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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**UNDERPAYMENTS PAYABLE  
ON BEHALF OF TERMINATED  
TITLE II BENEFICIARIES**

**June 2008**

**A-09-07-17160**

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**AUDIT REPORT**

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## **Mission**

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

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- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
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# SOCIAL SECURITY

## MEMORANDUM

Date: June 9, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Underpayments Payable on Behalf of Terminated Title II Beneficiaries (A-09-07-17160)

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) had taken appropriate actions to pay underpayments on behalf of terminated beneficiaries.

## BACKGROUND

A Title II underpayment is any monthly benefit amount due an entitled beneficiary that has not been paid. Underpayments usually result from (1) unpaid, accrued benefits for which no payment has been made or (2) unnegotiated checks representing correct payment to a deceased beneficiary.<sup>1</sup>

According to SSA policy, an underpayment due a living beneficiary will be paid to the beneficiary or representative payee. For terminated beneficiaries, the underpayment should be issued to the beneficiary's or representative payee's last address on record.<sup>2</sup> An underpayment due a deceased beneficiary is paid to the surviving spouse, surviving children, other family members, or legal representative of the estate.<sup>3</sup> Any underpayment not paid should be recorded on the Master Beneficiary Record (MBR).<sup>4</sup>

Underpayments may occur from a retroactive increase in benefits or the return of unnegotiated checks. SSA's automated system generates an alert when underpayments are identified for terminated beneficiaries. For example, the Automatic Earnings Reappraisal Operation recalculates benefits and generates an alert when an

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<sup>1</sup> SSA, Program Operations Manual System (POMS), GN 02301.001.

<sup>2</sup> SSA, POMS, GN 02301.020.2.

<sup>3</sup> SSA, POMS, GN 02301.030.A.

<sup>4</sup> SSA, POMS, GN 02301.060.B.2.

action for a deceased beneficiary results in an underpayment.<sup>5</sup> The Returned Check Action Program generates an alert when a check has been returned for underpayments that may be due terminated beneficiaries.<sup>6</sup> SSA employees must take appropriate manual actions to process these alerts to pay the underpayment.

We identified a population of about 682,000 beneficiaries who were terminated between January 1984 and September 2006 with underpayments of \$100 or more on the MBR. These underpayments totaled \$826 million. Of these, approximately 86,000 living beneficiaries (that is, individuals who previously received benefits and were still alive) had underpayments totaling \$123 million, and 596,000 deceased beneficiaries had underpayments totaling \$703 million (see Appendix A).

## RESULTS OF REVIEW

We found that SSA needed to improve its controls and procedures to ensure underpayments were appropriately paid on behalf of terminated beneficiaries. Based on a random sample of 300 underpayments, we determined that SSA needed to take corrective actions to (1) pay \$177,184 in underpayments payable to 180 eligible beneficiaries and individuals and (2) remove \$44,214 in erroneous underpayments from the MBR for 49 terminated beneficiaries. As a result, we estimate there are

- \$358.7 million in underpayments payable to 391,844 eligible beneficiaries and individuals, and
- \$86.7 million in erroneous underpayments on the MBR for 109,712 terminated beneficiaries (see Appendix B).

