



SOCIAL SECURITY

MEMORANDUM

Date: July 12, 2004

Refer To:

To: The Commissioner

From: Acting Inspector General

Subject: Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File (A-01-03-13019)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration evaluated earnings reported to the Master Earnings File for disabled individuals receiving benefits under Title II of the Social Security Act.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

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.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**DISABLED TITLE II
BENEFICIARIES WITH EARNINGS
REPORTED ON THE
MASTER EARNINGS FILE**

July 2004

A-01-03-13019

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) evaluated earnings reported to the Master Earnings File (MEF) for disabled individuals receiving benefits under Title II of the Social Security Act.

BACKGROUND

An individual is considered disabled if he or she is unable to engage in any substantial gainful activity (SGA). Generally, individuals receiving disability benefits may test their ability to return to work during a 9-month trial work period. After the trial work period is completed, individuals may not receive benefits for any months during which they engage in SGA. (See Appendix A for more information on SGA.)

Although disabled Title II beneficiaries are required to report work activity, individuals often fail to report their earnings. Consequently, SSA compares earnings reported on the MEF to the benefit rolls. This enforcement process alerts the Agency to beneficiaries with potentially unevaluated substantial earnings after the individuals' disabilities began.

RESULTS OF REVIEW

SSA evaluated the earnings reported on the MEF for some beneficiaries receiving benefits as of March 2002. However, we found that a substantial portion of the earnings were not evaluated by the Agency. Based on the results of our sample, we estimate that

- Approximately \$1.37 billion in overpayments resulting from about 63,000 disabled beneficiaries' work activity was not identified;
- About 39,100 disabled beneficiaries (of the estimated 63,000 beneficiaries described above) were no longer entitled to benefits because of their substantial work; and
- SSA had not identified about 34,760 disabled beneficiaries who engaged in trial work.

CONCLUSIONS AND RECOMMENDATIONS

SSA did not evaluate all earnings reported to the MEF for individuals receiving Title II disability benefits as of March 2002. Because a significant amount of Title II funds have been overpaid, we believe additional attention should be devoted to this important workload. Therefore, we make several recommendations that are discussed in detail in this report.

AGENCY COMMENTS

SSA agreed with our recommendations.

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Acronyms

CDR	Continuing Disability Review
CFR	Code of Federal Regulations
MEF	Master Earnings File
SGA	Substantial Gainful Activity
SSA	Social Security Administration
U.S.C.	United States Code

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) evaluated earnings reported to the Master Earnings File (MEF) for disabled individuals receiving benefits under Title II of the Social Security Act.¹

BACKGROUND

Title II of the Social Security Act provides benefits to individuals who—having insured themselves for benefits through sufficient, recent work under Social Security-covered employment—have lost their ability to work due to a severe, long-term disability.² In addition, the program also provides benefits to disabled adult children and disabled widow(er)s of insured workers.³ The number of beneficiaries and total monthly benefits paid in December 2002 are shown in the table below.⁴

December 2002	BENEFICIARIES		BENEFITS PAID	
	Number	Percent	Dollars (millions)	Percent
Disabled Workers	5,539,597	85%	\$4,622	90%
Disabled Adult Children	744,532	12%	\$410	8%
Disabled Widow(er)s	207,365	3%	\$114	2%
Total	6,491,494	100%	\$5,146	100%

THE DEFINITION OF DISABILITY

An individual is considered disabled if he or she is unable to engage in any substantial gainful activity (SGA) because of a medically determinable impairment which: 1) can be expected to result in death; or 2) has lasted (or can be expected to last) for a continuous period of at least 12 months.⁵

¹ In August 2003, we issued an early alert to SSA informing the Agency of our preliminary audit findings.

² 42 U.S.C. §§ 423, et. seq.(2003), (§§ 223 et. seq. of the Social Security Act (2003)). Generally, when disabled workers are entitled to benefits, their spouses and children may also be entitled as auxiliary beneficiaries (42 §§ U.S.C. 402 (b) et. seq. (2003); §§ 202 (b), (c), and (d) of the Social Security Act (2003)).

³ 42 U.S.C. §§ 402 (d) et. seq. (2003), (§§ 202 (d), (e), and (f) of the Social Security Act (2003)).

⁴ SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2002*, Table 3 (p. 32).

⁵ 42 U.S.C. § 423 (d)(1) (2003), (§ 223 (d)(1) of the Social Security Act (2003)).

The Social Security Act grants SSA the authority to establish regulations outlining the criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA.⁶

HOW WORK AFFECTS ENTITLEMENT TO BENEFITS

One of SSA's objectives is to increase employment for people with disabilities.⁷ For this reason, beneficiaries who continue to have disabling conditions are granted trial work periods during which they may test their ability to work while still receiving their benefits. In the Agency's Fiscal Year 2003 *Performance and Accountability Report*, SSA indicated that 7,162 disabled adult workers began trial work periods in 2002.⁸

Trial Work Period

Generally, when 9 trial work months are successfully completed within a 60-month period, SSA should evaluate the beneficiary's work activity to determine whether the individual is able to engage in SGA. If a beneficiary demonstrates the ability to engage in SGA after the trial work period ends, the Agency determines that the individual's disability has ceased and benefit payments end after a 3-month grace period.

