OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Individuals Hiding Self-Employment Income to Receive Disability Insurance Benefits

A-07-12-11268| January 2013

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: January 11, 2013 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Individuals Hiding Self-Employment Income to Receive Disability Insurance Benefits (A-07-12-11268)

The attached final report presents the results of our audit. Our objective was to identify individuals receiving Disability Insurance benefits who participated in self-employment activities and concealed the income by reporting it under another person's Social Security number.

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

Summary of Individuals Hiding Self-Employment Income to Receive Disability Insurance Benefits
A-07-12-11268

January 2013

Objective

Our objective was to identify individuals receiving Disability Insurance (DI) benefits who participated in self-employment activities and concealed the income by reporting it under another person's Social Security number (SSN).

Background

Self-employed individuals annually report self-employment income (SEI) to the Internal Revenue Service. The IRS then provides the Social Security Administration (SSA) this SEI information, which is posted to SSA's Master Earnings File and used to determine eligibility for retirement, survivors, disability, and health insurance benefits as well as to calculate benefit amounts. Reporting SEI under another person's SSN could make an individual appear to be eligible for DI benefits when he/she is not eligible.

Our Findings

We found that 5 (10 percent) of the 50 beneficiaries we reviewed were engaged in self-employment activities and concealed their income by reporting it under their spouses' SSNs. Of these five beneficiaries, three inappropriately received benefits totaling approximately $348,000, and their auxiliaries inappropriately received about $77,000. Further, we estimate that these three beneficiaries would have continued receiving benefits totaling approximately $44,000, and their auxiliaries would have received $5,100, over a 1-year period had the SEI not been discovered.

While the remaining two beneficiaries were engaged in self-employment activities and concealed their income by reporting it under their spouse's SSN, SSA did not find that the beneficiaries were overpaid.

Our Recommendations

The analysis we undertook for a sample of beneficiaries was labor-intensive. This analysis yielded a small number of beneficiaries actually concealing SEI. Therefore, we cannot recommend that the Agency integrate such a process into its procedures. However, we would be willing to work with SSA to develop a more sophisticated method for profiling cases where individuals are concealing SEI while receiving DI benefits

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ABBREVIATIONS

C.F.R.	Code of Federal Regulations
DI	Disability Insurance
IRS	Internal Revenue Service
MBR	Master Beneficiary File
MEF	Master Earnings File
OI	Office of Investigations
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SEI	Self-Employment Income
SGA	Substantial Gainful Activity
SSA	Social Security Administration
Form SSA-820	Work Activity Report – Self-Employed Person
Form SSA-821	Work Activity Report – Employee
SSN	Social Security Number
TWP	Trial Work Period

OBJECTIVE

Our objective was to identify individuals receiving Disability Insurance (DI) benefits who participated in self-employment activities and concealed the income by reporting it under another person's Social Security number (SSN).

BACKGROUND

The Social Security Administration (SSA) administers the DI program under Title II of the *Social Security Act*. The DI program provides benefits to qualified disabled workers and their dependents.[1] SSA considers an individual disabled for purposes of the DI program if he/she cannot engage in substantial gainful activity (SGA) because of a medically determinable mental or physical impairment.[2] Furthermore, SSA requires that beneficiaries report changes in status, such as returning to work or earning wages.[3]

Self-employed individuals annually report self-employment income (SEI) to the Internal Revenue Service (IRS) on a *Profit or Loss from Business Form* (Schedule C) and *Self Employment Tax Form* (Schedule SE) attached to a Federal income tax Form 1040.[4] The IRS then provides SSA this SEI information to record on the individual's earnings record. SSA is responsible for maintaining individual earnings records, including wages and SEI. Wages and SEI are posted to SSA's Master Earnings File (MEF) and used to determine eligibility for retirement, survivors, disability, and health insurance benefits as well as to calculate benefit amounts. Reporting SEI under another person's SSN could make an individual appear to be eligible for DI benefits when he/she is not eligible.