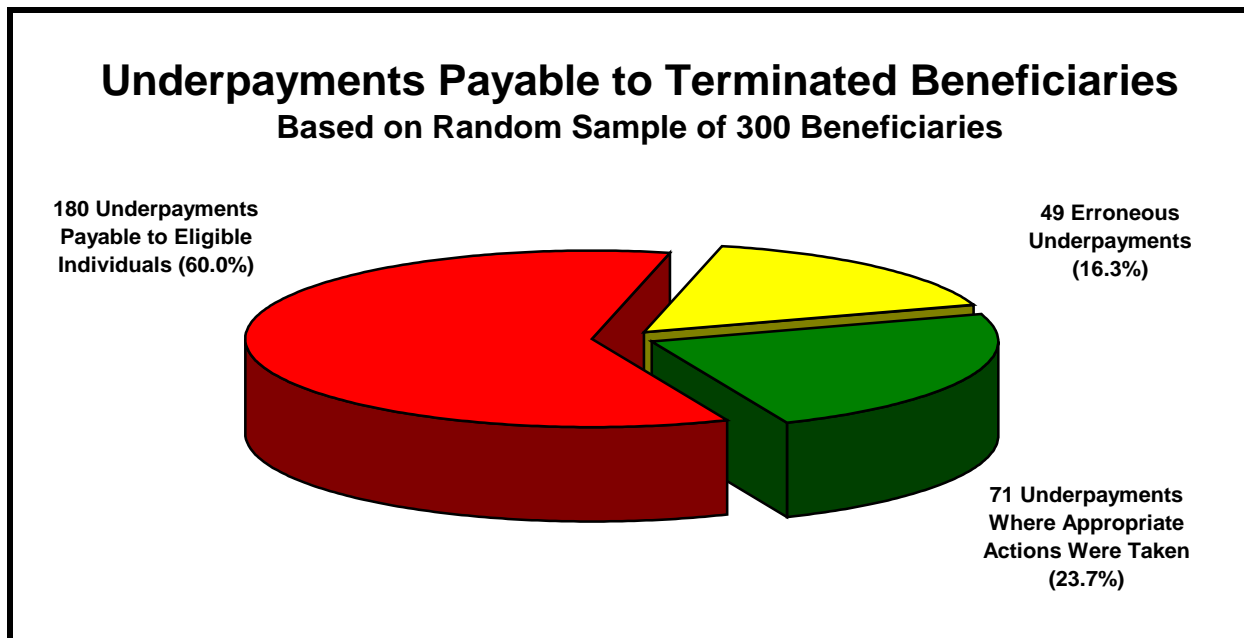
These payment errors occurred because SSA did not always locate beneficiaries or eligible individuals, properly process underpayment alerts, retain documentation of corrective actions taken, pay underpayments when updated information became available, and ensure underpayments were valid before posting them to the MBR.

Specifically, we found that SSA did not take appropriate actions on 229 (76.3 percent) of the 300 underpayments in our sample. This included 104 underpayments that were not paid to eligible beneficiaries, 76 underpayments with insufficient evidence of development, and 49 erroneous underpayments. SSA took appropriate actions on the remaining 71 underpayments. Our sample results are summarized below.

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<sup>5</sup> SSA, POMS, SM 04601.002 and SM 04605.070.

<sup>6</sup> SSA, POMS, SM 00624.005.



#### UNDERPAYMENTS PAYABLE

Our review disclosed that SSA did not pay \$177,184 in underpayments payable to 180 eligible beneficiaries or other individuals who were entitled to the payments. This consisted of

- \$109,464 in underpayments payable to 104 beneficiaries and
- \$67,720 in underpayments requiring SSA actions to locate eligible individuals for underpayments payable to 76 beneficiaries.

#### Underpayments Not Paid to Eligible Beneficiaries

We found that SSA did not pay underpayments to 104 beneficiaries who were identified on the MBR. This occurred, in part, because SSA had not (1) released underpayments to living beneficiaries and (2) notified surviving beneficiaries of underpayments due and payable on behalf of deceased beneficiaries. As a result, SSA should pay \$109,464 in underpayments to these beneficiaries.

[Living Beneficiaries](#) - SSA had not issued underpayments to 32 living beneficiaries (that is, individuals who were previously entitled to child, student, or disability benefits) in our sample. Adjustments to beneficiaries' payments that result in underpayments payable to terminated beneficiaries require separate manual actions to release the underpayments. However, we found that SSA staff did not always take the necessary action to release the underpayment. For the 32 underpayments, there was no evidence SSA had attempted to release the underpayment or notify the beneficiary. As a result, these beneficiaries did not receive \$50,787 in underpayments to which they were

entitled. SSA policy states that a living beneficiary does not need to request payment of an underpayment due. The payment shall be issued in the beneficiary's name to the last address on record.<sup>7</sup>

For example, a beneficiary was entitled to benefits for April 1986 through July 1998. In February 1999, SSA retroactively increased the monthly benefits that were payable to the beneficiary. As a result, the beneficiary was entitled to an additional \$1,789. However, SSA did not release the underpayment to the beneficiary at the last address on record.

