
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**IMPLEMENTATION OF
WORKERS' COMPENSATION IN TITLE II
REDESIGN RELEASE 3**

June 2006

A-14-06-16049

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: June 15, 2006

Refer To:

To: The Commissioner

From: Inspector General

Subject: Implementation of Workers' Compensation in Title II Redesign Release 3
(A-14-06-16049)

OBJECTIVE

The objective of our review was to assess whether the changes to the Workers' Compensation portion of the Title II Initial Claim applications and the Post-Entitlement System made in the Title II Redesign Release 3 project worked as intended.

BACKGROUND

The Social Security Act (the Act) provides that when a Title II¹ disability insurance beneficiary under age 65 also receives public disability benefits, which includes Workers' Compensation, the disability insurance benefit may be reduced.² An offset for concurrent receipt of Workers' Compensation was contained in the original 1956 Social Security disability program, eliminated in 1958, and reinstated in 1965.³ The Act requires that disability benefits be reduced when the worker is also eligible for periodic or lump-sum Workers' Compensation payments, so that the combined amount of Workers' Compensation and Social Security disability benefits do not exceed 80 percent of the worker's average current earnings.⁴ The combined payments after the reduction, however, will never be less than the amount of Social Security disability benefits before the reduction.⁵

¹ Federal Old-Age, Survivors, and Disability Insurance Benefits.

² The Social Security Act § 224, 42 U.S.C. § 424a.

³ Reno, Virginia; Williams, Cecili Thompson; Sengupta, Ishita, "Workers' Compensation, Social Security Disability Insurance, and the Offset: A Fact Sheet," Social Security Bulletin, Vol. 65 No. 4, 2003/2004, (May 2005) p. 3.

⁴ 42 U.S.C. § 424a.

⁵ Id.

Previous audits performed by the Social Security Administration's (SSA) Office of the Inspector General (OIG) revealed problems and vulnerabilities in the calculation and management of Title II cases involving Workers' Compensation. The causes of the problems revealed were due to human errors, such as: (1) claims authorizers not properly verifying Workers' Compensation case information; (2) calculation errors; (3) beneficiaries not providing complete Workers' Compensation information to SSA; and (4) the need for more staff training. OIG recommendations were directed toward improving the process, such as: (1) strengthening internal controls; (2) increasing front-end reviews; (3) reducing back-logged Workers' Compensation cases; (4) automating manual processes; (5) verifying Workers' Compensation information to be input by claims authorizers; and (6) strengthening training.

Title II System Redesign

SSA implemented Title II Redesign Release 3 (Release 3) in June 2004 to improve the Title II Initial Claim applications and Post-Entitlement System processing, including Workers' Compensation. SSA's goal was to expand business automation, reduce manual tasks, improve the quality of the data stored on the master records, and reduce the number of exceptions to be worked by program service center (PSC) technicians. In Release 3, Workers' Compensation processes were streamlined to reduce manual actions and the Master Beneficiary Record (MBR) was expanded to include more Workers' Compensation information.

RESULTS OF REVIEW

Our review found that the system calculated offset amounts as intended. Additionally users were satisfied with a number of Workers' Compensation enhancements made in Release 3, such as:

- elimination of an additional step previously required to trigger Workers' Compensation transactions,
- widely accessible common screens,
- expanded information on the MBR,
- automation of some manual actions, and
- availability of more electronic documentation about the client.

However, our review found a significant number of exceptions were still produced that require manual processing by PSC staff, and users would like Workers' Compensation notices improved.

Redesigned System Calculated Offset Correctly

The Title II system accurately processed the Workers' Compensation transactions and computed the expected offset results for the scenarios we tested. We tested 61 Workers' Compensation transactions, consisting of 52 initial claims and 9 post-entitlement actions. Based on our analysis, the 61 scenarios we selected for testing represented the possible variations of Workers' Compensation transactions for which an offset amount is calculated in the Title II system. We tested transactions from November 2005 through February 2006.⁶ Our results consisted of 116 beneficiaries whose Title II benefit payments were totally offset, partially offset, or not offset, as shown in the table below. (For additional information about our scope, methodology and testing results, see Appendix B.)

Summary Table: Workers' Compensation Scenarios Tested				
Type of Action	Total Scenarios	Offset		Offset Not Computed Correctly
		Computed Correctly		
Initial Claims	52	Number holder	52	0
		Auxiliary	50	0
Post-entitlement Actions	9	Number holder	9	0
		Auxiliary	5	0
Total Scenarios	61	Number holder	61	0
		Auxiliary	55	0
		Total	116	0

Because of the accuracy of the systems-calculated offset amounts, SSA should continue to automate as many of the Workers' Compensation actions currently excluded from automated processing as is cost effective. An example of a case where the Workers' Compensation action must be processed manually is when a child auxiliary is simultaneously entitled on more than one record. The Workers' Compensation screens do not allow Agency staff to input the change in the maximum benefit payable. The modified maximum benefit payable data is required to ensure the offset amount is calculated correctly by the Title II system.