Extended Period of Eligibility

If a beneficiary still has a disabling impairment but continues to work despite his or her disability, benefits can be reinstated during the 36-month period after the trial work period. SSA will pay benefits for any month during this 36-month extended period of eligibility in which the beneficiary does not engage in SGA (provided the beneficiary continues to have a disabling impairment). If the beneficiary engages in SGA at any time after the extended period of eligibility, benefits terminate.⁹

Reestablishing Entitlement

Individuals whose entitlement to benefits terminated because of SGA may become entitled again, if they are no longer engaging in SGA and they still have disabling impairments.

⁶ 42 U.S.C. § 423 (d)(4)(A) (2003), (§ 223 (d)(4)(A) of the Social Security Act (2003)). In 2004, SSA generally considers earnings of more than \$810 per month (\$9,720 per year) to represent SGA. (For more information about SGA, see Appendix A.)

⁷ SSA, *Strategic Plan, 2003-2008*, p. 16.

⁸ SSA noted in its Fiscal Year 2001 *Performance and Accountability Report* that 2 or more years may pass before individuals inform the Agency of their return to work. Therefore, the number of beneficiaries for whom SSA records trial work period data depends on the efficiency with which the Agency discovers and evaluates beneficiaries' work activity.

⁹ SSA reported that it terminated benefits to 29,308 disabled beneficiaries during calendar year 2002 because the beneficiaries were performing SGA. (SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2002*, Table 45, p. 114.)

DETECTING AND EVALUATING UNREPORTED EARNINGS

Individuals may no longer be entitled to disability benefits if their impairments improve or they demonstrate their ability to engage in SGA by working. For this reason, SSA conducts medical or work-related continuing disability reviews (CDR) to determine whether beneficiaries continue to be disabled and entitled to benefits. Because an individual's entitlement to benefits is based on the determination that he or she does not have the ability to engage in SGA, SSA must perform a CDR when there is an indication that the beneficiary has returned to work.¹⁰

Although disabled Title II beneficiaries are required to report work activity,¹¹ individuals often fail to report their earnings. Consequently, SSA developed the Continuing Disability Review Enforcement Operation. This enforcement process compares earnings reported on the MEF to the benefit rolls to alert the Agency of disabled beneficiaries with potentially unevaluated substantial earnings after disability onset.¹²

Because of SSA's limited resources and competing workloads, the Agency limits the number of work-related CDRs that are performed as a result of earnings identified through its enforcement process. Although earnings may be identified through enforcements, SSA's policy permits screening out cases for work-related CDRs if the earnings are below the Agency's pre-defined "screen-out" amounts. Limiting work-related CDRs to enforcement cases with higher earnings allows SSA to use its resources to develop only those cases that the Agency believes are more likely to involve SGA.¹³

IMPROVING WORK-RELATED CDRs

SSA is developing an automated system—called eWork—to control and process work-related CDRs. By replacing the current manual, labor-intensive paper process with an automated system and storing data in a centralized national database, SSA hopes to improve the processing of work-related CDRs. The Agency plans to implement eWork in Fiscal Year 2004. (See Appendix E for other efforts being taken by SSA to improve the disability programs.)

¹⁰ 20 CFR § 404.1590(b)(5) (2003). SSA estimates that it takes approximately 6.6 hours to complete a work-related CDR.

¹¹ 20 CFR § 404.1588 (2003).

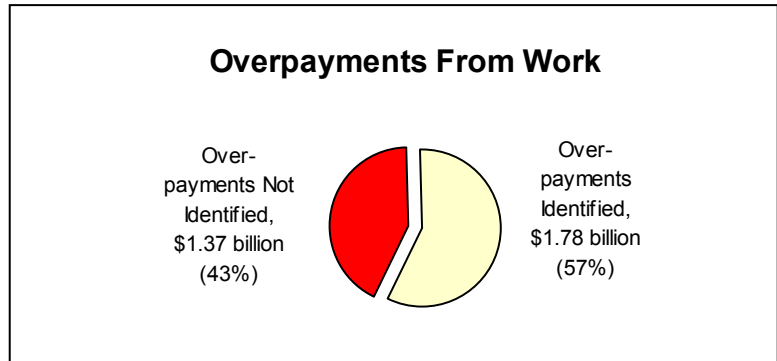
¹² Because earnings posted to an individual's earnings record may include amounts that are not related to current work (e.g., bonuses, termination pay and sick pay), SSA must evaluate the earnings to determine whether they represent earnings from SGA performed after entitlement to disability benefits began.

¹³ This screen-out process is a means of identifying individuals who most likely engaged in SGA. It does not change the definitions of trial work or SGA.

