

Audit Report

Payments Resulting from Disability
Insurance Actions Processed Via
Manual Adjustment, Credit and
Award Processes

MEMORANDUM

Date: June 28, 2013

Refer To:

To: The Commissioner

From: Inspector General

Subject: Payments Resulting from Disability Insurance Actions Processed Via Manual Adjustment, Credit and Award Processes (A-04-11-01114)

The attached final report presents the results of our audit. Our objective was to determine whether Disability Insurance payments resulting from actions completed through the Manual Adjustment, Credit and Award Processes were accurate and approved.

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



Patrick P. O'Carroll, Jr.

Attachment

Payments Resulting from Disability Insurance Actions Processed Via Manual Adjustment, Credit and Award Processes

A-04-11-01114



June 2013

Office of Audit Report Summary

Objective

To determine whether Disability Insurance (DI) payments resulting from actions completed through the Manual Adjustment, Credit and Award Processes (MADCAP) were accurate and approved.

Background

The Social Security Administration (SSA) administers the Old-Age, Survivors and Disability Insurance program under Title II of the *Social Security Act*, as amended. SSA's automated systems process monthly DI payments. However, when the automated systems cannot completely process an action, authorized technicians at SSA's program service centers (PSC) must manually process the actions through the MADCAP system. For example, authorized PSC employees may establish an individual's Master Beneficiary Record (MBR); initiate payment of DI benefits; update or correct information on the MBR (which may alter the monthly benefit amount); and terminate benefits through the MADCAP system.

Our Findings

The error rate for DI MADCAP payment transactions we reviewed was 4 percent—an improvement of 50 percent over our previous report in which we identified an 8-percent error rate. Specifically, of the 250 randomly sampled MADCAP payments, 11 (4 percent) had payment errors totaling \$32,867—\$15,525 in overpayments and \$17,342 in underpayments. Although the overall precision of these complex transactions is relatively high, the 4-percent error rate still resulted in large payment errors. We estimate that approximately 18,980 MADCAP payments over \$1,000 issued from October 1, 2010 to September 30, 2011 had payment errors totaling \$56.7 million. The MADCAP payment errors we identified resulted from mistakes in processing various claims actions. In general, these mistakes seemed to occur because SSA staff did not recognize all the factors that affect DI benefits.

Additionally, MADCAP payments of \$6,000 or more did not always have documentation of the required approvals. Of the 250 randomly selected MADCAP payments, 110 were for \$6,000 or more and required appropriate review and approval. However, 82 (74.5 percent) of these payments lacked documentation to substantiate the review and approval of the actions taken and the payment amount.

Our Recommendations

1. Issue a reminder to PSC staff, and consider conducting additional training, regarding the unique requirements of DI MADCAP payment actions.
2. Ensure that all Benefit Authorizers' reviews and approvals of MADCAP payments in excess of \$6,000 are documented and retained in SSA's paperless document retention system.
3. Take action on the 11 error cases to collect identified overpayments or issue underpayments to the beneficiaries.

SSA agreed with our recommendations.

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ABBREVIATIONS

DI	Disability Insurance
MADCAP	Manual Adjustment, Credit and Award Processes
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
PSC	Program Service Center
SSA	Social Security Administration

OBJECTIVE

We conducted this review to determine whether Disability Insurance (DI) payments resulting from actions completed through the Manual Adjustment, Credit and Award Processes (MADCAP) were accurate and approved.

BACKGROUND

The Social Security Administration (SSA) administers the Old-Age, Survivors and Disability Insurance program under Title II of the *Social Security Act* (Act), as amended.¹ Section 223 of the Act² requires that SSA provide monthly DI benefits to eligible individuals who meet specific disability requirements as well as their eligible dependents. SSA's automated systems process monthly DI payments. However, when SSA's automated or direct input systems cannot completely process an action, authorized technicians at SSA's program service centers (PSC) must manually process the actions through the MADCAP system. For example, through the MADCAP system, authorized PSC employees may process the following types of actions: establish a beneficiary's Master Beneficiary Record (MBR);³ initiate payment of DI benefits; update or correct information on the MBR (which may alter the monthly benefit amount); and terminate benefits.