We initiated this review to identify individuals who were receiving DI benefits but who were participating in self-employment activities and concealing their SEI by reporting it under another person's SSN. To meet our objective, we analyzed the earnings activities of beneficiaries and their spouses and children using data from the MEF. Specifically, we identified beneficiaries from one segment of the Master Beneficiary Record (MBR) who were in current pay status in May 2007 and had reported SEI within 2 years before they were approved for DI benefits. In addition, the beneficiaries had a spouse or child who had a significant increase in SEI after the

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[1] The Social Security Act §§ 201 et seq., 42 U.S.C. §§ 401 et seq.

[2] 20 C.F.R. § 404.1572 indicates that SGA is work activity that involves significant physical or mental activities and is done for pay or profit (or is of a type generally performed for pay or profit). See also SSA, POMS, DI 24001.001 (May 13, 1999).

[3] 20 C.F.R. § 404.1588(a)(2).

[4] Department of the Treasury, Internal Revenue Service (2011). Tax Guide for Small Business (Publication No. 334). Chapter 1.

beneficiary was approved for DI benefits.[5] Our analysis identified 585 beneficiaries who were potentially engaged in self-employment activities after they were approved for DI benefits and concealed their income by reporting it under another person's SSN.

From the 585 beneficiaries, we selected a sample of 50 for detailed analysis. Based on the results of our analysis, we referred 20 of the 50 beneficiaries to our Office of Investigations (OI) to determine whether they had, in fact, continued engaging in self-employment activities after they were approved for DI benefits and concealed their income by reporting it under another person's SSN.

RESULTS OF REVIEW

We reviewed a sample of 50 beneficiaries who reported SEI before they were approved for DI benefits and had a spouse or child who reported SEI after the beneficiary was approved. Our review did not find any instances where beneficiaries concealed SEI by reporting it under a child's SSN. However, our review found that 5 (10 percent) of the 50 beneficiaries were engaged in self-employment activities and concealed their income by reporting it under their spouse's SSN. Of these five, we determined that three beneficiaries received improper payments of $348,000, and their auxiliaries received an additional $77,000.[6]

Beneficiaries Found Concealing Self-Employment Income

Beneficiary 1: Before he was approved for DI benefits in 1997, the beneficiary operated an awards production business. After he was approved for DI benefits, he did not report SEI. However, his spouse, who had not previously reported SEI, started reporting SEI (see Table 1).

[5] See Appendix A for scope and methodology.

[6] See Appendix B for population and sample results.

Table 1 Beneficiary 1 Reported SEI[7]

Year	Beneficiary	Spouse
1995	$17,000	
1996	$18,000	
1997*	$10,000	
1998		$31,000
1999		$36,000
2000		$23,000
2001		$54,000
2002		$5,000
2003		$5,000
2004		$4,000
2005		$9,000
2006		
2007		$4,000
2008		

* Year beneficiary was approved for DI benefits.

A Special Agent from OI found the beneficiary had continued operating his awards production business. The beneficiary told the Agent he had been in business for about 36 years, and the company was an Internet business because it was more convenient. The Agent also obtained evidence from witnesses who had conducted business with the beneficiary.

In 2009, the beneficiary pled guilty to theft of Government property and was sentenced to 5 years' probation and imprisoned for 12 weekends. He was also ordered to pay SSA full restitution totaling approximately $151,000.

This beneficiary would have continued receiving benefits totaling approximately $10,200 over a 1-year period if the SEI had not been discovered. In addition, the beneficiary's children would have continued being paid approximately $5,100 in auxiliary benefits over a 1-year period.

Beneficiary 2: Before he was approved for DI benefits in 1991, the beneficiary and his spouse operated a cleaning business. After he was approved for DI benefits, he only reported SEI in 2006. However, his spouse's SEI almost tripled the year after the beneficiary was approved for DI benefits. Further, the spouse continued reporting income from the business the majority of the years from 1992 through 2010 (see Table 2).[8]

[7] Operating expenses could have exceeded the revenue earned by the business. When this occurs, a loss is reported to the IRS. Therefore, for the years SEI was not identified, it is possible the business was still active but operating at a loss.

[8] Ibid.