Results of Review

SSA evaluated the earnings reported on the MEF for some individuals receiving disability benefits as of March 2002. However, we found that a substantial portion of the earnings were not evaluated by the Agency. Our review of 275 sample cases found SSA did not evaluate all the earnings of 113 beneficiaries (41 percent), but the Agency did evaluate the earnings of the remaining 162 beneficiaries (59 percent).¹⁴

Based on the results of our sample, we estimate that approximately 171,620 beneficiaries were overpaid \$3.15 billion in disability benefits because of work activity.¹⁵ Further, we estimate that SSA had identified \$1.78 billion in overpayments for about 117,320 beneficiaries.



However, we estimate \$1.37 billion in overpayments to approximately 63,000 beneficiaries went undetected by the Agency.¹⁶

Additionally, we estimate that

- About 39,100 individuals receiving disability benefits (of the estimated 63,000 beneficiaries described above) were actually no longer entitled to benefits because of their substantial work; and
- SSA was unaware that approximately 34,760 disability beneficiaries (of approximately 245,480 beneficiaries) engaged in trial work.

¹⁴ Projecting the 113 and 162 cases to the population, we estimate that SSA did not investigate the earnings for approximately 245,480 beneficiaries; whereas SSA investigated the earnings for approximately 351,940 beneficiaries. For information about the disabilities of the 275 individuals in our sample, see Appendix B.

¹⁵ When primary workers are ineligible for benefits because of their SGA, any auxiliary beneficiaries (e.g., spouses and children) are also ineligible. Our overpayment calculations and estimates include overpayments to the working beneficiaries as well as overpayments to auxiliary beneficiaries that were caused by the SGA performed by primary workers.

¹⁶ The estimated 63,000 beneficiaries includes about 8,700 beneficiaries for whom SSA identified some overpayments that resulted from the beneficiaries' work activity, but not all overpayments. For information about our sampling methodology, see Appendix C.

SAMPLE CASES WITH EARNINGS SSA DID NOT EVALUATE PRIOR TO OUR AUDIT

SSA did not evaluate all the earnings reported on the MEF for 113 beneficiaries in our sample. Of these 113 beneficiaries,

- 29 were overpaid because of their work;
- 78 were not overpaid; and
- 6 were still being evaluated by SSA as of February 2004 to determine whether benefit ineligibility occurred because of work activity.¹⁷

BENEFICIARIES OVERPAID BECAUSE OF THEIR WORK

Because SSA did not previously evaluate all of the earnings reported on the MEF for 29 individuals in our sample, the Agency was unaware that these beneficiaries were overpaid \$628,767 for an average period of 46 months.¹⁸ This includes

- 10 cases in which SSA was unaware that the beneficiaries were not due some of the benefits paid to them because of their work in an extended period of eligibility; and
- 18 cases in which SSA was unaware that benefit entitlement terminated because the extended periods of eligibility ended and work continued.

Opportunities Existed to Identify and Evaluate Earnings

We identified past opportunities in which SSA may have been able to minimize or avoid the \$628,767 in overpayments that resulted from the work activity of the 29 beneficiaries. The following describes some past opportunities SSA had to identify and evaluate the earnings to determine whether the individuals engaged in trial work activity or SGA.

Earnings Enforcements

Although SSA compares the MEF to the benefit rolls to detect cases with unreported earnings, we found that this enforcement process did not always result in work-related CDRs. Of the 29 beneficiaries in our sample with previously undiscovered overpayments, 21 beneficiaries had earnings that: 1) were identified by SSA through its enforcement process, and 2) exceeded the Agency's "screen-out" threshold requirements. However, the earnings were not previously evaluated and, as a result, the Agency was unaware the individuals were ineligible for benefits.¹⁹

¹⁷ When SSA completes its evaluation of the earnings reported on the MEF for these beneficiaries, additional overpayments may be identified.

¹⁸ Overpayment periods ranged from 12 months to 125 months (approximately 10 years).

¹⁹ Projecting these 21 cases to the population, we estimate that approximately 45,620 beneficiaries had substantial earnings identified through SSA's enforcement operation, but the Agency did not evaluate them.

For example, one individual in our sample worked from 1999 through 2001 and had earnings that ranged from \$17,034 to \$19,477. The earnings for each of these years were identified through SSA's enforcement process, but SSA did not evaluate the earnings and determine the individual engaged in SGA until requested to do so as part of our audit. This beneficiary exhausted her trial work period in 1999 and was overpaid \$33,360 between October 1999 and December 2003.

**Benefit
Increases**

Benefit amounts are based on the level of earnings resulting from Social Security-covered employment. Therefore, when disabled individuals return to work, their benefit payments may increase (should they remain entitled to receive them). SSA periodically recalculates benefit amounts paid to individuals—considering recent earnings that were not previously considered in the benefit calculation. In 21 sample cases, SSA performed these benefit recalculations and increased the benefits paid to the beneficiaries without also evaluating the earnings to determine whether trial work activity or SGA was performed.²⁰

For example, the same disabled beneficiary described above had earnings in 1999 through 2001 that were significant enough to cause her benefit amount to increase. SSA processed benefit recalculations and increased her benefit payments each year based on her earnings. However, the Agency did not evaluate these earnings and, therefore, did not determine the individual engaged in SGA until after our audit. As a result, SSA considered the earnings for benefit calculation purposes, but did not evaluate the earnings to determine whether she remained entitled to benefits.

