
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**UNPROCESSED MANUAL RECALCULATIONS
FOR TITLE II PAYMENTS**

August 2008

A-03-07-17090

AUDIT REPORT



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: August 14, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Unprocessed Manual Recalculations for Title II Payments (A-03-07-17090)

OBJECTIVE

To determine whether the Social Security Administration (SSA) (1) adjusted Title II benefits when earnings were removed from beneficiaries' earnings records and (2) calculated and assessed over/underpayments when appropriate.

BACKGROUND

SSA pays benefits to qualified retired and disabled workers and their dependents as well as to survivors of insured workers under Title II of the *Social Security Act*.¹ As part of administering this program, SSA is responsible for maintaining accurate individual earnings records in the Master Earnings File (MEF).² Those earnings records are used to determine eligibility for benefits as well as to calculate benefit amounts.³

When the Agency learns—from individuals or through its own processes—an earnings record may be incorrect, an SSA employee with authority to make initial determinations regarding wage evidence reviews the evidence. If the evidence is sufficient, the employee takes corrective actions to change the earnings record.⁴

SSA will recalculate benefit amounts when reopening a previous computation to change computation factors or to include or exclude additional earnings in the base year period. The previous computation must be reopened within the timeframe allowed by

¹ The *Social Security Act* § 201, *et seq.*, 42 United States Code (U.S.C.) § 401, *et seq.*

² The MEF contains all earnings data reported by employers and self-employed individuals. The data are used to determine eligibility for and the amount of Social Security benefits.

³ The *Social Security Act* § 205(c)(2)(A), 42 U.S.C. § 405(c)(2)(A).

⁴ SSA, Program Operations Manual System (POMS), RS 01405.005.

administrative finality.⁵ This recalculation—effective the same month as the original computation—may change the amount of benefits the numberholder receives.⁶

Benefit recalculations based on new earnings are initiated through SSA's Automatic Earnings Reappraisal Operation (AERO) system, which is an automated process that screens earnings records that have changes in earnings information and computes the necessary changes. AERO adjusts benefits when earnings are added to a beneficiary's earnings record and notifies the beneficiary. However, when earnings are removed, AERO generates an alert⁷ for the appropriate SSA office to review the beneficiary's records and manually adjust the Primary Insurance Amount (PIA) and benefit amount as needed.⁸ (See Appendix B for more information on the AERO process.)

METHODOLOGY

To perform this review, we obtained a file of all Title II beneficiaries from 1 of 20 Social Security number (SSN) segments⁹ who were receiving benefits as of November 2006 and had wages removed from the earnings record for Tax Years (TY) 2003 through 2005. The removed wages resulted in zero total wages for those years. From this file, we selected a random sample of 133 beneficiaries and analyzed earnings records, benefit records, and AERO alerts. We referred the cases to SSA to determine whether benefits were adjusted appropriately after wages were removed from the beneficiaries' earnings records (see Appendices C and D for more information on our audit scope, methodology, and estimation results).

⁵ Administrative finality is the term SSA uses to describe the discretionary rules under which the Agency revises previously issued monthly payments. In general, the Agency will revise initial determinations regarding monthly Title II payments within 12 months for any reason, within 4 years for good cause, or at any time if fraud or similar fault exists (see SSA, POMS, GN 04001.010). According to SSA, the purpose of administrative finality is to (1) ease the administration of the program and (2) allow the public to be able to rely on the Agency's decisions (see SSA, Administrative Message AM-04020, February 3, 2004).

⁶ SSA POMS, RS 00605.401, B.2.

⁷ AERO generates an alert if the earnings meet a certain dollar threshold and if the removal of the earnings are processed within the timeframe allowed by administrative finality.

⁸ The PIA is the figure used to determine most cash benefit amounts—including monthly benefits as a worker and benefits for dependents and survivors. The PIA is based on taxable earnings averaged over the number of years worked.

⁹ The last two digits of the SSN are randomly assigned and can contain digits "00" to "99." These SSNs can be categorized into 20 segments, each containing groups of 5 digits. For this audit, we selected SSNs ending with the digits "40" to "44."

