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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**THE SOCIAL SECURITY  
ADMINISTRATION'S UNPROCESSED  
ANNUAL EARNINGS  
ENFORCEMENT SELECTIONS**

August 2009

A-09-08-18047

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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.

## 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.

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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 3, 2009

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Unprocessed Annual Earnings Enforcement Selections (A-09-08-18047)

## OBJECTIVE

Our objectives were to (1) assess the Social Security Administration's (SSA) progress in resolving approximately 2.5 million Earnings Enforcement selections and (2) quantify the amount of improper payments for the affected beneficiaries.

## BACKGROUND

Social Security benefits are intended to replace, in part, earnings an individual or family loses because of retirement, disability, or death. However, in some cases, retired beneficiaries may continue to work while receiving Social Security benefits. In those instances, Title II of the *Social Security Act* (Act) requires that SSA use an Annual Earnings Test (AET) to measure the extent of beneficiaries' retirement and determine the amount, if any, to be deducted from their monthly benefits. The Act provides for a two-tier earnings test: one for beneficiaries under full retirement age and another for beneficiaries in the year they attain full retirement age.<sup>1</sup>

Beneficiaries whose total annual earnings are equal to or less than the annual exempt amount will receive full benefits for the year. Beneficiaries who are younger than full retirement age and earn an amount in wages, self-employment income, or both over the annual exempt amount receive reduced benefits.<sup>2</sup> The annual exempt amount for

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<sup>1</sup> *Social Security Act* §§ 203(b), 203(f), and 203(h), 42 U.S.C. §§ 403(b), 403(f), and 403(h).

<sup>2</sup> SSA, Program Operations Manual System (POMS), RS 02501.021 B.1.

beneficiaries under full retirement age was \$12,000 in 2005.<sup>3</sup> Generally, for every \$2 beneficiaries earn over the annual exempt amount, SSA is required to deduct \$1 in benefits.<sup>4</sup>

To ensure compliance with the AET provisions, SSA compares beneficiaries' reported earnings that are recorded on SSA's Master Beneficiary Record (MBR)<sup>5</sup> with earnings that were reported by employers that are recorded on SSA's Master Earnings File (MEF).<sup>6</sup> This process, called the Earnings Enforcement Operation (EEO), is designed to detect over- or underpayments that may have occurred during the year.

Our 2007 audit<sup>7</sup> of the AET disclosed SSA had not adjusted the benefit payments of all beneficiaries who were identified by the EEO. As a result, SSA overpaid about \$313 million to 89,300 beneficiaries and underpaid about \$35 million to 12,800 beneficiaries for Calendar Years (CY) 2002 through 2004. In addition, we found SSA had not processed approximately 2.1 million of the 2.5 million Earnings Enforcement selections for CYs 1996 through 2005. We made several recommendations to improve the EEO, including that SSA review and process, as appropriate, all Earnings Enforcement selections pending since 1996.

## RESULTS OF REVIEW

SSA had not made significant progress to resolve the 2.5 million Earnings Enforcement selections. Of the approximately 2.1 million Earnings Enforcement selections that were pending at the time of our prior audit, we found SSA had only processed about 337,500 (16.1 percent). In addition, our review disclosed there was a substantial number of improper payments in the backlog for the affected beneficiaries.

Based on a random sample of 275 beneficiaries, we estimate SSA

- overpaid about \$956 million to 616,459 beneficiaries and
- underpaid about \$245 million to 181,312 beneficiaries (see Appendix C).