A MADCAP payment for initial DI benefits usually covers several months, serving as a "catch-up" payment for benefits due from the beneficiary's entitlement date until the date SSA begins processing the monthly payments. SSA refers to the period between entitlement and first payment as the initial award period.

After SSA determines a beneficiary is eligible for DI benefits, it may become aware of events or circumstances that affect the individual's DI benefit amount or eligibility. For example, a MADCAP payment may occur when (1) a change in circumstances causes an increase in benefits and SSA must retroactively adjust the beneficiary's DI benefits or (2) SSA reissues undeliverable benefits to a corrected address.

In April 2006, we issued a report on *Payments Resulting from Disability Insurance Actions Processed via the Social Security Administration's Manual Adjustment, Credit and Award*

¹ Section 201, et. seq. of the Act, 42 U.S.C. § 401, et. seq.

² 42 U.S.C. § 423.

³ SSA establishes an MBR for each DI claimant. The MBR maintains pertinent information needed to pay accurate benefits to the claimant and all entitled dependents. The information maintained includes identification data (name, Social Security number, date of birth, address), earnings history, type and date of disability, monthly DI benefit amounts, and the reason for terminating or suspending benefit payments. Thus, any change in a claimant's or dependent's situation must be reflected on the MBR to ensure its integrity and the accuracy of benefit payments.

Processes (A-04-05-15042). In that audit, we reviewed a sample of 250 DI MADCAP payments ranging from \$1,000 to \$29,999.99 and issued from July 1 through September 30, 2004. Our audit tests identified an 8-percent payment error rate, which we estimated resulted in about \$19.7 million in payment errors during the 3-month period. As such, we made the following recommendations to address SSA staff's diligence in ensuring payment accuracy when calculating MADCAP payments.

- Issue a reminder and, if necessary, further guidance to responsible PSC staff requiring that all underlying actions resulting in MADCAP payments be verified to the supporting documentation.
- Provide specific guidance on documenting the review and approval of MADCAP payments \$3,000 or more and the retention of review evidence.
- Ensure payments of \$30,000 or more, related to the same individual and action, are processed through the Single Payment System.

In our current audit, we examined a sample of DI MADCAP payments issued from October 1, 2010 through September 30, 2011. In this period, SSA DI beneficiaries received over \$3.2 billion in MADCAP payments, with single payments ranging from \$1,000 to \$29,999.99. See Appendix A for further information regarding our scope and methodology.

SSA policy requires that each MADCAP payment \$6,000 or greater be reviewed to verify the accuracy and appropriateness of the action and payments.⁴ Staff at SSA's PSCs— Benefit Authorizers—are responsible for performing the reviews.

RESULTS OF REVIEW

The error rate for DI MADCAP payment transactions we reviewed was 4 percent—an improvement of 50 percent over our previous report in which we identified an 8-percent error rate. Specifically, of the 250 randomly sampled MADCAP payments, 11 (4 percent) had payment errors totaling \$32,867—\$15,525 in overpayments and \$17,342 in underpayments. Although the overall precision of these complex transactions is relatively high, the 4-percent error rate still resulted in large payment errors. We estimate that approximately 18,980 MADCAP payments over \$1,000 issued from October 1, 2010 through September 31, 2011 had payment errors totaling about \$56.7 million. See Appendix B for our projection methodology.

⁴ For the period covered by our 2006 audit, SSA policy required such reviews for MADCAP payments \$3,000 or greater. SSA raised this threshold in its revised policy statement.

Various mistakes contributed to these payment errors. For example, SSA staff did not

- correctly calculate the past-due benefits paid;
- terminate payments when claimants were not eligible for benefits;
- recognize that a replacement benefit check had already been issued; and
- correctly adjust MADCAP payments for cases with workers' compensation benefits.

Additionally, SSA did not always have documentation that MADCAP payments of \$6,000 or more had the required approvals. While SSA staff may have appropriately reviewed and approved these payments, we were unable to verify the actions because documentation was not always available. Of the 250 randomly selected MADCAP payments, 110 were for \$6,000 or more and required appropriate review and approval. However, 82 (74.5 percent) of these payments lacked documentation to substantiate the review and approval of the actions taken and the payment amount.