SSA staff we interviewed in PSCs, field offices, and headquarters stated they would like for the system to handle excluded cases because these cases are labor intensive and subject to errors. The President's 2007 budget includes a proposal to simplify the

⁶ Testing took place in the Agency's Title II validation environment.

Workers' Compensation offset computation. We think that, if enacted, implementation of this proposal should improve the Agency's use of administrative resources and reduce errors in Workers' Compensation transaction processing.

Significant Number of Exceptions Produced

PSC staff must manually process Workers' Compensation exceptions produced by the Title II system and there are a significant number of these exceptions. Based on Release 3 statistics, 44.1 percent of the input Workers' Compensation actions processed in 2004 ended in a system exception and 41.5 percent processed in 2005 ended in a system exception.⁷ Additional costs associated with manual processing result when system exceptions occur. One of the stated goals in the Project Scope Agreement for Release 3 was to reduce the number of exceptions to be worked by PSC technicians by 50 percent.

Exceptions usually result when the system detects something is inconsistent with either the existing or attempted entry of new data on the MBR. We understand from Agency staff that the complex nature of Workers' Compensation transactions causes more exceptions to occur than for most other types of Title II actions. The Agency should continue to enhance the Title II system to reduce the number of system exceptions generated.

Users Would Like to See Notices Enhanced

Users we interviewed identified Workers' Compensation notices as an area of the redesigned system that should be improved.⁸ A concern with Release 3 notices reported by the users was that incomplete Workers' Compensation information is provided to clients. Inadequate notices result in Agency staff spending additional workyears following up with clients to provide them with additional claims information.

After Release 3, the Agency formed a Title II collaborative workgroup to improve communication between components about notice issues and to avoid notice problems in the future. The workgroup developed recommendations to improve notices. For example, there was concurrence that an ongoing review of production notices was needed. Also, there was agreement by the workgroup that the means of tracking notice errors and deficiencies could be improved.

⁷ According to statistics obtained from SSA's Office of Retirement and Survivors Insurance Systems web site, in Calendar Year 2004 after the Title II Redesign, 32,158 out of 72,842 Workers' Compensation post-entitlement actions entered through the Interactive Computation Facility ended in a system exception. In Calendar Year 2005, 48,967 out of 117,921 transactions ended in a system exception. The number of manual Workers' Compensation actions processed directly through the Manual Adjustment Credit and Award Data Entry System by PSC staff is not included in these statistics.

⁸ A notice is a letter sent to a client to explain any decision made on the client's behalf. Notices are required for any appealable decision, including initial determinations and post-entitlement actions.

The Agency's Project Resource Guide for systems development lifecycle guidance requires the validation of software with user acceptance before implementation, which includes notices software. However, SSA staff we interviewed believe that they needed more time to adequately validate notices in Release 3. In their opinion, they did not have enough time to validate the more difficult cases, while time was available to validate the easier cases. According to Agency managers, notices are usually validated last after other systems changes are made and validated. Thus, when project deadlines are set and projects are behind schedule, sufficient time is not always available for validating notices. The limited time to validate notices resulted from moving Agency personnel working on Release 3 to implement systems required to administer the new Medicare legislation. As a result, numerous emergency fixes were released to the production environment to resolve some of the notice problems and some notice problems still remain.

The Agency should allow sufficient time to validate notices in future software releases to ensure they meet the users' requirements. Additionally, the Title II collaborative workgroup should continue to meet regularly and obtain feedback from operational users, taking necessary steps to address their concerns about system-generated notices.

CONCLUSION AND RECOMMENDATIONS

The Title II Redesign Release 3 software provided a number of enhancements to streamline the processing of Workers' Compensation claims by SSA staff. Release 3 accurately computed and processed the beneficiaries' offset amounts for each case we tested. However, a significant number of Workers' Compensation exceptions are still produced requiring action by PSC staff, and Workers' Compensation notices need improvement. To assist the Agency in achieving its strategic objective of improving service through technology and preventing improper payments, we recommend SSA:

1. Automate as many types of Workers' Compensation actions currently excluded from automated processing as SSA determines is cost effective.
2. Work to enhance the Title II system to reduce the number of exceptions generated for PSC action.
3. Obtain feedback from operational users and take necessary steps to address their continuing concerns about system-generated notices.
4. Ensure that cross-component coordination continues related to Title II notice issues and that problems are resolved timely as identified.
5. Allow adequate time to validate notices in future software releases to ensure they meet the users' requirements.