[Deceased Beneficiaries](#) - SSA did not pay underpayments for 72 deceased beneficiaries in our sample. Of these, 58 beneficiaries had a survivor beneficiary in current pay status on the MBR, and 14 beneficiaries had a survivor beneficiary in non-pay (that is, suspended or terminated) status. We reviewed case folders and electronic documentation to determine whether SSA had attempted to contact the surviving beneficiaries. We found that SSA did not notify the survivors of the underpayments. As a result, the surviving beneficiaries were not aware of \$58,677 in underpayments to which they were entitled.

In addition, we found that SSA had disbursed lump-sum death payments for 38 of the 72 deceased beneficiaries, of which 9 were paid after the underpayment had been recorded on the MBR. As a result, SSA could have released \$6,796 in underpayments to these individuals.

According to SSA policy, any underpayments due deceased beneficiaries shall be paid in the following order of priority: (1) a spouse who was living with the beneficiary at the time of death or a spouse entitled on the same earnings record at the time of death, (2) a child entitled on the same earnings record, (3) a parent entitled on the same earnings record of the deceased person, (4) a spouse not entitled on the same earnings record, (5) a child not entitled on the same earnings record, (6) a parent not entitled on the same earnings record, and (7) a legal representative of the estate.<sup>8</sup> No formal, written request is required for payment of an underpayment if there is sufficient information to determine the identity and current address of all persons entitled to the underpayment.<sup>9</sup>

For example, a beneficiary entitled to retirement benefits died on May 15, 2000. A check for the previous month was returned and processed by SSA on May 19, 2000. Because the beneficiary was entitled to this check, an underpayment of \$1,173 was recorded on the MBR. On June 13, 2000, a lump-sum death payment was released to the beneficiary's spouse. In addition, the spouse applied for widow's benefits on the

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<sup>7</sup> SSA, POMS, GN 02301.020.2.

<sup>8</sup> SSA, POMS, GN 02301.030.

<sup>9</sup> SSA, POMS, GN 02301.050.

deceased beneficiary's account. However, SSA did not release the underpayment to the spouse. In September 2007, we referred this case to SSA for corrective action. As a result, SSA released the underpayment of \$1,173 to the spouse in October 2007.

In September 2007, we referred all 58 underpayments due deceased beneficiaries with a survivor beneficiary in current pay status to SSA for corrective action. We requested that SSA determine the validity of the underpayment, locate any prior development, and release the underpayment to the survivor, if necessary. As of January 2008, SSA had taken action to pay 39 underpayments totaling \$28,889.

### **Underpayments Need SSA Action to Locate Eligible Individuals**

We found that SSA did not develop or retain sufficient evidence of development for 76 beneficiaries to locate individuals who may have been due underpayments. This occurred, in part, because SSA had not (1) located better addresses for underpayment checks that were returned to SSA and (2) notified eligible individuals in its payment records of underpayments due and payable. As a result, SSA should pay \$67,720 in underpayments to these beneficiaries.

[Living Beneficiaries](#) - SSA needs to locate 34 living beneficiaries (that is, individuals who were previously entitled to child or student benefits) in our sample. We reviewed the case folders and electronic documentation to determine whether SSA had properly developed these cases to obtain a better address for the beneficiaries. However, we could not locate sufficient evidence of development for 30 underpayments that were returned for address. Although SSA initially developed the remaining four underpayments, additional actions should have been taken to locate eligible individuals. As a result, these individuals did not receive \$28,633 in underpayments to which they were entitled.

SSA policy states that an underpayment check returned for address should be developed for a better address. If a better address cannot be located, the underpayment will be posted on the beneficiary's record. No further action will be taken unless a request for payment is received.<sup>10</sup>

In addition, we found that SSA had issued a replacement Social Security card to 18 of the 34 beneficiaries after the underpayment was established. When individuals apply for a replacement Social Security card, they are required to provide evidence of identity and a correct, complete address.<sup>11</sup> As a result, SSA should have released \$23,280 in underpayments to these individuals.