MADCAP Payment Errors

Of the 250 randomly selected MADCAP payments, 11 (4 percent) had payment errors totaling \$32,867—\$15,525 in overpayments and \$17,342 in underpayments. Table 1 details the MADCAP payment errors we identified.

Table 1: MADCAP Payment Errors

	MADCAP Payment Amount	Payment Error	Type of Payment Error	Reason for Payment Error
1	\$4,150	\$3,083	Overpayment	SSA did not recognize that it had already released excess benefits it withheld for the beneficiary's attorney fees.
2	2,634	2,634	Overpayment	SSA issued MADCAP payment when the beneficiary had an existing overpayment.
3	2,679	2,679	Overpayment	Beneficiary was no longer entitled to benefits.
4	2,330	2,330	Overpayment	SSA issued MADCAP payment when the beneficiary had an existing overpayment.
5	3,791	2,153	Overpayment	SSA miscalculated past-due benefits.
6	1,195	1,195	Overpayment	SSA did not reduce the DI benefit for the State workers' compensation payments received.
7	1,062	1,062	Overpayment	SSA did not recognize it had already issued a replacement check.
8	1,935	389	Overpayment	SSA miscalculated past-due benefits.
9	4,460	857	Underpayment	SSA miscalculated past-due benefits.
10	9,810	1,090	Underpayment	SSA withheld benefits to collect for an incorrect overpayment amount.
11	19,829	15,395	Underpayment	SSA made a coding error that prevented the automated calculation of the entire past-due benefit.
	Total	\$32,867		

Below are examples of payment errors we identified in the sampled cases in Table 1.

- In case 1, SSA overpaid \$3,083 to a beneficiary because it did not recognize it already released a portion of the past-due benefits withheld to pay the beneficiary's attorney fees.⁵ In

⁵ To assist with obtaining Title II benefits, claimants may appoint a qualified representative (attorneys or non-attorneys) to act on their behalf in matters before SSA (POMS GN 03910.010 B., March 14, 1995). Generally, SSA calculates claimant representative fees based on past-due benefits (POMS GN 03920.017 D., July 25, 2012). Past-due benefits typically accrue from the claimant's benefit entitlement date through the month in which SSA certifies the claim for payment (POMS GN 03920.030 B., April 27, 2011). In this case, SSA withheld the attorney fee from the claimant's past-due benefits and issued the fee payment directly to the attorney.

March 2011, SSA issued a favorable decision on the beneficiary's DI claim. SSA estimated the attorney fee at \$5,139 and designated this amount to be withheld from the beneficiary's past-due MADCAP benefit payment. The attorney later notified SSA that the fee totaled only \$2,056. In July 2010, SSA paid the beneficiary \$3,083 (\$5,139 less \$2,056) for benefits withheld in excess of the actual attorney fee. However, in November 2010, when SSA issued the \$4,150 past-due benefit MADCAP payment, it included the \$3,083 again.

- In case 3, SSA overpaid a second child on a father's DI claim. In August 2007, SSA terminated all benefits on the DI claim because SSA determined the father was no longer disabled (as of April 2006). As a result, SSA recorded overpayments for all individuals on the DI record who received benefits—including a \$3,400 overpayment for the second child. The father appealed SSA's decision. In May 2010, a Federal court reversed SSA's decision and ordered SSA to pay all past-due benefits and negate the overpayments. In October 2010, SSA issued the second child two MADCAP payments totaling \$7,827, for all past-due benefits. However, in calculating the past-due benefits, SSA did not recognize the second child reached age 18 in April 2008 and was no longer eligible for benefits. As a result, SSA overpaid the second child \$2,679.
- In case 4, SSA issued a \$2,330 MADCAP payment for past-due benefits. However, in January 2011, when SSA issued the MADCAP payment, the beneficiary had a \$15,186 overpayment on his record. In August 2004, SSA recorded an \$18,624 overpayment on the beneficiary's Title II record. Beginning in 2008, SSA withheld \$3,371 from the beneficiary's monthly benefits, which reduced the overpayment to \$15,186. Because of the existing overpayment, SSA should not have issued the \$2,330 MADCAP payment in January 2011.
- In case 11, SSA underpaid the first child on the father's Title II record by \$15,395. In May 2011, SSA issued a \$19,829 MADCAP payment for past-due benefits that accrued from July 2004 through June 2009. However, because of a coding error that prevented the automated calculation of all past-due benefits, SSA did not pay the past-due benefits for the period July 2009 through April 2011, which totaled \$15,395.