Table 2 Beneficiary 2 Reported SEI[9]

Year	Beneficiary	Spouse
1989		$6,000
1990	$2,000	$8,000
1991*	$12,000	$5,000
1992		$13,000
1993		
1994		$13,000
1995		$5,000
1996		$3,000
1997		$7,000
1998		
1999		$21,000
2000		
2001		$39,000
2002		$162,000
2003		$182,000
2004		$78,000
2005		$154,000
2006	$29,000	$76,000
2007		$97,000
2008		$128,000
2009		$131,000
2010		$115,000

* Year beneficiary was approved for DI benefits.

A Special Agent from OI found that the business was still active. The Agent interviewed witnesses who indicated the beneficiary worked directly with the customers arranging appointments and performing billing and collection duties. He also worked directly with the employees making all work assignments, supervising their work, hiring and firing, and assisting with cleaning jobs. The witnesses further stated the spouse was not involved with the employees or customers. When confronted, the beneficiary confessed he had been working since January 2008.

SSA terminated his benefits effective February 2012. The beneficiary and his auxiliaries had received total benefits of approximately $376,000 since the beneficiary was approved for DI benefits. During the period the beneficiary confessed to working, January 2008 through January 2012, the beneficiary received DI benefits totaling over $79,000. However, SSA identified about $65,000 as the overpayment since the first 9 months of the period the beneficiary was working was considered a trial work period (TWP).[10]

This beneficiary would have continued receiving benefits totaling approximately $20,350 over a 1-year period if the SEI had not been discovered.

Beneficiary 3: Before he was approved for DI benefits in 1988, the beneficiary and his spouse operated a janitorial business. After the beneficiary was approved for DI benefits, he reported SEI in 2003, and his spouse reported SEI sporadically from 1990 through 2005 (see Table 3).[11]

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[9] In 1999 and 2006 through 2010, the spouse reported earning wages from a business, which the spouse owned. Therefore, we considered the wages the same as SEI for purposes of our review.

[10] During a TWP, a beneficiary receiving DI benefits may test his/her ability to work and still be considered disabled. SSA does not consider work performed during the trial work period as showing that the disability has ended until the work is performed in at least 9 months (not necessarily consecutive) in a rolling 60-month period. SSA, POMS, DI 13010.035 (July 1, 2010).

[11] Operating expenses could have exceeded the revenue earned by the business. When this occurs, a loss is reported to the IRS. Therefore, for the years SEI was not identified, it is possible the business was still active but operating at a loss.

Table 3 Beneficiary 3 Reported SEI

Year	Beneficiary	Spouse
1986	$2,000	
1987		
1988*		
1989		
1990		$10,000
1991		
1992		
1993		
1994		$1,000
1995		
1996		$2,000
1997		
1998		
1999		
2000		
2001		
2002		$12,000
2003	$5,000	$5,000
2004		
2005		$9,000
2006		
2007		
2008		
2009		

* Year beneficiary was approved for DI benefits.

Upon investigation, an OI Special Agent found the business continued operating, and the beneficiary was the company's secretary and owner. Further, the Agent found the company employed three people.

The U.S. Attorney's Office accepted the case for criminal prosecution in October 2008. However, the beneficiary died in July 2009 before any further action could be taken.

From January 1989 through June 2009, the beneficiary received DI benefits totaling approximately $182,000. In addition, the beneficiary's children were paid over $27,000 in auxiliary benefits.

Had he lived, this beneficiary would have continued receiving benefits totaling approximately $13,300 over a 1-year period if the SEI had not been found.[12]

Beneficiary 4: Before he was approved for DI benefits in 1999, the beneficiary and his spouse operated a security company and reported SEI. After he was approved for DI benefits, the beneficiary did not report SEI. However, the spouse's SEI more than doubled (see Table 4).

[12] Before the beneficiary's death, the beneficiary's children had stopped receiving benefits because they turned 18 and were not full-time students. Therefore, future benefits would not be applicable.

Table 4 Beneficiary 4 Reported SEI

Year	Beneficiary	Spouse
1997	$6,000	$6,000
1998	$7,000	$7,000
1999*	$7,000	$7,000
2000		$18,000
2001		$10,000
2002		$11,000
2003		$13,000
2004		$13,000
2005		$11,000
2006		$11,000
2007		$11,000
2008		$13,000

* Year beneficiary was approved for DI benefits.

