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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**ACCURACY OF  
TITLE II DISABILITY INSURANCE BENEFITS  
PROCESSED WITH  
WORKERS' COMPENSATION SETTLEMENTS**

**August 2008**

**A-04-07-17059**

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**AUDIT REPORT**

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## SOCIAL SECURITY

### MEMORANDUM

Date: August 13, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Accuracy of Title II Disability Insurance Benefits Processed with Workers' Compensation Settlements (A-04-07-17059)

### OBJECTIVE

Our objective was to determine the payment accuracy of Title II Disability Insurance (DI) claims with offsets related to workers' compensation (WC) lump sum settlements. Specifically, our work focused on DI claims in which the WC benefits were annotated as "not proven" in Social Security Administration (SSA) systems.

### BACKGROUND

SSA administers the Old-Age, Survivors and Disability Insurance program under Title II of the *Social Security Act*, as amended (Act).<sup>1</sup> Section 223 of the Act requires that SSA provide monthly DI benefits to individuals who meet specific disability requirements.<sup>2</sup>

Workers injured on the job may qualify for DI benefits in addition to benefits under State and Federal WC programs.<sup>3</sup> In general, injured workers receive compensation for lost wages through State WC programs. Each State administers its own WC program. State WC agencies generally adjudicate claims and act as the depository for WC disability claim records. However, employers may purchase WC insurance from private insurance companies, receive it through a State insurance fund, or elect self-insurance.

When an injured worker qualifies for both State WC and Federal DI benefits, the combined benefits could result in workers receiving more in disability payments than they earned before they became disabled. To prevent this, Congress enacted the WC offset provision under section 224 of the Act, which requires that SSA reduce DI

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<sup>1</sup> 42 U.S.C. 401 and 423.

<sup>2</sup> 42 U.S.C. § 423.

<sup>3</sup> Program Operations Manual System (POMS), DI 00115.055 Workers' Compensation (WC).

benefits by the amount of any other disability benefit paid under any law or plan of the United States, a State, or a political subdivision.<sup>4</sup> In this instance, SSA reduces the DI benefit based on an offset calculation set forth in its policy and procedures.<sup>5</sup>

State WC benefits are paid via weekly, biweekly, or monthly payments and/or with lump sum settlements. A lump sum settlement is typically based on the remaining WC payments due the disabled worker.<sup>6</sup> To process a DI claim with a lump sum settlement, SSA must prorate the lump sum WC settlement based on facts presented in the settlement agreement.

The following DI claim example illustrates how SSA prorates a lump sum WC settlement and offsets the DI benefits. For example, an injured worker is awarded a lump sum settlement of \$130,000, including attorney fees and medical expenses totaling \$21,000. The worker's life expectancy is 396 months. SSA records indicate the individual (beneficiary) is eligible for a \$1,069 monthly DI benefit. Table 1 provides the steps in the proration of the lump sum settlement with the resulting WC offset.

**Table 1: Proration of a WC Lump sum Settlement with DI Offset**

<b>Steps to Prorate Lump Sum Settlement and Offset<sup>7</sup></b>	<b>Amount</b>
Gross Lump Sum Settlement Amount	\$130,000
Deduct Excludable Expenses—Attorney Fees and Medical Expenses	\$21,000
Net Lump Sum Amount—or Amount Paid to the Beneficiary	\$109,000
Computed Monthly WC Benefit—Net Lump Sum Amount Divided by Life Expectancy (\$109,000/396)	\$275
Monthly DI Benefit Before WC Offset	\$1,069
Deduct Computed Monthly WC Benefit	\$275
Monthly DI Benefit Payable—after WC offset	\$794

<sup>4</sup> 42 U.S.C. § 424a.

<sup>5</sup> POMS, DI 520: Workers' Compensation/Public Disability Benefit (WC/PDB) Offset.

<sup>6</sup> A lump sum settlement typically represents all the remaining WC payments due the disabled worker. The lump sum award must be prorated to determine the amount and length of time to offset the beneficiary's Title II DI benefits.

<sup>7</sup> The lump sum proration and WC offset calculation have been simplified for illustration purposes. Accordingly, the example should not be used as a guideline to calculate an individual's WC offset.

