment Cycling*.

With limited exclusions,³ OASDI beneficiaries whose claims were filed on or after May 1, 1997 were assigned one of the three new payment cycle dates. Payments on the third of the month are referred to as cycle one, the second Wednesday of the month are cycle two, the third Wednesday of the month are cycle three, and the fourth Wednesday of the month are cycle four.

The numberholder's date of birth is used to determine the payment day. All beneficiaries on a numberholder's record have the same payment day.

Date of Birth	Assigned Payment Day
1-10 Second	Wednesday
11-20 Third	Wednesday
21-31 Fourth	Wednesday

January 2010 Payment Dates

The first payment cycle date for January 2010 OASDI benefit payments was December 31, 2009. While the third of the month is generally the date of the first cycle payment, January 3, 2010 was a Sunday. If the third of a month is a Saturday, Sunday, or Federal holiday, payments are dated and delivered on the first day preceding the third of the month that is not a Saturday, Sunday, or Federal holiday. January 3, 2010 was a Sunday, the second was a Saturday, and the first was a Federal holiday (New Year's Day). Accordingly, the first available date to deliver cycle one payments was Thursday, December 31, 2009.

For January 2010, the second payment cycle date was January 13, 2010. The third payment cycle date was January 20, 2010, and the fourth payment cycle payment date was January 27, 2010.

January 2010 COLA Notices

SSA mailed the 2010 COLA notices in early December 2009. It drafted five versions of the 2010 COLA notice to meet the needs of different customer groups – English and Spanish speaking non-disabled beneficiaries, English and Spanish speaking disabled beneficiaries, and beneficiaries living outside the United States.

³ Payments to OASDI beneficiaries who also receive Supplemental Security Income payments are not cycled. Additionally, benefit payments to Railroad Retirement Board beneficiaries, beneficiaries living outside the United States, and beneficiaries with garnished payments are not cycled.

Results of Review

On December 8, 2009, SSA determined that 2010 COLA notices sent to over 7 million beneficiaries contained incorrect payment dates. An additional 7.3 million notices with inaccurate payment dates were printed but not mailed. The payment delivery dates in the notices for beneficiaries with payment cycles two, three, and four were inaccurate. The notices incorrectly stated that the payment dates for these three cycles were 1 week earlier than the actual payment dates.

SSA used a contracted vendor to print and mail the 2010 COLA notices. The vendor added beneficiary-specific information to each COLA notice as directed by Vendor Display Rules provided by SSA. The Vendor Display Rules contained the incorrect payment dates, which were eventually added to the 2010 COLA notices.

SSA sent an apology notice to those who received the inaccurate COLA notices. The apology notice informed each recipient of the correct payment dates. SSA also reprinted notices to replace the incorrect ones that were printed but not mailed. In total, SSA incurred over \$3 million in additional costs due to the error in the COLA notices.

2010 COLA NOTICES

In early December 2009, some field offices received an influx of calls about the benefit payment dates in the 2010 COLA notices. SSA determined on December 8, 2009 that the 2010 COLA notices sent to some beneficiaries who received payments via direct deposit contained incorrect payment dates. Specifically, the delivery dates for beneficiaries with payment cycles two, three, and four were inaccurate. As shown in the table below, the payment dates for these three cycles were 1 week earlier than the actual payment dates.

Beneficiary's Payment Cycle	Payment Date in 2010 COLA Notice	Actual Payment Date
Two	January 6, 2010	January 13, 2010
Three	January 13, 2010	January 20, 2010
Four	January 20, 2010	January 27, 2010

Benefit Payment Dates

SSA's Office of Communications coordinated the drafting of the 2010 COLA notices. The notices contained blank sections to be completed with specific beneficiary information. Specifically, the beneficiary's name, the beneficiary's payment amount, and the date the payment would be deposited into the beneficiary's bank account were added to each notice.

SSA provided its contracted vendor the COLA notice templates, Vendor Display Rules, and data files needed to place beneficiary-specific information in each COLA notice. The Vendor Display Rules detailed where and how the beneficiary-specific information should be placed in the COLA notices.

The data files SSA provided the vendor included the payment cycle for each beneficiary. The Vendor Display Rules stated that the vendor should use the Payment Cycle Indicator (PCI) to determine the calendar date of deposit for the COLA notices. For example, the Vendor Display Rules stated that if a beneficiary's PCI = 1, the vendor should print that the beneficiary's benefit payment would be deposited on December 31, 2009.

SSA staff who drafted the Vendor Display Rules included the wrong payment dates for payment cycles two, three, and four. For example, the Vendor Display Rules stated that if a beneficiary's PCI = 2, the vendor should print that the beneficiary's payment would be deposited on January 6, 2010. However, second cycle payments were actually due to be deposited on January 13, 2010.