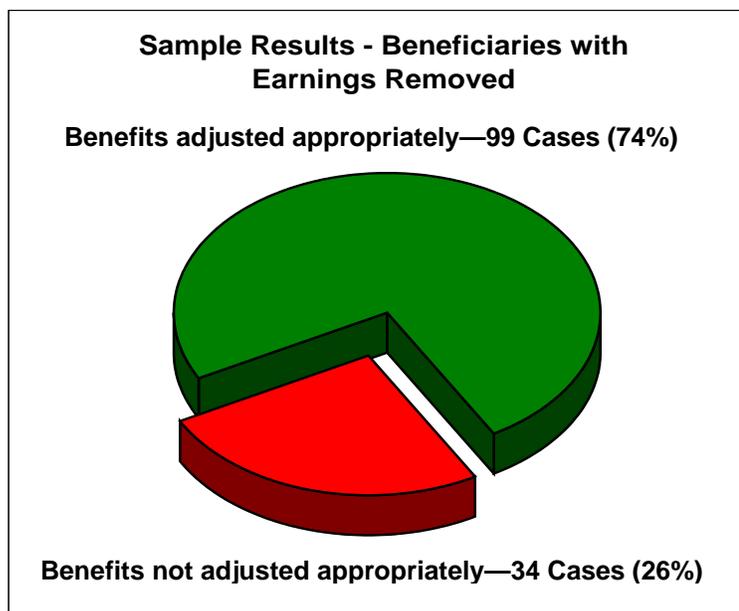
RESULTS OF REVIEW

We estimate that SSA did not adjust Title II benefits or assess over/underpayments when earnings were removed from 5,440 beneficiaries' earnings records—resulting in about \$5 million in improper payments. The Agency was not aware of the need to review the benefit amounts for approximately 5,020 of these beneficiaries. Also, we estimate about 4,660 of these beneficiaries will be paid an additional \$1.2 million, annually, because their ongoing benefits were not corrected when SSA removed the earnings.

SAMPLE RESULTS

Of the 133 beneficiaries in our samples:

- 34 (26 percent) were overpaid approximately \$130,238 because SSA did not recalculate benefit amounts or assess overpayments when earnings were removed from their earnings records.¹⁰ Because the Agency took action on the cases we referred, SSA saved an additional \$34,602 over 12 months by correcting benefit amounts for 30 of these 34 beneficiaries.
- 99 (74 percent) did have their benefits adjusted and overpayments assessed, as needed, when earnings were removed from their earnings records or no benefit adjustment was necessary.



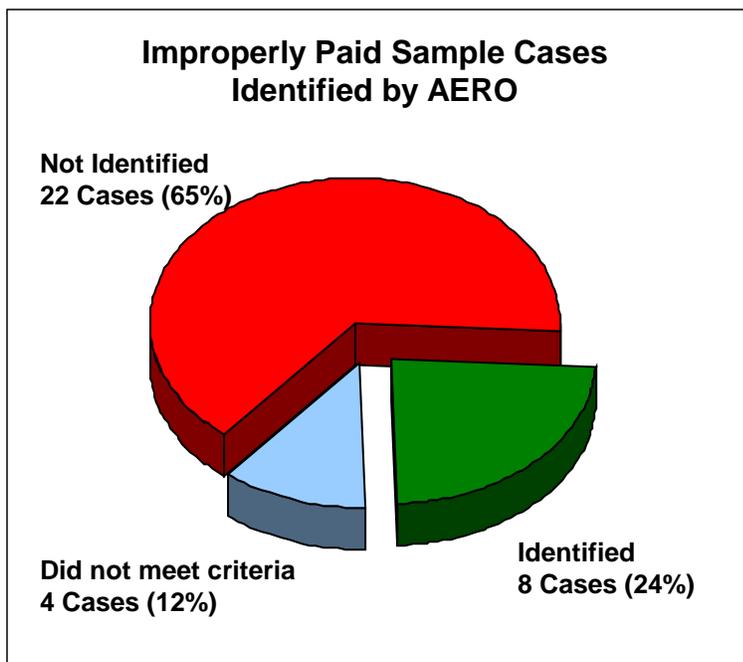
In a few cases, other individuals used the beneficiary's SSN—either erroneously or through identity theft—which caused wages earned by another individual to be used in the computation of benefits. Some examples are as follows.

¹⁰ These 34 beneficiaries (and auxiliaries—such as spouses or children—receiving benefits on their records) were paid incorrectly for about 38 months, on average—ranging from 9 to 59 months. Of these beneficiaries, 33 were overpaid \$131,978 and 1 was underpaid \$1,740—for a net overpayment totaling \$130,238. To be conservative in our estimate, we did not include the entire amount of two very large overpayments for beneficiaries in two of our populations. SSA assessed overpayments of \$21,623 and \$5,630—substantially more than the next highest overpayment amount in their respective populations. Therefore, we removed these overpayment amounts—and associated future savings—when we estimated the overpayments and savings in the populations.