Our previous audits, which are detailed in Appendix B, revealed weaknesses in the payment calculations of Title II DI claims involving WC benefits. Generally we determined that most of the payment errors resulted from human error. For example, we noted that SSA personnel did not always verify the amount of WC payments made to the DI beneficiary by the State or insurance carrier. This information is essential in calculating the amount to be offset. Additionally, we noted that SSA personnel misinterpreted or incorrectly applied the amount of WC payments, including lump sum settlements, to the offset calculation. Based on the payment errors identified in previous audit work, we encouraged SSA to explore alternate methods for obtaining, standardizing and applying State WC information.

In June 2004, SSA implemented the Title II Redesign Release 3 (Redesign) to improve the automated processing of Title II initial claims applications and post-entitlement actions, both of which involve WC offset claims. The Redesign streamlined the WC offset process to reduce manual actions and expanded the Master Beneficiary Record (MBR)<sup>8</sup> to include details of the settlement. Specifically, the Redesign added a data field in which staff could record whether the lump sum settlement information was verified with the State, insurance carrier or court. MBRs established before the Redesign did not contain fields for specific information regarding lump sum settlements. As a result, redesigned MBRs were annotated with a “not proven” status in the WC verification field. The “not proven” status remains on the MBR until a claim requires an action and the lump sum settlement data are verified.

Because the Redesign assigned the “not proven” status to these WC claims, information was not available to indicate whether the WC information was properly verified—as required by SSA policies and procedures.<sup>9</sup> Generally, SSA policy states that if the claimant cannot provide proof of State WC benefits, verification should be obtained from the insurance carrier, a State WC agency, or the Courts.<sup>10</sup> WC verification can be in various forms such as a

- printout of benefits from an insurance carrier or State records,
- WC award notice,
- court order,
- copy of a benefits check, or
- a WC settlement agreement.<sup>11</sup>

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<sup>8</sup> SSA establishes an MBR for each DI claimant. The MBR maintains pertinent information needed to accurately pay benefits to the claimant and all entitled dependents. The information maintained includes identification data (name, Social Security number, date of birth, address), earnings history, type and date of disability, monthly DI benefit amounts, and the reason for terminating or suspending benefit payments. Thus, any change in a claimant's or dependent's situation must be reflected on the MBR to ensure its integrity and the accuracy of benefit payments.

<sup>9</sup> POMS, DI 52001.155.

<sup>10</sup> POMS, DI 52001.155. A.1. and B.

<sup>11</sup> POMS, DI 52001.155. A.3.

Because the MBR indicates the WC lump sum settlements were not verified in these cases, we were concerned that SSA staff may have calculated the WC offsets using incorrect information, which would lead to payment errors.

## **SCOPE AND METHODOLOGY**

For the period January 1, 1998 through May 5, 2006, we identified 30,250 Title II DI claims that SSA considered for a WC offset action and the WC lump sum settlement was coded “not proven” on the MBR. From this population, we randomly selected a sample of 250 cases for our review. To determine the accuracy of these 250 cases, we:

- reviewed WC lump sum settlement verification available in SSA’s records,
- obtained WC verification from States,
- verified WC benefits with the injured worker, and
- determined whether the verified WC data agreed with the WC rates recorded on the MBR.

If the verified WC lump sum data did not agree with the WC rates recorded on the MBR, we

- calculated the WC offset based on the proven WC benefits data, and
- compared the total benefits paid to the total benefits owed.

Further information regarding our scope and methodology as well as our sampling methodology and results is in Appendices C and D, respectively.

## **RESULTS OF REVIEW**

We commend SSA’s continued efforts to improve the payment accuracy of DI claims with a WC offset. Only 1 of the 250 sampled cases that had a “not proven” status assigned after the Redesign had a material payment error—a \$26,000 overpayment. Moreover, SSA recorded accurate WC lump sum settlement information on the MBR for 212 of the 250 (84.8 percent) cases. However, for the remaining 38 cases (15.2 percent), SSA recorded incorrect WC lump sum information on the MBR. For 37 of the 38 cases, the incorrect WC information did not cause a material payment error. Based on the 38 cases identified above, we estimate that approximately 4,600 cases have incorrect WC lump sum settlement data recorded on the MBR (see Appendix D).

Although a payment error did not occur in most of the cases with incorrect WC information in this sample, our prior audit work has shown that cases with incorrect WC data are at a greater risk of error. Given the high incidence of incorrect payment data and the propensity for these cases to have errors, we encourage SSA to continue pursuing efforts to mitigate the risk of incorrect WC information being input to the system—thereby, reducing the risk of related payment errors.