The analyst responsible for defining the payment dates in the Vendor Display Rules correctly moved the cycle one payment date from January 3, 2010 to December 31, 2009. While cycle one payments are normally made on the third of the month, the third of the month fell on a Sunday in January 2010. Accordingly, the second of the month was a Saturday, and the first of the month was the New Year's Day holiday. If the third of a month is a Saturday, Sunday, or Federal holiday, payments are dated and delivered on the first day preceding the third of the month that is not a Saturday, Sunday, or Federal holiday, which was Thursday, December 31, 2009.

When determining the payment dates for the subsequent payment cycles, the analyst mistakenly defined the payment dates as the Wednesdays in the immediate weeks after the week of the first cycle payment, which is normally when the payments are released. The analyst did not allow for the fact that the early cycle one payment date should have caused the first week of January to be skipped.

By the time SSA recognized the mistake, the vendor had mailed about 7.4 million COLA notices to payment cycle two, three, and four beneficiaries. The vendor had also printed about 7.3 million erroneous notices that had not yet been mailed.

Apology and Reprinted Notices

SSA drafted an apology notice, which was sent to the 7.4 million beneficiaries who had received COLA notices with erroneous payment dates. The apology notice explained the mistake in the original notices and provided the accurate deposit dates. SSA also destroyed the 7.3 million erroneous notices that were printed but not mailed. It requested that the vendor reprint and mail these notices with the correct payment dates included. Both the apology and the reprinted notices were sent to beneficiaries by December 28, 2009, before the date any January 2010 benefit payments were due.

As shown in the table below, SSA incurred over \$3 million of additional costs to correct the error in the 2010 COLA notices. The additional costs were due to the need to print and mail the apology notice and to reprint the erroneous notices that were not mailed. There were no additional postage costs for the reprinted notice since it replaced the erroneous 2010 COLA notices that were not mailed.

Type of Notice	Quantity	Printing Cost	Postage Cost	Total Cost
Reprinted Notice	7,328,210	\$415,582	NA	\$415,582
Apology Notice	7,370,828	\$199,110	\$2,478,417	\$2,677,527
Total	14,699,038	\$614,692	\$2,478,417	\$3,093,109

Quality Review

POMS notes that SSA uses a team approach to clear new or revised notice language. Per POMS, draft notices are to be reviewed by five mandatory components—Office of the General Counsel (OGC), Office of Notice Improvement and Authentication (ONIA), and the Offices of Systems, Policy, and Public Services and Operations Support.⁴ Per POMS, a policy component of SSA should draft the notice language and prepare a notice clearance package. The clearance package is to be shared with the staff of the mandatory and any optional reviewing components for concurrence.

The draft 2010 COLA notices were reviewed at a meeting attended by staff from OGC, ONIA, and the Offices of Systems, Policy, and Operations. (The Office of Public Services and Operations Support is a component of the Office of Operations.) While a clearance package was not created, each office had the opportunity to comment on the notices at this meeting.

SSA had controls to ensure the accuracy of the information in the 2010 COLA notices produced by its vendor. The Office of Retirement and Survivors Insurance Systems (ORSIS) reviewed a series of the COLA notices produced by the vendor. For the first review, ORSIS reviewed copies of each version of the COLA notice without any beneficiary-specific information. This review verified that the vendor had formatted the notices correctly using the final approved versions of the COLA notices.

For the second review, the vendor produced and placed test versions of each notice on a secure Internet Website for review. At this stage, the notices included beneficiary-specific data from test files provided by SSA. ORSIS reviewed 25 copies of each version to verify that the vendor correctly placed the variable test data on the correct version of each COLA notice. This review also verified the correct placement of the variable data in each notice.

The next review mirrored the previous review, except the vendor used actual production data from SSA's production files. ORSIS verified the live beneficiary-specific data in

⁴ SSA, POMS, NL 00610.110, *Notice Language Clearance Process*.

25 copies of each version of the notices by comparing it to corresponding data in the Master Beneficiary Record. ORSIS also confirmed that the notices adhered to the Vendor Display Rules.

At the same time of ORSIS' last review of the notices, the Office of Publications and Logistics Management completed a Press Sheet Review. During the Press Sheet Review, Office of Publications and Logistics Management staff randomly pulled actual notices and reviewed their physical characteristics. For example, staff examined the print quality and the alignment of the beneficiary-specific data added to the notices.

The incorrect payment cycle dates were not identified during the review process. After the review process, the vendor proceeded to produce the COLA notices with the erroneous payment dates.