- A 32-year old man began receiving disability benefits in 2003 because of a spinal cord injury that left him wheelchair-bound. Someone else began using his SSN, and wages were posted to his earnings record in 2003, 2004, and 2005. SSA used the earnings to compute his benefits. In May 2006, the beneficiary informed SSA that he did not work in those years, and the Agency removed the earnings from his record. AERO generated an alert in October 2006 for this case to be reviewed and have the benefits adjusted. As of September 2007, the alert was still pending, and we asked SSA to complete the review. SSA determined this beneficiary was overpaid \$18,864, and three auxiliary beneficiaries on his record were overpaid \$12,945. If SSA had not adjusted the benefits, these individuals would have been overpaid an additional \$5,256 over the next 12 months.
- A 34-year old man living in Puerto Rico had been receiving disability benefits since 1999. Since then, wages were posted to his record from restaurant and retail jobs in Massachusetts and Kansas. In 2005, he disclaimed all earnings posted after 1999—stating that he had never worked in, or been to, the continental United States, and SSA removed the earnings from his record. Upon our referral, the Agency determined he was overpaid \$11,191 because his benefits were not adjusted when the earnings were removed. Additionally, three auxiliary beneficiaries on his record were overpaid \$10,432. If SSA had not adjusted the benefits, these individuals would have been overpaid an additional \$11,796 over the next 12 months.
- A 46-year old woman had received disability benefits for depression since 2002. When she and her husband filed a joint tax return for 2003, their tax preparer incorrectly filed earnings to the beneficiary's SSN instead of her husband's SSN. SSA moved the earnings to the correct record a few months later. Upon our referral, the Agency determined she had been overpaid \$5,630. If SSA had not adjusted her benefits, she would have been overpaid an additional \$1,584 over the next 12 months.

These cases show that SSA must be vigilant in adjusting beneficiaries records since misrepresentation by third parties and identity theft have become common in our society.

CASES NOT ALWAYS IDENTIFIED FOR REVIEW



We found that AERO did not always select cases for review when earnings were removed from an individual's record. Of the 34 sample cases that were paid improperly,

- AERO did not identify 22;
- AERO identified 8; and
- the AERO criteria did not apply in 4.¹¹

We spoke with staff in the program service centers (PSC) and in Systems, and no one was able to determine why AERO failed to identify the 22 cases for review. If we had not asked the

Agency to review these records, the 22 beneficiaries (and auxiliary beneficiaries on their records) would have continued to be paid improperly. Some examples are as follows.

- A man in Wisconsin—age 43—had been receiving Title II disability benefits and Supplemental Security Income (SSI) payments since January 2002 because of mental retardation. Another person worked in Minnesota—using the same name and SSN—in TYs 2003 through 2005, and those earnings were posted to the beneficiary's record. The TY 2003 earnings were removed from his record in March 2004; the TY 2004 earnings were removed in July 2005; and the TY 2005 earnings were removed in July 2006. AERO did not identify this case for review of the removed earnings, even though it had six opportunities between October 2004 and March 2007.¹² Upon our referral, SSA determined he had been overpaid \$4,324 since January 2004 because his benefits had not been adjusted when earnings were removed from his record. If SSA had not adjusted the benefits, he would have been overpaid an additional \$1,206 over the next 12 months.

Additionally, SSA discovered that at least three individuals were using the same name and SSN for work and benefit purposes and referred the case to our Office of Investigations for possible fraud. The beneficiary did not cooperate with the local SSA office, which requested that he come in for an interview and provide proper

¹¹ Benefits were suspended for one case, and benefits for the other three cases were adjusted manually before AERO could generate an alert.

¹² Since AERO is run twice for each earnings year—usually in October and in the following March, it failed to identify this case for review in October 2004, March 2005, October 2005, March 2006, October 2006, and March 2007.

identification and a birth certificate. In January 2008, SSA suspended his Title II benefits—and those for three auxiliary beneficiaries who began receiving benefits on his record in January 2007— and SSI payments while the case was being investigated.