For example, a child beneficiary was entitled to benefits until December 1991. Because of an earnings recalculation, SSA adjusted the monthly benefits in August 2005. As a

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<sup>10</sup> SSA, POMS, GN 02301.020.3.

<sup>11</sup> SSA, POMS, RM 00202.110 and RM 00203.200.

result of the adjustment, SSA released a check for \$522 because the child beneficiary had been entitled to higher benefits. On September 8, 2005, the check was returned for address and posted on the MBR as an underpayment due the beneficiary. The beneficiary subsequently applied for and received a replacement Social Security card in August 2006. Although the individual provided SSA with a mailing address for the Social Security card, SSA did not release the underpayment to the beneficiary.

[Deceased Beneficiaries](#) - SSA needs to identify individuals who may be entitled to 42 underpayments due deceased beneficiaries. We reviewed case folders and electronic documentation and could not locate sufficient evidence that development occurred to locate potential recipients of the underpayment. As a result, eligible individuals may not be aware of \$39,087 in underpayments due them.

SSA policy states that field offices must determine the order of priority for potential recipients eligible to receive underpayments. SSA may use direct contact to develop a potential recipient and review the claims folder for leads to possible contacts. The minimum development required to locate potential recipients is to send a letter to the last address of record of all known individuals in the highest order of priority.<sup>12</sup> For the 42 underpayments, there was no evidence that SSA had sent the required letters.

## **UNDERPAYMENTS NOT PAYABLE**

Our review disclosed that SSA should have removed \$44,214 in underpayments for 49 terminated beneficiaries from the MBR. This consisted of

- \$24,767 in underpayments that were improperly established for 36 beneficiaries and
- \$19,447 in underpayments that were previously paid to 13 beneficiaries.

### **Underpayments Improperly Established**

We found that SSA improperly established underpayments for 36 beneficiaries in our sample. According to the MBR, a total of \$24,767 in underpayments was owed to these individuals. However, we found no evidence to validate the underpayments. These underpayments should be removed to minimize the risk of improperly releasing the payments to the beneficiaries or other individuals.

For example, a beneficiary entitled to retirement benefits died on July 6, 2003. On August 1, 2003, SSA released the benefit check of \$468 for the month of death. Title II beneficiaries are not entitled to checks issued for the month of death or thereafter.<sup>13</sup> On August 6, 2003, the check was returned to SSA and improperly recorded on the MBR as an underpayment of \$468.

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<sup>12</sup> SSA, POMS, GN 02301.060.

<sup>13</sup> SSA, POMS, GN 02408.610.



## **Underpayments Paid But Not Removed**

We found that SSA paid, but did not remove, underpayments for 13 beneficiaries in our sample. SSA had paid \$19,447 in underpayments owed to these individuals. However, SSA did not remove the underpayments from the MBR after it made the payment. Such actions are necessary to minimize the risk of improperly releasing the payments to the beneficiaries or other individuals.

For example, a beneficiary entitled to retirement benefits died in May 1999. In November 2000, SSA reviewed the claim and determined the beneficiary was entitled to higher benefits. Because the beneficiary was deceased, SSA did not issue a check and recorded the underpayment on the MBR. In March 2002, the beneficiary's spouse applied for the underpayment. SSA subsequently released the underpayment to the spouse but did not remove it from the MBR. We referred this case to SSA for corrective action. In January 2008, SSA removed the underpayment from the MBR.

## **CONCLUSION AND RECOMMENDATIONS**

SSA needs to improve its controls and procedures to ensure underpayments are appropriately paid on behalf of terminated beneficiaries. We found that SSA did not take appropriate actions on 229 (76.3 percent) of the 300 underpayments in our sample. This included 104 underpayments that were not paid to eligible beneficiaries, 76 underpayments with insufficient evidence of development, and 49 erroneous underpayments. SSA took appropriate actions on the remaining 71 underpayments.