**Medical
CDRs**

Because individuals receiving disability benefits must have their cases reevaluated periodically to ensure they remain entitled to benefits, CDRs provide additional opportunities for SSA to identify and evaluate work activity that might otherwise have been unreported. However, we found 8 cases in which medical CDRs—performed after the beneficiaries returned to work—did not result in reviews of the reported earnings. Based on these medical CDRs, SSA determined that the individuals remained disabled and, thus, their benefits continued, despite their return to work.²¹

²⁰ Projecting these 21 cases to the population, we estimate that SSA performed benefit recalculations for approximately 45,620 beneficiaries and increased the benefits paid to them. However, the earnings represented SGA and the beneficiaries were not entitled to all of the benefits paid them.

²¹ Projecting these 8 cases to the population, we estimate that SSA performed medical CDRs for 17,380 beneficiaries and determined their disabilities continued, despite the earnings on the MEF that the Agency later determined were substantial.

**CDR
Mailers**

SSA issues mailer forms to some disabled beneficiaries to solicit key information about their conditions and attempts to work. Based on the responses received on completed mailers, the Agency may initiate full medical CDRs.

For 5 sample cases (of the 29 who had overpayments because SSA did not evaluate the beneficiaries' earnings), SSA received CDR mailer forms from the beneficiaries and the Agency decided to defer full medical CDRs even though the individuals engaged in work activity.²² This included

- 3 individuals who reported their work activity in their responses to the Agency's mailer questionnaires, but for whom SSA did not initiate full medical CDRs or initiate work-related CDRs to evaluate the work activity; and
- 2 individuals whose earnings were reported on the MEF at the time the Agency decided to defer full medical CDRs. Had SSA evaluated the earnings reported on the MEF, full medical CDRs or work-related CDRs may have resulted in overpayments being avoided or minimized.

For example, the same beneficiary whose earnings were not evaluated despite being used for benefit recalculation purposes was issued a CDR mailer questionnaire in February 2002. In her reply to SSA, she indicated that she worked. However, despite her self-reported work activity, the Agency decided in July 2002 to defer a full medical CDR and set a June 2009 date to review her medical eligibility again.

BENEFICIARIES NOT OVERPAID DESPITE EARNINGS ON THE MEF

For various reasons, although SSA did not evaluate the earnings reported on the MEF for 73 individuals, no overpayments resulted. For example, SSA determined the earnings for 16 beneficiaries did not result from SGA because they resulted from unsuccessful work attempts. (For additional reasons why these 73 beneficiaries were not overpaid despite the earnings reported on the MEF, see Appendix D.)

Although these individuals were not overpaid as a result of the earnings, SSA was unaware that some disabled beneficiaries in our sample engaged in trial work because the Agency did not evaluate the earnings prior to our audit. In total, SSA was unaware that 12 beneficiaries engaged in trial work. Projecting the results of our sample to the population, we estimate that SSA was unaware that about 26,060 beneficiaries engaged in trial work.

²² Projecting these 5 cases to the population, we estimate that SSA decided to defer full medical CDRs for 10,860 beneficiaries based on their responses to the mailers, despite the earnings on the MEF that were later determined by the Agency to be substantial.

SAMPLE CASES WITH EARNINGS SSA EVALUATED PRIOR TO OUR AUDIT

Of the 162 beneficiaries whose earnings were evaluated by SSA prior to our audit,

- 50 were overpaid because of their work; and
- 112 were not overpaid despite the earnings on the MEF.

BENEFICIARIES OVERPAID BECAUSE OF THEIR WORK

Prior to our audit, SSA evaluated the earnings of 50 beneficiaries and determined they were not entitled to some of the benefits previously paid to them because of their work activity. On average, the Agency completed its evaluations of the earnings and calculated the resulting overpayments 30 months after the work first caused benefit ineligibility. In total, SSA assessed overpayments of \$820,354.²³ Based on our sample, we estimate that SSA identified \$1.78 billion in overpayments resulting from disabled beneficiaries' work activity.

BENEFICIARIES NOT OVERPAID DESPITE EARNINGS ON THE MEF

In total, 112 beneficiaries—whose earnings were previously evaluated by SSA prior to our audit—were entitled to the benefits paid to them despite their earnings on the MEF. (See Appendix D for reasons why these 112 beneficiaries were not overpaid despite the earnings reported on the MEF.)

STATUS OF BENEFICIARIES AS OF SEPTEMBER 2003

The following table describes the benefit entitlement status of the 275 beneficiaries in our sample as of September 2003.

Status as of September 2003	Number of Beneficiaries	Percent
Beneficiaries have not engaged in trial work since entitlement to disability benefits began.	37	13%
Beneficiaries engaged in trial work only, no loss of benefits.	26	9%
Beneficiaries completed trial work periods and were in the extended period of eligibility but were entitled to benefits because they did not engage in SGA.	142	52%
Beneficiaries completed trial work periods and were in the extended period of eligibility but were not entitled to benefits because they engaged in SGA.	2	1%

²³ This includes overpayments to the 50 individuals for whom SSA identified all overpayments resulting from work activity prior to our audit, and 4 individuals for whom SSA identified some (but not all) overpayments prior to our audit.