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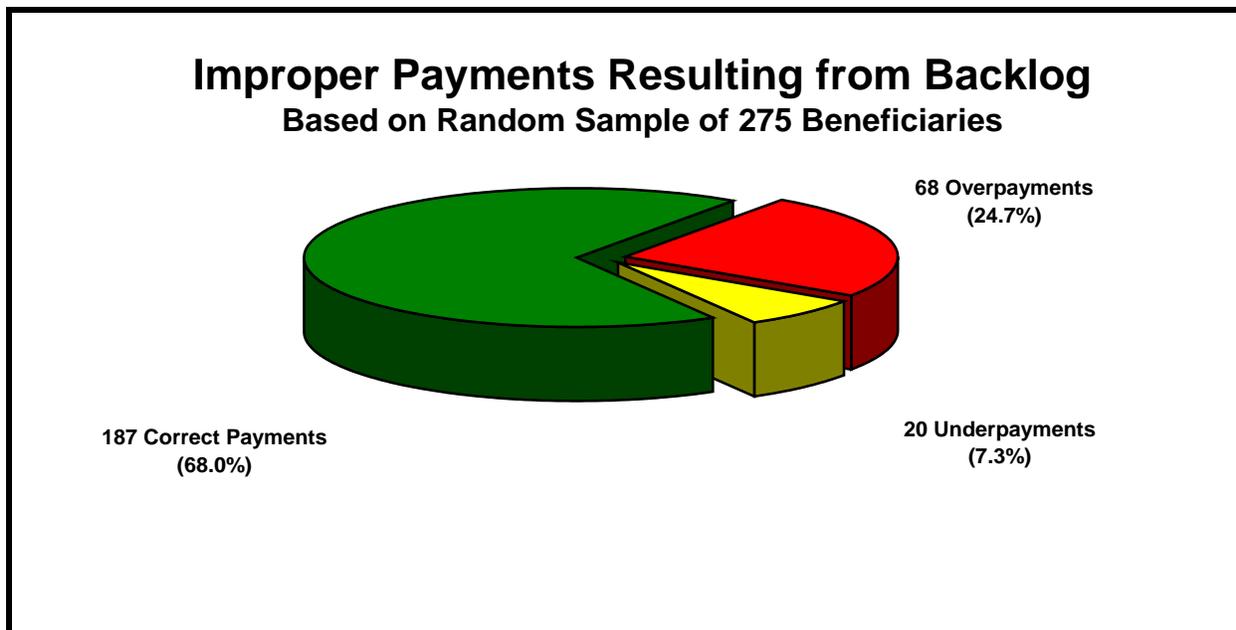
<sup>3</sup> SSA, POMS, RS 02501.025 D.

<sup>4</sup> SSA, POMS, RS 02501.025 D and RS 02501.080 A.1.

<sup>5</sup> The MBR contains identifying information for each beneficiary, including entitlement data, benefit payment history, and earnings reported by the beneficiary.

<sup>6</sup> The MEF contains earnings for all workers. SSA posts earnings to the MEF based on information obtained from employers and the Internal Revenue Service (for self-employed individuals).

<sup>7</sup> SSA/OIG, *Improper Payments Resulting from the Annual Earnings Test* (A-09-07-17066), August 31, 2007.



#### Records Identified by EEO Not Processed

The AET process involves two automated steps after the beneficiaries who are subject to enforcement are identified. First, the EEO program determines the amount of earnings that are used for the AET (called enforceable earnings). The records are then screened to ensure they meet the AET criteria for processing. For example, the EEO program determines whether the enforceable earnings are greater than the annual exempt amount and different from the amount recorded on the MBR. Second, if the records meet the EEO screening criteria, the records are processed through SSA's Automated Job Stream (AJS-3) program. The AJS-3 makes necessary changes to the beneficiary records, which includes establishing over- or underpayments. In addition, AJS-3 sends notices to the beneficiaries to inform them of the actions taken. Any EEO selections not processed by AJS-3 require review and manual processing. For example, SSA may need to verify questionable earnings by contacting employers.

After the Office of Systems identified the records subject to enforcement, we found the Office of Quality Performance (OQP) removed about 37 percent of the selected records from the process during CYs 1996 through 2005. The remaining records were returned to the Office of Systems and processed, as required by SSA policy. According to OQP, it removed these records to identify ways of automating the processing of EEO selections that would otherwise require manual intervention. OQP also stated it removed EEO selections that were susceptible to error (for example, wages earned before an individual's entitlement to benefits) if they were automatically processed by AJS-3.

Our 2007 audit disclosed that of the 2.5 million beneficiary records OQP removed for CYs 1996 through 2005, it had only processed 425,354 records as of May 2007.<sup>8</sup> Therefore, 2.1 million beneficiary records subject to the AET were not processed. The following table summarizes the number of beneficiary records OQP removed from the EEO and the number of beneficiary records still pending for CYs 1996 through 2005.

<b>CY</b>	<b>Number Removed by OQP</b>	<b>Number Pending as of May 2007</b>	<b>Number Pending as of February 2009</b>
1996	206,873	143,641	143,641
1997	239,618	148,427	148,427
1998	281,525	168,674	168,674
1999	319,523	248,776	248,776
2000	369,767	344,561	344,561
2001	225,922	211,463	211,463
2002	212,014	198,577	198,577
2003	227,764	209,957	209,957
2004	202,478	190,100	0
2005	207,550	203,504	56,105
<b>Total</b>	<b>2,493,034</b>	<b>2,067,680</b>	<b>1,730,181</b>

As a result of our 2007 audit, in March 2007, OQP established a workgroup to evaluate options for addressing the backlog and improving the EEO. The workgroup consisted of SSA employees from the Offices of Operations, Systems, and Policy. The workgroup's actions have resulted in a reduction in the backlog and modifications to the current EEO. Specifically, OQP reported it processed all the 2004 records and 151,445 of the records for CY 2005. However, OQP had not developed a plan for processing the remaining backlog of 1.7 million records for CYs 1996 through 2003. SSA is concerned these backlogged cases could not be automated and would require manual processing. Beginning in CY 2006, SSA reduced the number of EEO selections that require OQP review and increased the number of records that could be automatically processed by AJS-3. Finally, OQP provided information that showed a 37-percent reduction in the number of records it removed from the EEO in CY 2006 as compared to CY 2005.