AGENCY COMMENTS

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope, Methodology and Test Results

APPENDIX C – Background

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

MBR	Master Beneficiary Record
OIG	Office of the Inspector General
PSC	Program Service Center
Release 3	Title II Redesign Release 3
SSA	Social Security Administration
The Act	Social Security Act

Scope, Methodology and Test Results

We conducted our review between November 2005 and February 2006 in Baltimore, Maryland. The principal entity audited was the Social Security Administration's (SSA) Office of Retirement and Survivors Insurance Systems under the Deputy Commissioner for Systems. We conducted our audit in accordance with generally accepted government auditing standards.

To meet our objective, we:

- reviewed applicable criteria;
- reviewed systems documentation;
- interviewed SSA staff involved in the software development effort, (Office of Systems, Office of Operations and Office of Disability and Income Security Programs);
- interviewed users from the Office of Operations, program service centers and field offices; and
- tested Title II Workers' Compensation scenarios in the Title II validation system environment.

To determine whether the changes to Workers' Compensation made with the Title II Redesign Release 3 (Release 3) project worked as intended, we tested the Title II System's calculation of Workers' Compensation offsets. We tested scenarios in SSA's systems validation region from November 2005 through February 2006. Specifically, we developed test scenarios in four categories: 1) claimants with dependents, 2) claimants without dependents, 3) claimants who received a lump-sum award with dependents, and 4) claimants who received a lump-sum award without dependents.

We tested a total of 61 scenarios, consisting of 52 initial claims and 9 post-entitlement actions. For initial claims processes, our results consisted of 102 beneficiaries whose Title II benefit payments were totally offset, partially offset, or not offset (see Table 1). For post-entitlement actions, our results consisted of 14 beneficiaries whose Title II benefit payments were totally offset, partially offset, or not offset (see Table 2). Based on our analysis, the 61 scenarios we selected for testing represented the possible variations of Workers' Compensation transactions for which an offset amount is calculated in the Title II system. Based on the scenarios, we independently calculated offset results, and compared the results to the computations made by the Title II System, noting any variances.

Table 1: Workers' Compensation Initial Claim Scenarios Tested				
Type of Action	Total Scenarios	Offset Computed Correctly		Offset Not Computed Correctly
Number Holders Receiving Periodic Payments With Auxiliaries	15	Number Holders	15	0
		Auxiliaries	30	0
Number Holders Receiving Periodic Payments Without Auxiliaries	16	Number Holders without auxiliaries	16	0
Number Holders Receiving Lump-Sum Payment With Auxiliaries	10	Number Holders	10	0
		Auxiliaries	20	0
Number Holders Receiving Lump-Sum Payment Without Auxiliaries	11	Number Holders without auxiliaries	11	0
Total Initial Claim	52	Number Holders	52	0
		Auxiliaries	50	0
		Total	102	0

Table 2: Workers' Compensation Post-Entitlement Scenarios Tested				
Type of Action	Total Scenarios	Offset Computed Correctly		Offset Not Computed Correctly
Periodic Payment Change	2	Number holder	2	0
Payment Ended	1	Number holder	1	0
Lump-Sum Payment Received	1	Number holder	1	0
Auxiliary Coming Off Record	1	Number holder	1	0
		Auxiliary	1	0
Additional Federal Payment Received	1	Number holder	1	0
Auxiliaries Added to Record – Lump-Sum	1	Number holder	1	0
		Auxiliary	2	0
Auxiliaries Added to Record – Periodic	1	Number holder	1	0
		Auxiliary	2	0
Payment Started	1	Number holder	1	0
Total Post-Entitlement	9	Number holder	9	0
		Auxiliary	5	0
		Total	14	0

The following versions of Title II software were tested:

- Modernized Claims System, Version ICR4.2
- Interactive Computation Facility, Version MMA2.2
- Master Beneficiary Record, Version 14.1
- Title II Rates, Version MMA2.2
- Workers' Compensation Data File, Version R1.

Background

Offset Provision and Lump-Sum Settlement Provision

A Social Security Bulletin article⁹ described the Workers' Compensation offset provision as follows:

The intent of the Workers' Compensation offset provision is to ensure that the combined benefits from Workers' Compensation and Social Security are not excessive. The offset of Disability Insurance benefits applies to disabled workers under the age of 65 and their families. Benefits for a workers' spouse or dependent children are offset before the offset is applied to the workers' benefit. Under the 1965 law, the Social Security disability benefit will not be reduced if the State Workers' Compensation law or plan provided for a reverse offset (a reduction of the Workers' Compensation benefit of a worker also receiving Disability Insurance).

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) ended the option for additional states to adopt reverse offsets. It also extended the Social Security disability offset to apply to certain public disability benefits paid by federal, state, or local governments. In particular, it applies to disability benefits that are earned in employment that is not covered by Social Security—for example, in jobs covered by the California Public Employees' Retirement System and not by Social Security. At the time of the 1981 legislation, 16 States and Puerto Rico had reverse offset statutes, which remain today.