We acknowledge that MADCAP payment actions may be complex and require that staff analyze a multitude of factors when calculating payments. As such, we emphasize that SSA's staff must be diligent in processing MADCAP actions to ensure beneficiaries receive accurate payments.

MADCAP Payments Lacked Evidence of a Second Review

MADCAP payments of \$6,000 or more did not always have documentation of the required approvals. SSA's policy requires that a Benefit Authorizer review MADCAP payments of \$6,000 or more for payment accuracy. Of our sample of 250 randomly selected MADCAP payments, 110 met the \$6,000 threshold and were subject to this policy. However, 82 (74 percent) of these payments lacked documentation to substantiate the review and approval of the actions taken and the payment amount. While SSA staff may have appropriately reviewed and approved these payments, we were unable to verify these actions because documentation was not available. Two of the 11 MADCAP payment errors we identified involved transactions

requiring review and approval (that is, they exceeded the \$6,000 threshold). However, we could not locate documentation evidencing the required review for either of these cases.

Effective November 22, 2010, for MADCAP payments exceeding \$6,000, SSA's revised policy requires that responsible employees retain evidence of a Benefit Authorizer's review and approval in the Agency's paperless system—with a long-term retention designation. The long-term retention designation prevents this evidence from being purged from the paperless system. Before the revision, SSA's policy did not provide specific instruction as to the length of the retention period. Of the 82 MADCAP payments for which we could not locate evidence of an approval, 12 occurred before SSA revised its policy. Therefore, 12 approvals were not required to have a long-term retention in SSA's paperless system. As such, evidence of the required Benefit Authorizers' review and approval should have been available for 70 (85 percent) of the 82 MADCAP cases.

CONCLUSIONS

During our audit period, SSA issued inaccurate MADCAP payments to DI beneficiaries. While the error rate we identified was small, the mistakes resulted in significant incorrect payments. Specifically, of the 250 randomly sampled MADCAP payments, 11 (4 percent) had payment errors totaling \$32,867—\$15,525 in overpayments and \$17,342 in underpayments. Based on these payment errors, we estimate that approximately 18,980 MADCAP payments over \$1,000 that SSA issued between October 1, 2010 and September 31, 2011 had payment errors totaling about \$56.7 million. The MADCAP payment errors we identified resulted from mistakes in processing various claims actions. In general, these mistakes occurred because SSA staff did not recognize all the factors that affect DI benefits.

Additionally, MADCAP payments of \$6,000 or more did not always have documentation evidencing the required approvals. Of the 250 randomly selected MADCAP payments, 110 were for \$6,000 or more and required appropriate review and approval. However, 82 (74.5 percent) of these payments lacked documentation to substantiate the review and approval of the actions taken and the payment amount. We acknowledge responsible personnel may have reviewed and approved the payments, but SSA did not retain evidence of these actions in its paperless retention system.

RECOMMENDATIONS

Accordingly, we recommend that SSA:

1. Issue a reminder to PSC staff, and consider conducting additional training, regarding the unique requirements of DI MADCAP payment actions. Given the complexities of this workload, SSA should place emphasis on the importance of reviewing one's work before issuing the payments.
2. Ensure that all Benefit Authorizers' reviews and approvals of MADCAP payments in excess of \$6,000 are documented and retained in SSA's paperless document retention system.

3. Take action on the 11 error cases to collect identified overpayments or issue underpayments to the beneficiaries. We will provide specific information about these cases separately.

AGENCY COMMENTS

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

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed a random sample of 250 Disability Insurance (DI) Manual Adjustment, Credit and Award Processes (MADCAP) payments through the Social Security Administration's (SSA) Single Payment System. We selected our sample from a universe of 21,567 DI MADCAP payments that ranged from \$1,000 to \$29,999.99 between October 1, 2010 and September 30, 2011. Based on the source documents available, we determined whether (1) the action creating the MADCAP payment was accurate and (2) there was evidence of approval for MADCAP payments \$6,000 and greater.