### **INCORRECT WORKERS' COMPENSATION DATA—NO PAYMENT ERROR**

SSA reported the incorrect WC lump sum settlement information on the MBR for 38 (15.2 percent) of our 250 sampled cases. However, payment errors did not occur in 37 of these cases. The primary reasons that payment errors did not occur were (1) the proration of the lump sum benefits ended before the DI benefits began and (2) the beneficiary had high average current earnings—in either situation a WC offset was not applicable. In several other cases, the WC information recorded on the MBR was not significantly different from the verified WC information, thus a material payment error did not occur. While payment errors did not occur for these 37 cases, we believe cases with incorrect WC information are at risk of having WC offset calculation errors that result in payment errors.

### **BENEFICIARY OVERPAID**

SSA overpaid one beneficiary \$26,000.<sup>12</sup> The payment error occurred because SSA (1) recorded and used the incorrect lump sum settlement information and (2) did not account for an annuity that was awarded as part of the settlement. Specifically, SSA used a higher settlement amount and fewer expenses (medical and attorney) to prorate the WC benefits for offset. The lump sum proration error alone would not have resulted in a WC offset because the beneficiary had high average current earnings. However, SSA did not recognize a 5-year annuity paid in monthly installments of \$1,114. Had SSA included the monthly annuity in the WC offset calculation, the beneficiary's DI benefits would have been offset. The combined WC offset calculation errors resulted in a \$26,000 overpayment. Table 2 compares the WC data recorded on the MBR to the verified lump sum settlement data.

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<sup>12</sup> Under separate cover, we asked SSA to review this case. We provided a detailed summary of the case along with supporting information and the case folder.

**Table 2: Comparison of MBR Data to Verified WC Data**

<b>Workers' Compensation Data</b>	<b>MBR Lump sum Data</b>	<b>Verified-Lump sum Data</b>
Lump sum Amount	\$50,000	\$65,000
Less: Medical and Attorney Expenses	\$12,500	\$50,000
Net: Lump sum Amount	\$37,500	\$15,000
Annuity Payment (monthly)	\$0	\$1,114

## **CONCLUSIONS AND RECOMMENDATIONS**

We acknowledge SSA's commitment to improving the payment accuracy of the DI claims with WC offset—one of the Agency's more complex workloads. The Redesign assigned a "not proven" status to the MBRs of DI claims involving certain WC lump sum settlements, thereby causing doubt as to whether the WC information was accurate. However, our review determined that only 1 of the 250 sampled cases had a material payment error—a \$26,000 overpayment. Further, the WC information was accurate for 212 of the 250 (84.8 percent) sampled DI claims. While we are encouraged that only 1 material payment error existed in the sampled cases, we remain concerned that 38 cases (15.2 percent) had incorrect WC information, which increases the risk of payment errors. As stated in our prior audits, we encourage SSA to continue to explore all possible avenues to improve the processing of DI claims with WC offsets. Accordingly, we recommend that SSA:

1. Collect the \$26,000 overpayment from the beneficiary whose DI benefits were improperly offset.

## **AGENCY COMMENTS AND OIG RESPONSE**

The Agency agreed with our recommendation. The full text of the Agency's comments is included in Appendix E.



Patrick P. O'Carroll, Jr.



# *Appendices*

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APPENDIX A – Acronyms

APPENDIX B – Prior Audit Reports

APPENDIX C – Scope and Methodology

APPENDIX D – Sampling Methodology and Results

APPENDIX E – Agency Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

## Acronyms

DI	Disability Insurance
MBR	Master Beneficiary Record
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code
WC	Workers' Compensation

**Prior Audit Reports**

<b>Social Security Administration, Office of the Inspector General                      Reports Related to Payment Accuracy in Disability Insurance Claims Involving                      Workers' Compensation Offsets</b>		
<b>Common                      Identification                      Number</b>	<b>Report Title</b>	<b>Date                      Issued</b>
A-04-98-62001	The Social Security Administration Incorrectly Paid Attorney Fees on Disability Income Cases When Workers' Compensation Payments Were Involved	March 2000
A-06-03-13022	The Social Security Administration's Workers' Compensation Data Match with the State of Texas	April 2003
A-08-02-12064	Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	June 2003
A-04-02-21054	Title II Disability Insurance Benefits with Workers' Compensation Underpayment Errors Exceeding \$70,000	July 2003
A-04-03-13042	The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset	October 2004
A-06-05-15024	The Social Security Administration's Match of Disability Insurance Records with Texas Workers' Compensation Payment Data	August 2005
A-08-05-25132	Follow-up of Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	September 2005
A-04-05-15042	Payments Resulting from Disability Insurance Actions Processed via the Social Security Administration's Manual Adjustment, Credit, and Award Processes	April 2006
A-14-06-16049	Implementation of Workers' Compensation in Title II Redesign Release 3	June 2006
A-04-05-15133	Title II Disability Insurance Benefits with a Workers' Compensation Offset	November 2006

### Scope and Methodology

We reviewed a random sample of 250 Disability Insurance (DI) claims from a population of 30,250 DI cases the Social Security Administration (SSA) considered for a workers' compensation (WC) offset action, and the WC lump sum settlement was coded "not proven" in the SSA records between January 1, 1998 and May 5, 2006.