Status as of September 2003	Number of Beneficiaries	Percent
Beneficiaries continued to engage in SGA after their extended periods of eligibility expired and entitlement to benefits terminated.	22	8%
Entitlement to benefits terminated for reasons unrelated to SGA (e.g., death).	16	6%
Beneficiaries' previous entitlement terminated because of SGA. However, they subsequently stopped SGA and were re-entitled to benefits.	30	11%
Total	275	100%

Conclusions and Recommendations

During the period under review, we estimate that approximately \$3.15 billion in overpayments existed due to disabled beneficiaries' work activity. SSA's current practices allowed the Agency to identify approximately 57 percent of these overpayments. However, we estimate the remaining 43 percent—approximately \$1.37 billion in overpayments—went undetected by the Agency because SSA did not evaluate all earnings reported for individuals receiving Title II disability benefits.

We realize that SSA is making an effort to improve its processing of work-related CDRs by developing an automated processing system. Further, we acknowledge that SSA has limited resources with which to perform its many responsibilities. However, because a significant amount of Title II funds have been overpaid, we believe that additional attention should be devoted to this important workload. Also, by reducing this workload, SSA would be taking steps to implement the *President's Management Agenda* goal of improving financial performance. We believe the recommendations listed below will help the Agency identify and recover significant undetected overpayments.

1. Review past cases where significant earnings are present on the MEF and no determination has been made regarding trial work and/or SGA.²⁴
2. Ensure that future earnings enforcements are adequately controlled by management and resolved timely.
3. Ensure that earnings reported on the MEF or disclosed on beneficiary-completed forms are evaluated when medical CDRs are performed or mailer CDR forms are received.
4. Ensure that earnings resulting in benefit increases are evaluated to determine whether trial work activity and/or SGA were performed.

AGENCY COMMENTS

SSA agreed with our recommendations. Specifically, SSA will review past cases where it is cost beneficial to do so and its resources permit. SSA also informed us that it recently integrated its continuing disability review enforcement operation with its disability control file and the Agency's new eWork database will improve the process. Additionally, SSA is providing training to employees to ensure that all reported earnings are evaluated. (See Appendix F for SSA's comments.)

²⁴ Recommendation 1 was revised based on additional information SSA provided on June 29, 2004.

IMPACT ON FRAUD INVESTIGATIONS WHEN SSA DOES NOT EVALUATE EARNINGS TIMELY

The Office of the Inspector General, Office of Investigations conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA's programs and operations. This includes investigating cases involving unreported work activity.

For example, a disability beneficiary who became entitled in June 1990 subsequently engaged in substantial work while receiving disability benefits.²⁵ Earnings posted to the individual's earnings record totaled \$307,438 for the years 1990 to 2002. The Office of Investigations established a case of disability fraud, but the U.S. Attorney's Office declined to prosecute because SSA had received earnings enforcement alerts but did not timely evaluate the earnings and stop the benefit payments. The total overpayment resulting from the beneficiary's work was \$131,513. SSA recorded this overpayment on the beneficiary's record in February 2000, but as of November 2003, the individual had not repaid any of the funds to SSA.

²⁵ This beneficiary was not part of our audit sample.

Appendices

Substantial Gainful Activity

An individual is considered disabled if he or she is unable to engage in any substantial gainful activity (SGA) because of an impairment which

- can be expected to result in death, or
- has lasted (or can be expected to last) for a continuous period of at least 12 months.¹

The Social Security Act grants the Social Security Administration (SSA) the authority to establish regulations outlining the criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA.²

The Agency defines SGA as the performance of significant physical or mental activities in work for pay or profit, or in work of a type generally performed for pay or profit. Significant activities are useful in the accomplishment of a job or the operation of a business and have economic value. Work may be substantial even if it is performed on a seasonal or part-time basis, or if the individual does less, is paid less, or has less responsibility than in previous work. Work activity is gainful if it is the kind of work usually done for pay, whether in cash or in kind, or for profit, whether or not a profit is realized.

In deciding whether work is SGA, all pertinent facts about the individual's work are considered, including the nature of the duties, hours worked, productivity, pay, and any other factors related to the value of the services. Usually, the best gauge of a person's ability to work is the amount of pay received. In deciding whether the person is performing SGA, only the pay that has been earned through a person's own effort is counted. If, for example, it is necessary for an employer to provide special help for an individual to work, the value of such special assistance may be considered a subsidy. As such, only the earnings that are based on the individual's own productivity are used in determining whether SGA was performed. Additionally, impairment-related work expenses incurred by a disabled individual will be deducted from earnings before determining whether the SGA level is met.

For calendar year 2004, the level of earnings that SSA will generally consider to reflect SGA is \$810 per month.

¹ 42 U.S.C. § 423 (d)(1) (2003), (§ 223 (d)(1) of the Social Security Act (2003)).

² 42 U.S.C. § 423 (d)(4)(A) (2003), (§ 223 (d)(4)(A) of the Social Security Act (2003)).