Planned Changes

For future COLA notices, SSA plans to provide the payment dates for each beneficiary as part of the electronic data it provides the vendor. The vendor will no longer write a program to match the actual dates in the Vendor Display Rules to the PCI in the data SSA provides. Using a software program, SSA will add the payment delivery date for each beneficiary to the seven data files it provides the vendor.

Per SSA, no user input of dates will be required nor will any file or schedule need to be read. As such, it will be less subject to human error.

NOTICE STANDARDS

Per SSA, there is a distinction between a "notice" that provides information to a specific beneficiary and a "letter" that notifies beneficiaries of a correction to a previously mailed notice. Based on this definition, SSA stated that it sent an apology "letter" to clarify the payment dates in the erroneous 2010 COLA notices. If this apology letter had been viewed by the Agency as meeting the definition of a notice, certain information would have been needed to be included pursuant to the *Social Security Act*.

The *Social Security Act* states,

The Commissioner of Social Security shall take such actions as are necessary to ensure that any notice to one or more individuals issued pursuant to this title by the Commissioner of Social Security or by a State agency - (1) is written in simple and clear language, and (2) includes the address and telephone number of the local office of the Social Security Administration which serves the recipient. In the case of any such notice which is not generated by a local servicing office, the requirements of paragraph (2) shall be treated as satisfied if such notice includes the address of the local office of the Social Security Administration which services the recipient of the notice and a telephone number through which such office can be reached.⁵

⁵ The *Social Security Act*, §§ 205(s) and 1631(o), 42 U.S.C. §§ 405(s) and 1383(o).

Matters for Consideration

SSA recognized that erroneous payment dates were included in over 7 million 2010 COLA notices mailed and another 7 million notices printed but not mailed. It devised and implemented a strategy to inform those beneficiaries who had received erroneous notices of the correct payment dates. Also, SSA devised a strategy to prevent a similar mistake from recurring in the future. By supplying its vendor the actual payment dates based on tested software, SSA should help ensure accurate payment dates are included in future notices. Still, SSA will need to check the payment dates in future notices through its validation processes to ensure the software performs as expected.

While the validation processes were completed for the 2010 COLA notices, the inaccurate payment dates were not recognized. SSA should consider expanding the validation process to ensure its COLA notices are accurate. While some errors in one year's COLA notice may not justify an expanded review, we also found a number of reports of errors in past COLA notices. For example, the OASDI 2007 COLA notice sent to foreign beneficiaries displayed the tax withholding amount incorrectly. Also, the name on the outside of some OASDI 2004 COLA notices did not match the beneficiary name on the inside of the notice. SSA noted that these errors involved a relatively small number of beneficiaries and that it instituted stricter quality control requirements for all printing contracts as a result.

While SSA improved its quality control after past errors, an additional error occurred with the 2010 COLA notice. To help ensure errors do not occur in the future, SSA should implement a cost-effective validation process to reduce the risk of releasing COLA notices with inaccurate information. An improved system is warranted given the additional costs and workloads incurred when mistakes occur.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – OIG Contacts

Acronyms

C.F.R.	Code of Federal Regulations
COLA	Cost-of-Living Adjustment
CPI	Consumer Price Index
OASDI	Old-Age, Survivors and Disability Insurance
OGC	Office of the General Counsel
ONIA	Office of Notice Improvement and Authentication
ORSIS	Office of Retirement and Survivors Insurance Systems
PCI	Payment Cycle Indicator
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

Scope and Methodology

To accomplish our objective, we:

- Reviewed pertinent sections of the *Social Security Act* and related regulations.
- Reviewed pertinent sections of the Social Security Administration's (SSA) Program Operations Manual System.
- Interviewed SSA staff, including staff in the Offices of Retirement and Survivors Insurance Systems, Communications, Publications and Logistics Management, and Open Government (Notice Improvement), about the process used to draft, develop, and deliver the 2010 Cost-of-Living (COLA) notices.
- Reviewed the initial and revised Vendor Display Rules for the 2010 COLA notices.
- Reviewed examples of the original and reprinted COLA notices as well as the apology notice.

The results of our review are based on the above information provided by SSA. We performed our review from December 2009 through March 2010 in Baltimore, Maryland, and New York, New York. The entities reviewed were the Offices of Communications, Notice Improvement and Authentication, Publications and Logistics Management, and Retirement and Survivors Insurance Systems. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections*.

OIG Contacts

OIG Contacts

Tim Nee, Director, New York Audit Division

Christine Hauss, Audit Manager

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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 the Counsel to the Inspector General (OCIG), 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 the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

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.

Office of Technology and Resource Management

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.