- A man in Florida—age 52—had been receiving disability benefits since August 1983 because of schizophrenia. Earnings were posted to his record for 2004 and 2005. The 2004 earnings were removed in December 2005, and the 2005 earnings were removed in April 2006. AERO did not identify this case for review of the removed earnings, even though it had three opportunities to do so between March 2006 and March 2007. Upon our referral, SSA determined he had been overpaid \$6,407 since January 2005 because his benefits had not been adjusted when earnings were removed from his record. If SSA had not adjusted the benefits, he would have been overpaid an additional \$2,412 over the next 12 months.

PROCESSING AERO WORKLOADS

Before Fiscal Year (FY) 2007, SSA’s workload goal for processing AERO workloads¹³ was expressed as a percentage of new alerts generated during a specified year. As shown in the following table, the Agency began adjusting the goal in FY 2007 to include alerts not completed in prior years.

| Table 1: AERO National Workload Goals for FYs 2005 through 2008 | |
|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Year | Goal |
| 2005 | Complete 57 percent of new alerts generated in 2005 |
| 2006 | Complete 58 percent of new alerts generated in 2006 |
| 2007 | Complete 67 percent of the total of new alerts generated in 2007 and pre-2007 alerts not completed |
| 2008 | Complete 100 percent of any unduplicated pre-2008 alerts and at least 50 percent of the new alerts generated in 2008. |

According to SSA’s Systems staff, the Agency had over 593,000 pending items from Calendar Years 2004 through 2007 that had not been completed as of February 2008 (see table below). SSA had processed approximately 43 percent of 2007 alerts, even though alerts from prior years were still pending. Therefore, the Agency has not prioritized working the oldest alerts first. If the pending cases are not completed within

¹³ The AERO workload consists of documents to be filed, completely automated records, partially automated records that need manual intervention or review, and exceptions that cannot be processed by the system and have to be manually processed—for example, when the PIA should be lowered. Depending on the circumstances for each record identified, the AERO action may increase, decrease, or have no impact on benefits. (See Appendix B for more information on the AERO process.)

the timeframe of administrative finality, SSA will be unable to assess improper payments resulting from benefits not being adjusted in a timely manner.¹⁴

| Table 2: AERO Alerts Pending from Prior Years (as of February 2008) | | | |
|----------------------------------------------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------------------|
| Calendar Year | Alerts pending from that year | Alerts generated in that year | Percent of alerts pending from that year |
| 2004 | 299 | 1,002,701 | .03 |
| 2005 | 4,848 | 822,664 | .59 |
| 2006 | 56,535 | 798,460 | 7.08 |
| 2007 | 532,019 | 928,218 | 57.32 |
| TOTAL | 593,701¹⁵ | 3,552,043 | |

According to staff from SSA’s PSCs, the Agency prioritizes AERO alerts for beneficiaries who must be notified—within a specified timeframe—of a change affecting their benefits. In addition, they prioritize alerts not processed from previous years.¹⁶ However, it does not appear that SSA prioritizes some alerts, such as cases most likely to be overpaid because of earnings being removed from beneficiaries’ records.

CONCLUSION AND RECOMMENDATIONS

Generally, SSA was effective in adjusting Title II payments when earnings were removed from beneficiaries’ earnings records. However, the Agency did not identify and adjust benefits for all beneficiaries with removed earnings. As a result, SSA improperly paid about \$5 million in benefit payments to beneficiaries who had wages removed from the earnings record for TYs 2003 through 2005. If SSA does not take steps to identify all cases that require adjustments and prioritize its workload to ensure these cases are processed, the Agency will continue to overpay millions of dollars to beneficiaries.

¹⁴ In our September 2007 report, *Administrative Finality in the Old-Age, Survivors and Disability Insurance Program (A-01-07-27029)*, we estimated that SSA identified about 44,230 beneficiaries whose benefits had been incorrectly calculated, but the Agency did not revise the amounts because of its administrative finality rules. As a result, we estimated these individuals were paid about \$140.5 million more in benefits than they otherwise would have been paid had the errors not occurred. We also estimated about 25,801 of these beneficiaries will be paid an additional \$49.8 million in the future because their ongoing benefits were not corrected when the Agency identified the calculation errors.

¹⁵ For comparison, SSA completed 637,740 AERO actions in 2007.

¹⁶ According to SSA staff, the Agency is prioritizing unprocessed alerts from prior years so they can be processed in the beginning of the next year.