To accomplish our audit objective, we:

- Interviewed SSA personnel regarding procedures to process DI/WC offset claims.
- Reviewed relevant laws and SSA's policies and procedures.
- Reviewed previous reports pertaining to DI claims with a WC offset.
- Queried SSA's Master Beneficiary Record; Payment History Update System; and Retirement, Survivors, and Disability Insurance Payment History and Worksheet.

For each of the 250 sampled cases, we:

- Obtained SSA's DI case folder and paperless file and reviewed all relevant documents related to the WC offset. When WC verification was not available, we obtained WC verification from the responsible State or verified the WC benefits with the injured worker.

For cases whose WC verification did not agree with the data recorded in SSA systems, we:

- Completed SSA's Interactive Comps Facility screen to calculate the WC offset and resulting DI benefits.
- Prepared an SSA Form 2204 to compare the total benefits paid to the total benefits owed.

The SSA entities reviewed were the Offices of Income Security Programs and Disability Programs under the Deputy Commissioner for Retirement and Disability Policy. The electronic data used for this audit were sufficiently reliable to meet our audit objectives. Our tests of internal controls were limited to gaining an understanding of the laws, regulations and policies that govern the processing of DI claims with a WC offset and performing the audit steps identified above. We conducted our audit from January 2007 to February 2008 in Atlanta, Georgia, and Baltimore, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on 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

### Sampling Methodology

We reviewed a random sample of 250 Disability Insurance (DI) claims for which the Social Security Administration (SSA) considered a workers' compensation (WC) offset action, and the WC lump sum settlement was coded "not proven" on the Master Beneficiary Record (MBR). We selected our sample from a universe of 30,250 Title II DI cases with a "not proven" status that met our selection criteria during the period January 1, 1998 through May 5, 2006.

### Sampling Results

#### Estimation of DI Claims (MBRs) With Incorrect WC Lump Sum Data

<u>Attribute Appraisal Projections</u>	
<b>Population and Sample Data</b>	<b>Number of Cases</b>
Population	30,250
Sample Size	250
Cases with Incorrectly Recorded WC Data on the MBR	38
<b>Projection to Population</b>	<b>Number of Cases</b>
Lower Limit	3,509
Point Estimate	4,598
Upper Limit	5,877

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

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** July 23, 2008 **Refer To:** S1J-3

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

**From:** David V. Foster /s/  
Executive Counselor to the Commissioner

**Subject:** Office of the Inspector General (OIG) Draft Report, "Accuracy of Title II Disability Insurance Benefits Processed with Workers' Compensation Settlements" (A-04-07-17059) --  
INFORMATION

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

Please let me know if we can be of further assistance. Direct inquiries to Ms. 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, "ACCURACY OF TITLE II DISABILITY INSURANCE BENEFITS PROCESSED WITH WORKER'S COMPENSATION SETTLEMENTS" (A-04-07-17059)**

Thank you for the opportunity to review and comment on the draft report. We appreciate your acknowledgement of our efforts to improve the processing of disability claims with Worker's Compensation (WC) offset. Although we have made great strides, as indicated in your review, there is still concern regarding the accuracy of the WC information. We made systems changes and provided training to our employees; however, additional work is still necessary to improve this workload. We will continue to explore and improve our methods for obtaining, standardizing, and applying WC information.

**Recommendation 1**

Collect the \$26,000 overpayment from the beneficiary whose Disability Insurance benefits were improperly offset.

**Comment**

We agree. We will begin the overpayment collection process once we obtain the necessary information on the particular claim involved.



## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Kimberly A. Byrd, Director, Southern Audit Division, (205) 801-1650

Frank Nagy, Audit Manager, (404) 562-5552

### ***Acknowledgments***

In addition to those named above:

Valerie Ledbetter, Senior Auditor

Brennan Kraje, Statistician

Charles Lober, Information Technology Specialist

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-04-07-17059.

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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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