We tested more than one control attribute for some MADCAP payments. As a result, some MADCAP payments have more than one reportable issue and are included as audit findings in more than one section of the report.

We also:

- Reviewed relevant laws and SSA's policies and procedures.
- Reviewed previous reports pertaining to MADCAP payments.
- Queried SSA's Master Beneficiary Record; Supplemental Security Record; Payment History Update System; Retirement, Survivors, and Disability Insurance Payment History and Worksheet; Master Earnings File; and Workers' Compensation worksheets.
- Obtained SSA's DI paperless files, when needed, and reviewed all relevant documents related to the DI MADCAP payment.

The entity audited was the Office of the Deputy Commissioner for Operations. We conducted our work from June 2012 through February 2013 in Atlanta, Georgia, and Baltimore, Maryland. 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.

Appendix B – SAMPLING METHODOLOGY AND RESULTS

Sample Methodology

In total, we reviewed a random sample of 250 Title II Disability Insurance (DI) Manual Adjustment, Credit and Award Processes (MADCAP) payments. We selected our sample from a universe of 21,567 DI MADCAP payments that ranged from \$1,000 to \$29,999.99 between October 1, 2010 and September 30, 2011. We selected the samples from data queried from segment four of the Master Beneficiary Record (MBR). The MBR is divided into 20 segments based on the last 2 digits of the beneficiaries' Social Security numbers, and 1 segment is representative of the entire 20 segments of the MBR.

We determined the computer-processed data used to select our population were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data and achieve our audit objective.

Sample Results

Overall Results – MADCAP Payments Resulting in a Payment Error.

<u>Projections of Attribute and Variable Appraisals</u> MADCAP Payments Resulting in a Payment Error		
Population and Sample Data	Decisions	Dollars
Total Segment Population	21,567	\$162,328,413
Sample Size	250	1,921,659
MADCAP Payments Resulting in a Payment Error	11	32,867
Projection to Population	Decisions	Dollars
Point Estimate	949	\$2,835,370
Lower Limit	539	499,665
Upper Limit	1,544	5,171,076
Estimate to the Universe (20 Segments)	18,980	\$56,707,400

Appendix C – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: June 12, 2013 Refer To: S1J-3

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

From: Katherine Thornton /s/
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, "Payments Resulting from Disability Insurance Actions Processed via Manual Adjustment, Credit and Award Processes" (A-04-11-01114)--
INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,
“PAYMENTS RESULTING FROM DISABILITY INSURANCE ACTIONS PROCESSED
VIA MANUAL ADJUSTMENT, CREDIT AND AWARD PROCESSES” (A-04-11-01114)**

Recommendation 1

Issue a reminder to PSC staff, and consider conducting additional training regarding the unique requirements of DI MADCAP payment actions.

Response

We agree. We will issue a reminder to the program service center staff on the unique requirements of DI MADCAP payment actions through an Administrative Message by the end of June 2013. After we issue the reminder, we will assess the need for additional training and continue to emphasize the importance of performing a quality review before issuing payments.

Recommendation 2

Ensure that all Benefit Authorizers' reviews and approvals of MADCAP payments in excess of \$6,000 are documented and retained in SSA's paperless document retention system.

Response

We agree that we need to document and retain our review and approval documents of MADCAP payments in excess of \$6,000 in our paperless document retention system. We will issue a reminder through an Administrative Message by the end of June 2013 to technicians and ask the programs service center management to emphasize the need to document and retain MADCAP review and approval documents of MADCAP payments in excess of \$6,000 in our paperless system. We will continue to explore other controls to ensure we retain these documents.

In the long-term, we would like to automate the default paperless retention system. However, implementing this change requires a significant systems enhancement and is contingent upon systems resources. We are unable to guarantee a timeframe for implement the auto-retention enhancement at this time.

Recommendation 3

Take action on the 11 error cases to collect identified overpayments or issue underpayments to the beneficiaries.

Response

We agree. We will take the necessary actions on the 11 cases by August 1, 2013.

Appendix D – MAJOR CONTRIBUTORS

Theresa Roberts, Acting Director

Frank Nagy, Audit Manager

Valerie Ledbetter, Senior Auditor

Kenley Coward, Audit Data Specialist

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