As such, to improve SSA's effectiveness in this area, we recommend that SSA:

1. Review the remaining 944 cases (from the 1,077 we identified) to ensure benefits have been adjusted appropriately.
2. Ensure AERO identifies all cases that meet the criteria for manual review when earnings are removed from individuals' earnings records.
3. Develop a cost-effective method for prioritizing the review of AERO alerts, ensuring that alerts most likely to result in overpayments are worked first.

AGENCY COMMENTS AND OIG RESPONSE

SSA agreed with our recommendations. See Appendix E for the full text of SSA's comments.

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.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – The Automatic Earnings Reappraisal Operation

[APPENDIX C](#) – Scope and Methodology

[APPENDIX D](#) – Sampling Methodology and Results

[APPENDIX E](#) – Agency Comments

[APPENDIX F](#) – OIG Contacts and Staff Acknowledgments

Acronyms

| | |
|--------|------------------------------------------|
| AERO | Automatic Earnings Reappraisal Operation |
| FY | Fiscal Year |
| MEF | Master Earnings File |
| OIG | Office of the Inspector General |
| PIA | Primary Insurance Amount |
| PSC | Program Service Center |
| POMS | Program Operations Manual System |
| SSA | Social Security Administration |
| SSN | Social Security Number |
| TY | Tax Year |
| U.S.C. | United States Code |

The Automatic Earnings Reappraisal Operation

The Automatic Earnings Reappraisal Operation (AERO) is a computer operation that reexamines an individual's earnings record each year to determine whether the beneficiary is due a recomputation to include earnings not previously considered in the Primary Insurance Amount (PIA).¹ If an increase is due, AERO processes a benefit change and notifies the beneficiary. If no increase is due, AERO does not send a notice. AERO is run twice for each earnings year, usually in late October and late March. The checks reflecting the increases are issued in December and May.²

When AERO processes cases,³ exceptions may occur (such as wages being deleted from the beneficiary's earnings account) that preclude automated handling of the recomputation. In those instances, staff in the program service centers processes the AERO exceptions.

AERO's principal objective is to ensure all creditable earnings are considered when developing PIAs. These can be earnings before initial entitlement, which would most likely apply to a recalculation of the initial PIA; earnings after initial entitlement, which would apply to a recomputation of the initial (or subsequent) PIA; or additional earnings reported for a year previously considered, which could apply either to a recalculation of an initial PIA or to a recalculation of a previously recomputed PIA.

Several operating principles have been developed to ensure the principal objective is attained.

1. Apply PIA increases and pay retroactive amounts as soon as possible after the qualifying earnings are posted.
2. Fully automate (no review required) as many of the PIA increases as possible.
3. Identify for review all records where the accuracy of the PIA computation or the payment record is questionable.

¹ The PIA is the figure used to determine most cash benefit amounts—including monthly benefits as a worker and benefits for dependents and survivors. The PIA is based on taxable earnings averaged over the number of years worked.

² SSA, Teleservice Center Operating Guide, TC 11001.110.

³ The AERO workload consists of documents to be filed, completely automated records, partially automated records that need manual intervention or review, and exceptions that cannot be processed by the system and have to be manually processed—for example, when the PIA should be lowered. Depending on the circumstances for each record identified, the AERO action may increase, decrease, or have no impact on benefits.

4. Provide a means whereby those cases selected for review can be reentered into the “automated” process, provided certain criteria are met.
5. For those cases that cannot be processed automatically, provide as much computer-produced computation data as possible, thereby facilitating manual actions.
6. If full or partial automation is impossible, provide for clerical certification of an earnings record.⁴

⁴ SSA, Program Operations Manual System, OS 01201.490.

Scope and Methodology

To accomplish our objective, we:

- Reviewed related Social Security Administration (SSA) Office of the Inspector General reports and other related material to understand the issues and problems associated with over/underpayments and the recalculation of beneficiary amounts.
- Obtained and reviewed SSA policy and procedures for
 - removing earnings from an individual's Master Earnings File (MEF);
 - recalculating benefits;
 - processing Automatic Earnings Reappraisal Operation (AERO) and Earnings Alerts;
 - applying rules of administrative finality; and
 - the amount of earnings required to earn a quarter of coverage in Tax Years 2003 through 2005.
- Determined what offices were responsible for the AERO process and how often AERO is run during the year.
- Interviewed key AERO personnel to determine the procedures for processing AERO alerts and recalculating benefits and to obtain management information reports related to AERO alerts.
- Obtained a list of the AERO alerts generated for Tax Years 2003 through 2005 for each program service center and determined the status of each alert (that is, processed, backlogged, etc.).
- Obtained data extracts based on our criteria selection and selected sample cases (see Appendix D for our sample methodology).
- For each sampled case, we obtained data from SSA's systems to determine characteristics of entitlement and details about the items removed from the earnings records.
- Referred all sampled cases to SSA to determine whether
 - AERO alerts were generated;
 - beneficiaries were receiving the correct benefit amount;
 - administrative finality prevented benefits from being adjusted.