An OI Special Agent referred this beneficiary to SSA to develop and evaluate work activity. At SSA's request, the beneficiary completed the Forms SSA-820 (*Work Activity Report – Self-Employed Person*) and SSA-821 (*Work Activity Report – Employee*), indicating that he had not been working. SSA interviewed the beneficiary, and he admitted he assisted his spouse in managing the security company. He further admitted that he had misrepresented the truth when answering the questions related to work activity on the Forms SSA-820 and 821.

Although SSA confirmed the beneficiary had concealed his SEI, SSA policies provide that the work activity can be considered a trial work period if the beneficiary is not convicted in Federal court.[13] SSA further determined that the beneficiary had not continued engaging in SGA. SSA continued the beneficiary's DI benefits and did not record an overpayment.

Beneficiary 5: Before he was approved for DI benefits in 2002, the beneficiary operated a roofing business and reported SEI. After he was approved for DI benefits, the beneficiary did not report SEI. However, his spouse, who had not previously reported SEI, started reporting SEI (see Table 5).

Table 5: Beneficiary 5 Reported SEI

Year	Beneficiary	Spouse
2000	$15,000	
2001	$21,000	
2002*		$10,000
2003		$10,000
2004		$13,000
2005		$17,000
2006		$19,000
2007		$17,000

* Year beneficiary was approved for DI benefits.

An OI Special Agent met with the beneficiary at his place of business. The beneficiary told the Agent that he was the direct supervisor of the roofing business, and he performed all bids and collections. He indicated that he had a lot of work ongoing, and there was a 3- to 6-week delay in starting any new jobs. However, he asserted that his wife was the actual owner of the company.

We referred the beneficiary to SSA to develop and evaluate work activity. Although SSA found the beneficiary concealed SEI under his wife's SSN, SSA determined that he did not engage in SGA.

[13] 20 C.F.R. § 404.471 and SSA, POMS, DI 11006.015 (December 30, 2010).

CONCLUSIONS

In summary, we found that 5 (10 percent) of the 50 beneficiaries we reviewed were engaged in self-employment activities and concealed their income by reporting it under their spouses' SSNs. Of these five beneficiaries, three inappropriately received benefits totaling approximately $348,000, and their auxiliaries inappropriately received about $77,000. Further, we estimate that these three beneficiaries would have continued receiving benefits totaling approximately $44,000, and their auxiliaries would have received $5,100 over a 1-year period had the SEI not been discovered.

While the remaining two beneficiaries were engaged in self-employment activities and concealed their income by reporting it under their spouse's SSN, SSA did not find that the beneficiaries were overpaid.

The analysis we undertook for a sample of beneficiaries was labor-intensive and yielded a small number of beneficiaries who were actually concealing SEI. Therefore, we cannot recommend that the Agency integrate such a process into its procedures. However, we would be willing to work with SSA to develop a more sophisticated method for profiling cases where individuals are concealing SEI while receiving DI benefits.

AGENCY COMMENTS

SSA did not have any formal comments (see Appendix C).

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

To accomplish our audit objective we:

- Reviewed applicable Federal laws and regulations and pertinent sections of the Program Operations Manual System related to work activity and continuing disability reviews for disabled beneficiaries.

- Obtained data extracts of

  - ✓ Disability Insurance (DI) beneficiaries, along with spouse and children information, from one segment of the Master Beneficiary Record (MBR)[1] who were in current pay status in May 2007 and

  - ✓ earnings for the beneficiaries, spouses, and children from the Master Earnings File (MEF).

From these files, we identified 1,273 beneficiaries who reported self-employment income (SEI) within 2 years of being approved for DI benefits.

- Conducted analysis to identify 585 beneficiaries from 1 segment of the MBR who reported SEI within 2 years of being approved for DI benefits and had a spouse or child who

  - ✓ had a 25-percent or greater increase in SEI after the beneficiary was approved for DI benefits and reported SEI was at least $10,000 or

  - ✓ had not reported SEI for 1 year but reported at least $10,000 the following year.