When a Workers' Compensation law provides for periodic payments but permits a lump-sum settlement that discharges the liability of the insurer or the employer, the settlement is subject to the offset. In this case, the lump-sum is prorated to reflect the monthly rate that would have been paid had the lump-sum award not been made. Medical and legal expenses incurred by the worker in connection with Workers' Compensation may be excluded when computing the offset.

Title II Redesign Release 3 Enhancements to Workers' Compensation Processing

Before Release 3, user inputs made to the Workers' Compensation computation facility had to be processed in a post-entitlement on-line system to be adjudicated. Because of this, a technician had to go into the on-line system to adjudicate previously keyed Workers' Compensation actions and could possibly have missed taking this step.

⁹ Reno, Virginia; Williams, Cecili Thompson; Sengupta, Ishita, *Workers' Compensation, Social Security Disability Insurance, and the Offset: A Fact Sheet*, Social Security Bulletin, Vol. 65 No. 4, 2003/2004, (May 2005) p. 3.

Release 3 eliminated this step since adjudication of Workers' Compensation transactions can now take place using the Workers' Compensation computation facility.

Release 3 also included the implementation of an on-line operation that eliminated the need to create a paper form for use by program service center (PSC) staff to process complex Workers' Compensation actions manually. Instead, PSC staff can now access the on-line operation and use data previously keyed to develop the manual cases excluded from automated processing. An example of a case where the Workers' Compensation action must be processed manually in a PSC is when a child auxiliary is simultaneously entitled on more than one record.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: June 2, 2006 **Refer To:** S1J-3

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

From: Larry W. Dye /s/
Chief of Staff

Subject Office of the Inspector General (OIG) Draft Report, "Implementation of Workers' Compensation in Title II Redesign Release 3" (A-14-06-16049)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the draft report are attached.

Please let me know if you have any questions. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Comments

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “IMPLEMENTATION OF WORKER’S COMPENSATION IN TITLE II REDESIGN RELEASE 3 (A-14-06-16049)”

Thank you for the opportunity to review and provide comments on this OIG draft report. As noted in the draft report, the Social Security Administration (SSA) implemented Title II Redesign Release 3 (Release 3) in June 2004 to improve the Title II Initial Claim applications and Post-Entitlement System processing, including Workers’ Compensation (WC) case processing. Our goal continues to be to expand business automation, reduce manual tasks, improve the quality of the data stored on the master records, and reduce the number of exceptions to be worked by program service center (PSC) technicians. In Release 3, WC processes were streamlined to reduce manual actions and the Master Beneficiary Record (MBR) was expanded to include more WC information. We continue to explore cost-effective alternatives for enhancing automated processing of WC cases.

We believe most of the processing exceptions occurring in WC cases are not related to WC functionality that is not supported in the Title II system, but rather are primarily the result of other factors such as the involvement of dual entitlement, the fact that the action being taken involves more than the 4 years of retroactivity handled by the Title II system, or that the Master Beneficiary Record (MBR) for the transaction in question has errors on it that prevent automated processing. However, we agree we should continue work to increase the processing capabilities of the Title II system and reduce the number of manual transactions our operations components must perform.

Recommendation 1

Automate as many types of WC actions currently excluded from automated processing as SSA determines is cost effective.

Comment

We agree. Considerable progress has been made in reducing the number of WC processing exceptions with each new release to the Title II Redesign. We are also exploring the cost-effectiveness of further enhancing the Title II system to reduce the number of WC processing exceptions. As part of this effort, we are evaluating recommendations for enhancing the Interactive Computation system.

Recommendation 2

Work to enhance the Title II system to reduce the number of exceptions generated for PSC action.

Comment

We agree. See response to recommendation 1.

Recommendation 3

Obtain feedback from operational users and take necessary steps to address their continuing concerns about system-generated notices.

Comment

We agree with the need for obtaining input from operational users and continuing cross-component coordination to enhance our beneficiary notices. To promote this coordination, we are scheduling quarterly meetings of representatives from our operations, policy, and systems offices. Agenda items include topics such as the effect of legislation on notices, the notice clearance process, and outstanding notice issues. We believe such coordination will facilitate early recognition and resolution of notice issues.

Recommendation 4

Ensure that cross-component coordination continues related to Title II notice issues and that problems are resolved timely as identified.

Comment

We agree. See response to recommendation 3.

Recommendation 5

Allow adequate time to validate notices in future software releases to ensure they meet the users' requirements.

Comment

We agree. We will allow the appropriate amount of time to validate notices for future software releases.

[In addition to the comments above, SSA provided technical comments which have been addressed in this report.]

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kitt Winter, Director, Data Analysis and Technology Audits Division, (410) 965-9702

Al Darago, Audit Manager, Application Controls, (410) 965-9710

Acknowledgments

In addition to those named above:

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