### **Unprocessed OQP Backlog Resulted in Improper Payments**

Our audit determined there was a substantial number of improper payments in the backlog of EEO selections for the affected beneficiaries. Specifically, we found SSA improperly paid 88 (32 percent) of the 275 beneficiaries in our sample: 68 were overpaid \$105,432, and 20 were underpaid \$26,996. Based on our sample results, we estimate SSA overpaid about \$956 million to 616,459 beneficiaries and underpaid about \$245 million to 181,312 beneficiaries (see Appendix C).

<sup>8</sup> Represents the date OQP provided its database of all beneficiary records removed from the EEO.

For example, one beneficiary in our sample was overpaid \$3,223 because her actual earnings of \$17,966 in 2003 exceeded the annual exempt amount of \$11,520. SSA had not previously reduced her benefits because her estimated earnings were less than the annual exempt amount. Another beneficiary in our sample was underpaid \$761 because she overestimated her 2001 earnings. SSA deducted \$761 of monthly benefits in 2001 because she had estimated total earnings of \$11,228, \$548 more than the annual exempt amount. However, her actual earnings for 2001 were less than the annual exempt amount. The following table summarizes the number and amount of improper payments in our sample.

<b>CY</b>	<b>Number of Overpayments</b>	<b>Amount of Overpayments</b>	<b>Number of Underpayments</b>	<b>Amount of Underpayments</b>
1996	1	\$ 424	2	\$ 442
1997	7	5,566	1	593
1998	3	5,695	3	663
1999	6	6,318	3	6,206
2000	11	10,688	2	702
2001	7	8,965	3	3,027
2002	8	6,959	0	0
2003	12	26,140	1	3,147
2004	6	19,302	3	5,678
2005	7	15,375	2	6,538
<b>Total</b>	<b>68</b>	<b>\$105,432</b>	<b>20</b>	<b>\$26,996</b>

We encourage SSA to develop a cost-effective plan to process the backlogged cases. We believe SSA should focus its efforts on underpayments, large overpayments, and beneficiaries in current pay status. For example, in our sample of 275 beneficiaries, we found 21 were deceased and 59 were in terminated pay status for reasons other than death. As a result, it may be more cost-effective for SSA to initially process overpayments for individuals who are currently receiving benefits since collection is more likely.

## **CONCLUSIONS AND RECOMMENDATION**

We found SSA had not made significant progress to resolve the backlog of about 2.5 million beneficiary records that were subject to the AET. Based on our sample results, we estimate SSA overpaid about \$956 million to 616,459 beneficiaries and underpaid about \$245 million to 181,312 beneficiaries. These payment errors occurred because SSA did not process all beneficiary records identified by the EEO.

We are encouraged that SSA has taken steps to reduce the backlog and improve the EEO. OQP staff stated they had processed all the Earnings Enforcement selections in the backlog for CY 2004 and about 73 percent of the selections for CY 2005. OQP also provided information that showed a 37-percent reduction in the number of records it removed from the EEO in CY 2006 as compared to CY 2005. However, OQP has not presented a plan on how to resolve the beneficiary records pending for CYs 1996 through 2003. These unprocessed records represent about 67 percent of the total records OQP removed from the EEO for CYs 1996 through 2005.

We recommend that SSA develop a cost-effective plan to process, as appropriate, the backlogged Earnings Enforcement selections for CYs 1996 through 2003.

## **AGENCY COMMENTS**

SSA agreed with our recommendation. The Agency's comments are included in Appendix D.



Patrick P. O'Carroll, Jr.