- Summarized sample results and made projections (see Appendix D for Sampling Results and Projections).

Our audit did not include an evaluation of SSA's internal controls over the AERO process. We determined the data used in our audit work were sufficiently reliable to meet the audit objectives. We conducted our audit work from April 2007 to February 2008 in Philadelphia, Pennsylvania. The SSA entities reviewed were the Deputy Commissioner for Systems, Office of Retirement and Survivors Insurance Systems and SSA's 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.

Sampling Methodology and Results

To perform our review, we obtained a file of Title II beneficiaries from 1 of 20 Social Security number segments who were receiving benefits as of November 2006 and had wages removed from the earnings record for Tax Years 2003 through 2005. From this file, we identified 1,077 beneficiaries with removed earnings that

- ✓ resulted in zero total annual *Federal Insurance Contribution Act* earnings for that year and
- ✓ qualified the beneficiary with at least a quarter of coverage during the applicable tax years.¹

Of these 1,077 beneficiaries, we identified 3 populations:

- ✓ 33 beneficiaries had a total of 151 wage items removed in all 3 years;
- ✓ 187 beneficiaries had a total of 521 wage items removed in 2 years; and
- ✓ 857 beneficiaries had a total of 997 wage items removed in 1 year.

We reviewed all 33 records in the first population, with wage items removed in all 3 years. From the other 2 populations, we selected a random sample of 50 cases—for a total of 133 cases—and projected our sample results to each population. In addition, we provided estimates to all 20 Social Security number segments.

Our sample results and estimations are detailed in the following tables:²

¹ The required amount needed for a quarter of coverage in 2003 was \$890; the required amount in 2004 was \$900; and the required amount in 2005 was \$920.

² The amounts in the tables are rounded to the nearest whole dollar. Any differences are due to rounding.

SAMPLE RESULTS AND PROJECTIONS—IMPROPER PAYMENTS

| Table 1: Sample Results and Projections—Improper Payments for 33 Beneficiaries with Wages Removed in 3 Tax Years | | |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 33 | 660 |
| Attribute Estimate | | |
| Sample cases with improper payment not previously identified | 8 | 160 |
| Dollar Estimate | | |
| Improper Payments not previously identified | \$72,913 | \$1,458,260 |

| Table 2: Sample Results and Projections—Improper Payments for 187 Beneficiaries with Wages Removed in 2 Tax Years | | |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 187 | 3740 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases with improper payment not previously identified | 11 | 220 |
| Point estimate | 41 | 820 |
| Estimate lower limit | 27 | |
| Estimate upper limit | 60 | |
| Dollar Estimates | | |
| Improper payments not previously identified | \$29,872 | \$597,440 |
| Point estimate | \$111,721 | \$2,234,420 |
| Estimate lower limit | \$47,718 | |
| Estimate upper limit | \$175,725 | |

Note: All projections were calculated at the 90-percent confidence level.

| Table 3: Sample Results and Projections—Improper Payments for 857 Beneficiaries with Wages Removed in 1 Tax Year | | |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 857 | 17,140 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases with improper payment not previously identified | 13 | 260 |
| Point estimate | 223 | 4,460 |
| Estimate lower limit | 141 | |
| Estimate upper limit | 323 | |
| Dollar Estimates | | |
| Improper payments not previously identified | \$3,680 | \$73,600 |
| Point estimate | \$63,075 | \$1,261,500 |
| Estimate lower limit | \$23,720 | |
| Estimate upper limit | \$102,431 | |

Note: All projections were calculated at the 90-percent confidence level.