Sample Cases: Disabilities and Types of Beneficiaries

Table B-1 shows the disabilities of our 275 sample cases—broken out by those beneficiaries with or without substantial gainful activity (SGA). Table B-2 provides the overpayments identified by diagnosis group for those beneficiaries who engaged in SGA. Finally, Table B-3 shows the number of individuals in our sample by type of beneficiary.

Table B-1 Disabilities	All Disabled Beneficiaries, December 2002 ¹	Sample Disabled Beneficiaries			
		Engaged in SGA	No SGA Identified	SGA Not Determined ²	Total Sample Cases
Mental Disorders (Other Than Retardation)	1,701,328	27	47	0	74
Diseases of the Musculoskeletal System	1,385,191	12	43	1	56
Mental Retardation	620,423	10	26	2	38
Diseases of the Nervous System and Sense Organs	612,180	4	21	0	25
Diseases of the Circulatory System	584,316	9	12	1	22
Unknown	376,093	2	7	0	9
Injuries	262,822	5	7	0	12
Endocrine, Nutritional and Metabolic Diseases	259,335	2	8	0	10
Diseases of the Respiratory System	188,897	3	1	1	5
Neoplasms	156,080	3	3	0	6
Infectious and Parasitic Diseases	107,013	3	3	0	6
Diseases of the Genito-Urinary System	97,239	3	3	0	6
Diseases of the Digestive System	83,152	1	0	1	2
Congenital Anomalies	16,606	0	1	0	1
Diseases of the Blood and Blood Forming Organs	15,916	1	0	0	1
Diseases of the Skin and Subcutaneous Tissue	14,188	0	1	0	1
Other	10,715	0	1	0	1
TOTAL	6,491,494	85	184	6	275

¹ Social Security Administration (SSA), *Annual Statistical Report on the Social Security Disability Program, 2002*, Table 6 (p. 36).

² SSA continued to evaluate the earnings of these beneficiaries to determine whether they engaged in SGA.

Table B-2: Sample Beneficiaries Who Engaged In SGA	SGA Identified Prior to Our Audit		SGA Identified Subsequent to Our Audit	
	Number of Beneficiaries ³	Over-payments	Number of Beneficiaries ⁴	Over-payments
Mental Disorders (Other Than Retardation)	18	\$200,546	9	\$119,032
Diseases of the Musculoskeletal System	9	\$226,438	3	\$115,764
Mental Retardation	6	\$82,382	4	\$221,180
Diseases of the Nervous System and Sense Organs	3	\$83,420	1	\$7,476
Diseases of the Circulatory System	5	\$65,224	4	\$34,858
Unknown	1	\$5,869	1	\$3,343
Injuries and Poisoning	3	\$31,456	2	\$22,996
Endocrine, Nutritional and Metabolic Diseases	0	\$0	2	\$50,597
Diseases of the Respiratory System	1	\$0	2	\$25,858
Neoplasms	3	\$50,172	0	\$0
Infectious and Parasitic Diseases	2	\$11,213	1	\$27,663
Diseases of the Genito-Urinary System	3	\$10,731	0	\$0
Diseases of the Digestive System	1	\$39,373	0	\$0
Congenital Anomalies	0	\$0	0	\$0
Diseases of the Blood and Blood Forming Organs	1	\$13,530	0	\$0
Diseases of the Skin and Subcutaneous Tissue	0	\$0	0	\$0
Other	0	\$0	0	\$0
TOTAL	56	\$820,354	29	\$628,767

³ Included in this group are six individuals who engaged in SGA but whose benefits were stopped timely and no overpayments resulted.

⁴ Included in this group are four individuals for whom SSA identified some overpayments resulting from SGA prior to our audit, but additional overpayments were not identified until we requested the Agency evaluate the earnings.

Table B-3: Type of Beneficiaries	Sample Beneficiaries		Number Who Engaged in SGA	
	Number	Percent	Number	Percent
Disabled Workers	254	92.4%	83	32.7%
Disabled Adult Children	18	6.5%	2	11.1%
Disabled Widow(er)s	3	1.1%	0	0.0%
Total	275	100.0%	85	30.9%

Scope, Methodology and Sample Results

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed applicable sections of the Social Security Act, the Code of Federal Regulations, and the Social Security Administration's (SSA) Program Operations Manual System.
- Obtained a file of all disabled Title II beneficiaries from 1 of 20 Social Security number segments who were receiving benefits as of March 2002.¹ We then determined which of these beneficiaries had earnings reported to the Master Earnings File (MEF) for years 1996 to 2000. We further narrowed this population by excluding cases in which
 1. the reported earnings were minimal and probably would not affect entitlement to benefits;
 2. the beneficiaries were entitled to disability benefits based on blindness; or
 3. the reported earnings were in the year of, or before, the beneficiaries' initial benefit entitlement dates.

From this population, we selected a random sample of 275 cases and projected our sample results to the population.

- Determined for each sampled case whether SSA evaluated the reported earnings.² Specifically, we confirmed with SSA whether the earnings represented work activity that impacted entitlement to benefits. If SSA had not already evaluated the reported earnings, we requested that the earnings be evaluated.