# *Appendices*

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APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Sampling Methodology and Results

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

## Acronyms

Act	<i>Social Security Act</i>
AET	Annual Earnings Test
AJS	Automated Job Stream
CY	Calendar Year
EEO	Earnings Enforcement Operation
MBR	Master Beneficiary Record
MEF	Master Earnings File
OIG	Office of the Inspector General
OQP	Office of Quality Performance
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

### Scope and Methodology

Our audit covered beneficiaries identified by the Earnings Enforcement Operation (EEO) for the period January 1, 1996 to December 31, 2005. To accomplish our objectives, we

- reviewed the applicable sections of the *Social Security Act* and the Social Security Administration's (SSA) Program Operations Manual System;
- interviewed staff from SSA's Office of Quality Performance (OQP);
- selected a random sample of 275 beneficiary records from the 2,493,034 records OQP removed from the EEO for Calendar Years (CY) 1996 through 2005;
- reviewed queries from SSA's Master Beneficiary Record, Master Earnings File, and Payment History Update System to determine whether the Agency properly adjusted benefits based on actual earnings;
- referred 165 beneficiary records to OQP to determine the amount of any over- or underpayments to the affected beneficiaries; and
- reviewed the decisions OQP made on 165 beneficiary records in our sample.

OQP provided the total number of beneficiary records removed from the EEO for CYs 1996 through 2005. We determined these computer-processed data were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed audit work in Richmond, California, from September 2008 through March 2009. The entity audited was OQP under the Deputy Commissioner for Quality Performance.

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 database from the Social Security Administration's (SSA) Office of Quality Performance (OQP) of all beneficiary records it had removed from the Earnings Enforcement Operation as of May 2007. From this database, we extracted all beneficiary records that OQP removed for Calendar Years (CY) 1996 through 2005. We also screened the database to eliminate any records that were selected more than once for each year. This resulted in a population of 2,493,034 beneficiary records.

From the population of 2,493,034 records, we randomly selected a sample of 275 beneficiaries for review. For each beneficiary, we determined whether SSA had properly adjusted benefits based on actual earnings. In addition, OQP reviewed 165 of the beneficiaries to determine the amount of any over- or underpayment that should have been established.

Of the 275 beneficiaries in our sample, we found SSA overpaid \$105,432 to 68 beneficiaries and underpaid \$26,996 to 20 beneficiaries for CYs 1996 through 2005. Projecting these results to the population of 2,493,034 beneficiaries, we estimate SSA overpaid about \$956 million to 616,459 beneficiaries and underpaid about \$245 million to 181,312 beneficiaries.<sup>1</sup> The following tables provide the details of our sample results and statistical projections.

Table 1: Population and Sample Size	Number
Population Size	2,493,034
Sample Size	275

Table 2: Overpayments	Number	Amount
Sample Results	68	\$105,432
Point Estimate	616,459	\$955,802,039
Projection - Lower Limit	510,709	\$702,482,021
Projection - Upper Limit	732,478	\$1,209,122,057

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

Table 3: Underpayments	Number	Amount
Sample Results	20	\$26,996
Point Estimate	181,312	\$244,734,349
Projection - Lower Limit	121,454	\$121,909,955
Projection - Upper Limit	259,091	\$367,558,742

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

<sup>1</sup> The over- and underpayment amounts were reduced by any corresponding increase or decrease in the beneficiaries' monthly benefit amounts due to a change in the monthly reduction factor or delayed retirement credits.

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** June 22, 2009 **Refer To:** S1J-3

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

**From:** James A. Winn /s/ *Jo Tittel* for  
Chief of Staff

**Subject:** Office of the Inspector General (OIG) Draft Report, "The SSA's Unprocessed Annual Earnings Enforcement Selections" (A-09-08-18047)--INFORMATION

Thank you for the opportunity to review and comment on the draft report. We appreciate OIG's efforts in conducting this review. Attached is our response to the report findings and recommendation.

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

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "THE SSA'S UNPROCESSED ANNUAL EARNINGS ENFORCEMENT SELECTIONS" (A-09-08-18047)**

We reviewed the subject report. The report should fully explain the effects of the adjustment of the reduction factor and delayed retirement credits on monthly benefits. These adjustments influence the total dollar value of any overpayments or underpayments that result from the enforcement actions.

**Recommendation**

Develop a cost-effective plan to process, as appropriate, the backlogged Earnings Enforcement selections for calendar year's (CY) 1996 through 2003.

**Response**

We agree. We plan to keep current with future enforcement selections. Working the backlogged Earnings Enforcement selections for CY's 1996 through 2003 manually is cost-prohibitive. In addition, analysis has shown that even when manually processed, a large number of the backlogged cases will result in no change. Therefore, to the extent possible, we will automate the processing of these backlogged Earnings Enforcement selections.

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

James J. Klein, Director, San Francisco Audit Division

Jack H. Trudel, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Jim Sippel, 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 Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-09-08-18047.

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Social Security Advisory Board

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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.

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