| Table 4: Summary of Improper Payments for Beneficiaries with Wages Removed | | |
|-------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 1,077 | 21,540 |
| Attribute Estimate | | |
| Sample cases with improper payment not previously identified (from Table 1) | 8 | 160 |
| Point estimate—cases with improper payment not previously identified (from Table 2) | 41 | 820 |
| Point estimate—cases with improper payment not previously identified (from Table 3) | 223 | 4,460 |
| TOTAL | 272 | 5,440 |
| Dollar Estimate | | |
| Improper Payments not previously identified (from Table 1) | \$72,913 | \$1,458,260 |
| Point estimate—improper payments not previously identified (from Table 2) | \$111,721 | \$2,234,420 |
| Point estimate—improper payments not previously identified (from Table 3) | \$63,075 | \$1,261,500 |
| TOTAL | \$247,709 | \$4,954,180 |

SAMPLE RESULTS AND PROJECTIONS—SAVINGS

| Table 5: Sample Results and Projections—Savings for 33 Beneficiaries with Wages Removed in 3 Tax Years | | |
|---------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 33 | 660 |
| Attribute Estimate | | |
| Sample cases with savings | 7 | 140 |
| Dollar Estimate | | |
| Savings | \$12,966 | \$259,320 |

| Table 6: Sample Results and Projections—Savings for 187 Beneficiaries with Wages Removed in 2 Tax Years | | |
|----------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 187 | 3740 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases with savings | 10 | 200 |
| Point estimate | 37 | 740 |
| Estimate lower limit | 24 | |
| Estimate upper limit | 56 | |
| Dollar Estimates | | |
| Savings | \$6,912 | \$138,240 |
| Point estimate | \$25,851 | \$517,020 |
| Estimate lower limit | \$9,597 | |
| Estimate upper limit | \$42,105 | |

Note: All projections were calculated at the 90-percent confidence level.

Table 7: Sample Results and Projections—Savings for 857 Beneficiaries with Wages Removed in 1 Tax Year

| | Results in 1 Segment | Estimate to 20 Segments |
|----------------------------|---------------------------------|------------------------------------|
| Population size | 857 | 17,140 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases with savings | 11 | 220 |
| Point estimate | 189 | 3,780 |
| Estimate lower limit | 113 | |
| Estimate upper limit | 286 | |
| Dollar Estimates | | |
| Savings | \$1,344 | \$26,880 |
| Point estimate | \$23,036 | \$460,720 |
| Estimate lower limit | \$6,383 | |
| Estimate upper limit | \$39,689 | |

Note: All projections were calculated at the 90-percent confidence level.

| Table 8: Summary of Savings for Beneficiaries with Wages Removed | | |
|-------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 1,077 | 21,540 |
| Attribute Estimate | | |
| Sample cases with savings (from Table 5) | 7 | 140 |
| Point estimate—cases with savings (from Table 6) | 37 | 740 |
| Point estimate—cases with savings (from Table 7) | 189 | 3,780 |
| TOTAL | 233 | 4,660 |
| Dollar Estimate | | |
| Savings (from Table 5) | \$12,966 | \$259,320 |
| Point estimate—savings (from Table 6) | \$25,851 | \$517,020 |
| Point estimate—savings (from Table 7) | \$23,036 | \$460,720 |
| TOTAL | \$61,853 | \$1,237,060 |

SAMPLE RESULTS AND PROJECTIONS—AERO DID NOT GENERATE ALERTS

| Table 9: Sample Results and Projections—AERO Did Not Generate Alerts for 33 Beneficiaries with Wages Removed in 3 Tax Years and Were Paid Improperly | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 33 | 660 |
| Attribute Estimate | | |
| Sample cases where improper payment not previously identified | 2 | 40 |

| Table 10: Sample Results and Projections—AERO Did Not Generate Alerts for 187 Beneficiaries with Wages Removed in 2 Tax Years and Were Paid Improperly | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 187 | 3740 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases where AERO did not generate an alert for an improperly paid beneficiary | 7 | 140 |
| Point estimate | 26 | 520 |
| Estimate lower limit | 15 | |
| Estimate upper limit | 43 | |

Note: All projections were calculated at the 90-percent confidence level.

| Table 11: Sample Results and Projections—AERO Did Not Generate Alerts for 857 Beneficiaries with Wages Removed in 1 Tax Year and Were Paid Improperly | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 857 | 17,140 |
| Sample size | 50 | |
| Attribute Estimates | | |
| Sample cases where AERO did not generate an alert for an improperly paid beneficiary | 13 | 260 |
| Point estimate | 223 | 4,460 |
| Estimate lower limit | 141 | |
| Estimate upper limit | 323 | |