As a result, we estimate that SSA needs to (1) pay \$358.7 million in underpayments payable to 391,844 eligible beneficiaries and individuals and (2) remove \$86.7 million in erroneous underpayments on the MBR for 109,712 terminated beneficiaries (see Appendix B). These payment errors occurred because SSA did not always locate beneficiaries or eligible individuals, manually process underpayment alerts, retain documentation of corrective actions taken, review its records for prior underpayments, and ensure underpayments were valid before posting them to the MBR.

We recommend that SSA:

1. Pay underpayments to eligible beneficiaries and individuals identified by our audit.
2. Identify and take corrective action on the population of underpayments payable to eligible beneficiaries and other individuals.
3. Ensure employees retain sufficient evidence of developmental attempts to locate eligible beneficiaries and individuals who may be entitled to underpayments.

4. Revise its underpayment procedures to instruct employees to review SSA's records that may contain recent or better address information for eligible beneficiaries and individuals. For example, use address information for individuals who recently received a replacement Social Security card.
5. Remove improperly established underpayments from the MBR for the beneficiaries identified by our audit.
6. Improve controls to ensure underpayments are paid to eligible beneficiaries and individuals or are removed from the MBR, if appropriate. For example, develop periodic follow-up alerts to identify unpaid underpayments.

## **AGENCY COMMENTS**

SSA agreed with Recommendations 1 through 3 and 5. For Recommendation 6, SSA agreed to improve controls by issuing a reminder to staff rather than developing periodic follow-up alerts. For Recommendation 4, SSA disagreed to revise its underpayment procedures because of budgetary constraints and the legal sufficiency of its efforts to obtain valid addresses to locate individuals. See Appendix C for the full text of SSA's comments.

## **OIG RESPONSE**

We encourage SSA to pay underpayments to eligible beneficiaries and individuals by reviewing its records for recent or better address information. Since individuals must provide a current address to request a replacement Social Security card, we believe SSA should use this information to pay underpayments at the same time. Had SSA reviewed the MBR for the 18 beneficiaries who received a replacement Social Security card in our sample, it could have released \$23,280 in underpayments to these individuals.



Patrick P. O'Carroll, Jr.

# *Appendices*

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APPENDIX A – Scope and Methodology

APPENDIX B – Sampling Methodology and Results

APPENDIX C – Agency Comments

APPENDIX D – OIG Contacts and Staff Acknowledgments

# Scope and Methodology

We obtained a data extract from the Social Security Administration's (SSA) Master Beneficiary Record (MBR). From this extract, we identified a population of 682,600 beneficiaries with a date of suspension or termination after January 1984 and an underpayment over \$100. We selected a random sample of 300 underpayments from 3 strata (100 underpayments per stratum) consisting of (1) 85,964 living individuals, (2) 49,581 deceased beneficiaries with another beneficiary on the MBR in current pay status, and (3) 547,055 deceased beneficiaries without a beneficiary on the MBR in current pay status.

To accomplish our objective, we

- reviewed the applicable Federal laws, SSA's Program Operations Manual System, and other policy memorandums;
- interviewed SSA employees from the San Francisco Regional Office and the Offices of Finance, Public Service and Operations Support, and Income and Security Programs;
- reviewed queries from SSA's MBR, Supplemental Security Record, Payment History Update System, and Numident for each sample item;
- obtained and reviewed paper and electronic folders, including the Paperless System and Online Retrieval System, to determine the nature and extent of actions taken by SSA; and
- referred 58 underpayments due deceased beneficiaries with a survivor in current pay status to SSA's Headquarters for corrective action.

We determined the computer-processed data from MBR were sufficiently reliable for our intended use. Our work was conducted at the San Francisco Regional Office in Richmond, California, between July 2007 and January 2008. The entity reviewed was 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**

We obtained a data extract of underpayments over \$100 from the Social Security Administration's (SSA) Master Beneficiary Record (MBR) for beneficiaries with a date of suspension or termination between January 1984 and September 2006. From this extract, we identified the following three strata: living individuals, deceased beneficiaries with a survivor on the MBR in current pay status, and deceased beneficiaries without a survivor on the MBR in current pay status.