¹ The last 2 digits of the Social Security number are randomly assigned and can contain digits "00" to "99." These Social Security numbers can be categorized into 20 segments, each containing groups of 5 digits. For this audit, we selected Social Security numbers ending with the digits "55" to "59."

² We referred cases with overpayments resulting from unreported work activity to the Office of the Inspector General's Office of Investigations to determine whether investigation of possible fraud was appropriate.

- Recalculated the resulting overpayments for cases in which the Agency determined benefit entitlement was impacted by beneficiaries' work activity.³
- Determined—for cases in which overpayments were not detected until our audit—whether opportunities existed for SSA to minimize or avoid overpayments resulting from Substantial Gainful Activity (SGA) by identifying and evaluating the earnings sooner.

We performed our audit in Boston, Massachusetts between October 2002 and December 2003. We tested the beneficiary and earnings data obtained for our audit for accuracy and completeness and determined it to be sufficiently reliable to meet our audit objective.

The entities audited were the Offices of Disability Determinations, Employment Support Programs, and Disability Programs under the Deputy Commissioner for Disability and Income Security Programs and Field Offices and Program Service Centers under the Deputy Commissioner for Operations. We conducted our audit in accordance with generally accepted government auditing standards.

SAMPLE RESULTS

The following tables reflect our sample results and projections.

Table C-1: Population and Sample Size	
Population size (one segment)	29,871
Sample size	275
Estimated Number of Beneficiaries in the Universe (Population of audited segment multiplied by 20)	597,420

³ Our overpayment totals include all overpayments resulting from beneficiaries' SGA while receiving benefits. They also include overpayments to any auxiliary beneficiaries who were ineligible for the benefits paid to them while primary workers engaged in SGA. To be conservative in our estimates, if we could not confirm SSA's posted overpayment figures on the beneficiaries' records, we considered the overpayment to be the lesser of (1) SSA's figure; or (2) our recalculated figure. We considered all overpayments that resulted from disabled beneficiaries' SGA, regardless of when the SGA occurred.

SAMPLE CASES WITH EARNINGS THAT SSA DID NOT EVALUATE PRIOR TO OUR AUDIT

Table C-2: Cases in Which SSA Did Not Evaluate Earnings Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results ⁴	113	
Point Estimate	12,274	245,480
Projection lower limit	10,795	215,900
Projection upper limit	13,796	275,920

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

Table C-3: Cases in Which SSA Did Not Identify All Overpayments Resulting from SGA Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	29	
Point Estimate	3,150	63,000
Projection lower limit	2,288	45,760
Projection upper limit	4,206	84,120

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

Table C-4: Cases in Which SSA Did Not Identify All Overpayments Resulting from SGA Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	\$628,767	
Point Estimate	\$68,297,865	\$1,365,957,300
Projection lower limit	\$37,976,339	\$759,526,780
Projection upper limit	\$98,619,391	\$1,972,387,820

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

Table C-5: Cases in Which SSA Was Unaware that Beneficiaries Were Ineligible for Benefits Paid Because They Engaged In SGA During the Extended Periods of Eligibility	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	11	
Point Estimate	1,195	23,900
Projection lower limit	677	13,540
Projection upper limit	1,948	38,960

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

⁴ Of the 113 cases with earnings that were not investigated by SSA, only 29 cases had overpayments due to the disabled beneficiaries' work activity—as shown in Table C-3.

Table C-6: Cases in Which SSA Was Unaware that Beneficiaries' Entitlement Terminated Because of SGA	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	18	
Point Estimate	1,955	39,100
Projection lower limit	1,280	25,600
Projection upper limit	2,849	56,980

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

Table C-7: Cases in Which SSA Was Unaware that Beneficiaries Had Engaged in Trial Work Activity	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	16	
Point Estimate	1,738	34,760
Projection lower limit	1,103	22,060
Projection upper limit	2,595	51,900

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

Cases in Which Prior Opportunities Existed to Identify and Evaluate the Earnings for Trial Work and SGA Determinations

Table C-8: Cases in Which Earnings from SGA Were Identified Through SSA's Earnings Enforcement Process and Exceeded the Agency's Screen-Out Criteria But Were Not Evaluated for Trial Work and/or SGA Determinations	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	21	
Point Estimate	2,281	45,620
Projection lower limit	1,549	30,980
Projection upper limit	3,224	64,480

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

Table C-9: Cases in Which SSA Processed Benefit Recalculations and Increased Benefit Amounts But Did Not Evaluate the Earnings To Determine Whether SGA Was Involved	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	21	
Point Estimate	2,281	45,620
Projection lower limit	1,549	30,980
Projection upper limit	3,224	64,480

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

Table C-10: Cases in Which Medical Continuing Disability Reviews (CDR) Resulted In Findings That Disabilities Continued Despite Earnings on the MEF	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	8	
Point Estimate	869	17,380
Projection lower limit	437	8,740
Projection upper limit	1,546	30,920