- Conducted detailed analysis for a random sample of 50 of the 585 beneficiaries in 1 segment of the MBR to identify beneficiaries who appeared to have shifted their SEI to a spouse or child (see Appendix B for detailed analysis).

- Referred 20 of the 50 sampled beneficiaries to our Office of Investigations to determine whether the beneficiaries were engaging in self-employment activities.

The entity reviewed was SSA's Office of Operations. We conducted our audit in Kansas City, Missouri, in February and March 2012. We determined the data used for this audit were sufficiently reliable to meet our audit objective. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and

[1] The MBR is divided into 20 segments, with each segment representing 5 percent of all records. Where necessary, we also obtained spouse information from the Modernized Claim System for primary DI beneficiaries who were married and did not have a spouse annotated on their MBR.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – POPULATION AND SAMPLE RESULTS

We identified 585 beneficiaries from 1 segment of the Master Beneficiary Record (MBR) who reported self-employment income (SEI) within 2 years before their Date of Disability Onset. In addition, these beneficiaries had a spouse or child who had

- a 25-percent or greater increase in SEI after the beneficiary was approved for DI benefits, and the reported SEI was at least $10,000 or
- not reported SEI for 1 year but reported at least $10,000 the following year.

We conducted detailed analysis of a sample of 50 of the 585 beneficiaries who had reported SEI before being approved for DI benefits to identify possible indicators of shifting income from the beneficiary to a spouse or child. Factors that we considered included

- the child's age,
- SEI reporting patterns,
- wage reporting patterns for the beneficiary versus the spouse/child, and
- the number of years SEI over $10,000 was reported for the spouse/child.

We also conducted in-depth analysis of SSA's systems, LexisNexis, and the Internet to determine whether the beneficiaries were associated with a business where they could have been earning SEI.

Based on the results of our analysis we referred 20 of the 50 sampled beneficiaries to our Office of Investigations (OI) for review. Of these 20 beneficiaries, OI confirmed that 5 had engaged in self-employment activities after being approved for DI benefits. However, the beneficiaries reported the income under their spouses' SSNs.

We identified five beneficiaries who participated in self-employment activities and concealed the income by transferring it to another person. These five beneficiaries received benefits totaling over $496,000. Further, their auxiliary beneficiaries received benefits totaling over $141,000.

Three of the five beneficiaries were inappropriately paid benefits totaling approximately $348,000. Further, auxiliary beneficiaries on their records inappropriately received benefits totaling approximately $77,000.

We estimate that three of the five beneficiaries would have continued receiving benefits totaling approximately $44,000 over a 1-year period had the SEI not been found. Further, their auxiliaries would have continued receiving benefits totaling approximately $5,100.

Table B-1: Benefits for Beneficiaries Concealing SEI

Beneficiary Number	Benefits Paid		Benefits Inappropriately Paid		Future Benefits	
	Beneficiary	Auxiliary	Beneficiary	Auxiliary	Beneficiary	Auxiliary
1	$100,372	$49,747	$100,372	$49,747	$10,164	$5,088
2	$79,326	$0	$65,408	$0	$20,350	$0
3	$181,994	$27,236	$181,994	$27,236	$13,286	$0
4	$75,231	$34,551	$0	$0	$0	$0
5	$59,091	$29,528	$0	$0	$0	$0
Total	**$496,014**	**$141,062**	**$347,774**	**$76,983**	**$43,800**	**$5,088**

Appendix C – AGENCY COMMENTS

SOCIAL SECURITY

MEMORANDUM

Date: December 21, 2012 Refer To: S1J-3

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

From: Dean S. Landis /s/
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, "Individuals Hiding Self-Employment Income to Receive Disability Insurance Benefits" (A-07-12-11268)—INFORMATION

Thank you for the opportunity to review the draft report. We have no comments at this time. Please let me know if we can be of further assistance. You may direct staff inquiries to Amy Thompson at (410) 966-0569.

Attachment

Appendix D– MAJOR CONTRIBUTORS

Mark Bailey, Director, Kansas City Audit Division

Shannon Agee, Audit Manager

Nick Moore, Auditor

Kenneth Bennett, Audit Data Specialist

Charles Zaepfel, IT Specialist

Brennan Kraje, Statistician

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