We identified a population of 682,600 beneficiaries with an underpayment on the MBR. We randomly selected 300 underpayments (100 from each strata) to determine whether SSA had taken appropriate actions to pay the underpayment on behalf of terminated beneficiaries.

Based on a random sample of 300 underpayments, we found that SSA did not pay \$177,184 in underpayments to 180 eligible beneficiaries or other individuals who were entitled to the payments. We also found that SSA should have removed \$44,214 in underpayments for 49 terminated beneficiaries from its payment records.

Projecting our results to our population of 682,600 beneficiaries, we estimate that SSA did not (1) pay \$358.7 million in underpayments to 391,844 eligible beneficiaries or other individuals and (2) remove \$86.7 million in underpayments to 109,712 terminated beneficiaries from its payment records. The following tables provide the details of our sample results and statistical projections.

**Table 1 – Underpayments Payable**

<b>Description</b>	<b>Number of Underpayments</b>	<b>Amount of Underpayments</b>
Sample Results	180	\$177,184
Point Estimate	391,844	\$358,661,394
Lower Limit	346,276	\$285,126,517
Upper Limit	437,412	\$432,196,271

**Table 2 – Underpayments Not Payable**

<b>Description</b>	<b>Number of Underpayments</b>	<b>Amount of Underpayments</b>
Sample Results	49	\$44,214
Point Estimate	109,712	\$86,675,959
Lower Limit	76,013	\$50,761,923
Upper Limit	143,410	\$122,589,995

All statistical projections are reported at the 90-percent confidence level.

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** May 20, 2008 **Refer To:** S1J-3

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

**From:** David V. Foster /s/  
Chief of Staff

**Subject:** Office of the Inspector General (OIG) Draft Report, "Underpayments Payable on Behalf of Terminated Title II Beneficiaries" (A-09-07-17160)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our response to the report findings and recommendations are attached.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment



**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "UNDERPAYMENTS PAYABLE ON BEHALF OF TERMINATED TITLE II BENEFICIARIES" (A-09-07-17160)**

Thank you for the opportunity to review and comment on the draft report. Our responses to the specific recommendations are provided below:

**Recommendation 1**

Pay underpayments to eligible beneficiaries and individuals identified by our audit.

Response

We agree. Our target completion date is September 30, 2008.

**Recommendation 2**

Identify and take corrective action on the population of underpayments payable to eligible beneficiaries and other individuals.

Response

We agree. However, this is a manual workload which cannot be automated, so implementation of this recommendation will be dependent on available resources.

**Recommendation 3**

Ensure employees retain sufficient evidence of developmental attempts to locate eligible beneficiaries and individuals who may be entitled to underpayments.

Response

We agree. We will issue a reminder to staff regarding proper documentation and correct procedural policies by the end of June 2008.

**Recommendation 4**

Revise its underpayment procedures to instruct employees to review records that may contain recent or better address information for eligible beneficiaries and individuals. For example, use address information for individuals who recently received a replacement Social Security card.

### Response

We disagree. The Office of the General Counsel has determined that the procedures we currently follow in an effort to obtain a valid address constitute a legally sufficient effort to locate the individual. In addition, our current procedures are almost identical to those that we successfully use in processing similar workloads. We believe that adding additional steps to the current process would be inappropriate in light of existing budgetary constraints.

### Recommendation 5

Remove improperly established underpayments from the Master Beneficiary Record (MBR) for the beneficiaries identified by our audit.

### Response

We agree. Our target completion date is September 30, 2008.

### Recommendation 6

Improve controls to ensure underpayments are paid to eligible beneficiaries and individuals or are removed from the MBR, if appropriate. For example, develop periodic follow-up alerts to identify unpaid underpayments.

### Response

We disagree with creating any additional follow-up alerts. An automated alert system is already in place. We believe that the reminder to staff regarding documentation and required procedural actions will improve the Agency's accuracy in processing this workload.

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

James J. Klein, Director, San Francisco Audit Division, (510) 970-1739

Jack H. Trudel, Audit Manager, (510) 970-1733

### ***Acknowledgments***

In addition to those named above:

Wilfred P.K. Wong, Senior Auditor

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-09-07-17160.

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