Note: All projections were calculated at the 90-percent confidence level.

| Table 12: Summary of Cases—AERO Did Not Generate Alerts | | |
|-----------------------------------------------------------------|---------------------------------|------------------------------------|
| | Results in 1 Segment | Estimate to 20 Segments |
| Population size | 1,077 | 21,540 |
| Attribute Estimate | | |
| Sample cases with no alert generated (from Table 9) | 2 | 40 |
| Point estimate—cases with no alert generated (from Table 10) | 26 | 520 |
| Point estimate—cases with no alert generated (from Table 11) | 223 | 4,460 |
| TOTAL | 251 | 5,020 |

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 28, 2008 **Refer To:** S1J-3

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

From: David V. Foster /s/
Executive Counselor to the Commissioner

Subject: Office of the Inspector General (OIG) Draft Report, "Unprocessed Manual Recalculations for Title II Payments" (A-03-07-17090)--INFORMATION

We appreciate OIG's efforts in conducting this review. Attached is our response to the recommendations.

Please let me know if we can be of further assistance. Your staff may direct 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,
"UNPROCESSED MANUAL RECALCULATIONS FOR TITLE II PAYMENTS"
(A-03-07-17090)**

Thank you for the opportunity to review and provide comments on this draft report. It is important to note that the Automatic Earnings Reappraisal Operation (AERO) selects cases for processing based upon the date earnings changes post to the Master Earnings File, not the year for which earnings changes take effect. Each cyclical AERO run looks at postings within a given range of posting dates to determine if a recalculation or recomputation is necessary. It is possible that AERO did not select some of the identified cases, because AERO did not yet look for changes in the posting ranges involved.

Recommendation 1

Review the remaining 944 cases (from the 1,077 we identified) to ensure benefits have been adjusted appropriately.

Comment

We agree. By January 1, 2009, we will complete our review of the remaining 944 cases to ensure the adjustment to benefits was appropriately completed.

Recommendation 2

Ensure AERO identifies all cases that meet the criteria for manual review when earnings are removed from individuals' earnings records.

Comment

We agree. We utilized the records from the audit to try to duplicate the cited problems. Our investigation included interaction with personnel from the General Utility Earnings Summarization Tool area, which provides the earnings to the AERO process. We were unable to identify any software errors in the AERO process. However, we will attempt to replicate the problem scenario during the AERO validation cycle for the 2007 E AERO in October 2008. If any software errors occur, we will evaluate the proper solution and make the necessary changes/enhancements depending on available resources.

Recommendation 3

Develop a cost-effective method for prioritizing the review of AERO alerts, ensuring that alerts most likely to result in overpayments are worked first.

Comment

We agree. However, we will pursue this recommendation in accordance with, but not at the expense of, working the oldest pending cases first. AERO alerts that result in overpayments are in the backlog, because they do not meet the criteria for quick completion during the screening operation. The payment centers already have many priority workloads that include critical cases, administrative law judge cases, and award cases in which beneficiaries are waiting for benefits. Other workloads, such as substantial gainful activity, workers' compensation, government pension offset, and enforcement work or reports of earnings that are removed from the automated process have delays in processing that result in higher overpayments. We believe that prioritizing the review of AERO alerts will likely create delays in other priority workloads. Therefore, we will evaluate our policy, resources, and systems capabilities to determine the feasibility of implementing a cost-effective method of ensuring that we process the AERO alerts most likely to result in overpayments before other similarly aged AERO alerts that are not likely to result in overpayments.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Cylinda McCloud-Keal, Director, Philadelphia Audit Division, (215) 597-0572

Carol Madonna, Audit Manager, (215) 597-1485

Phillip Hanvy, Acting Audit Manager, (617) 565-1742

Acknowledgments

In addition to those named above:

Walter Mingo, Auditor-in-Charge

Richard Devers, IT Specialist

For additional copies of this report, please visit our web site at 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-03-07-17090.

DISTRIBUTION SCHEDULE

Commissioner of Social Security

Office of Management and Budget, Income Maintenance Branch

Chairman and Ranking Member, Committee on Ways and Means

Chief of Staff, Committee on Ways and Means

Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Committee on the Budget, House of Representatives

Chairman and Ranking Minority Member, Committee on Oversight and Government Reform

Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives

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

Chairman and Ranking Minority Member, Committee on Finance

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

Chairman and Ranking Minority Member, Senate Special Committee on Aging

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 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.