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

Table C-11: Cases in Which CDR Mailers Resulted in Full Medical CDR Deferral Decisions Despite Earnings on the MEF	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	5	
Point Estimate	543	10,860
Projection lower limit	216	4,320
Projection upper limit	1,127	22,540

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

SAMPLE CASES WITH EARNINGS THAT SSA EVALUATED PRIOR TO OUR AUDIT

Table C-12: Number of Cases with Earnings that SSA Evaluated Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results ⁵	162	
Point Estimate	17,597	351,940
Projection lower limit	16,075	321,500
Projection upper limit	19,076	381,520

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

Table C-13: Number of Individuals For Whom SSA Identified All Overpayments Resulting From Work Activity Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	50	
Point Estimate	5,431	108,620
Projection lower limit	4,320	86,400
Projection upper limit	6,697	133,940

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

⁵ Of the 162 cases with earnings investigated by SSA prior to our audit, only 50 cases resulted in overpayments due to the disabled beneficiaries' work activity—as shown in Table C-13.

Table C-14: Overpayments Resulting From SGA That SSA Identified Prior to Our Audit	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results ⁶	\$820,354	
Point Estimate	\$89,108,335	\$1,782,166,700
Projection lower limit	\$63,030,674	\$1,260,613,480
Projection upper limit	\$115,185,997	\$2,303,719,940

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

Table C-15: Number of Individuals Who Engaged in SGA While Receiving Disability Benefits But Whose Benefits Were Stopped Timely and No Overpayments Resulted	Results and Projections in 1 Segment	Estimate in 20 Segments
Total Sample Results	6	
Point Estimate	652	13,040
Projection lower limit	287	5,740
Projection upper limit	1,269	25,380

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

⁶ The \$820,354 in overpayments includes payments to the 50 individuals identified in Table C-13 for whom SSA identified *all* overpayments resulting from work activity prior to our audit—as well as 4 individuals for whom SSA identified some (but not all) overpayments prior to our audit.

Reasons Why Some Beneficiaries Were Not Overpaid Despite Earnings

For 196 cases in our sample of 275, earnings reported on the Master Earnings File (MEF) did not result in overpayments. The following table describes the various reasons why the Social Security Administration (SSA) did not assess overpayments resulting from substantial gainful activity (SGA) despite the earnings reported on the MEF.

Reasons Why No Overpayments Resulted Despite Earnings Reported on the MEF	Cases in Which SSA Evaluated the Earnings Prior to our Audit	Cases in Which SSA Did Not Evaluate the Earnings Prior to Our Audit
SSA determined the earnings after the trial work periods did not represent SGA.	29	28
SSA determined the earnings represented special wage payments (e.g., sick pay) and not remuneration for work.	26	8
The earnings represent work that was performed prior to the dates the beneficiaries' disabilities began.	15	1
SSA determined the earnings resulted from subsidized work. Therefore, despite the dollar amount of the earnings, the Agency did not consider them substantial.	13	3
Earnings resulted from trial work activity. The beneficiaries did not complete 9 trial work months.	10	13
The beneficiaries did not work after they completed the trial work periods.	7	7
SSA determined the earnings were substantial but stopped benefits timely and no overpayments resulted.	6	0
SSA determined the earnings resulted from unsuccessful work attempts and did not consider them SGA.	5	16
SSA determined that the earnings were incorrectly posted to the MEF for the beneficiaries (the earnings did not belong to the beneficiaries).	1	2
Sub-Total	112	78
SSA continues to evaluate the earnings to determine whether beneficiaries engaged in trial work or SGA.	0	6
Total	112	84

Improvements to the Disability Programs

TICKET TO WORK

The Ticket to Work and Work Incentives Improvement Act of 1999 required the Social Security Administration (SSA) to establish and administer a ticket-to-work program for disabled beneficiaries.¹ Under the program, beneficiaries may use their tickets to gain vocational rehabilitation, job training, and other community-based support services.

OTHER INITIATIVES

In response to requirements set forth in the Ticket legislation—and in keeping with SSA’s goal of increasing employment for people with disabilities—the Agency is developing new strategies to improve the disability programs. Below are some examples.

Early Intervention

SSA is developing a demonstration project that will test a variety of interventions for disabled beneficiaries, such as early medical insurance coverage and employment supports. By providing assistance soon after disabilities are identified, SSA may improve beneficiaries’ chances of medical improvement and decrease the long-term reliance on the disability programs.

Mental Health Treatment

Because most forms of mental health are treatable, SSA is planning a mental health treatment study that will pay for the costs of outpatient treatments (e.g., pharmaceutical and psychotherapeutic treatments) and vocational rehabilitation that are not covered by other insurance. SSA recently awarded a pre-design contract for the demonstration project.

Benefit Offset

SSA acknowledges that the current substantial gainful activity rules, and the resulting threat of losing benefits, may discourage individuals from attempting gainful work. SSA plans to test alternatives to the current work rules, including a \$1-for-\$2 benefit offset. According to the Agency, “Congress gave SSA the authority to test sliding-scale benefit formulas as a means of mitigating the impact of earnings on benefit levels. This would be done by phasing out benefits while allowing a beneficiary’s net income to rise.”² The Agency is currently developing a Statement of Work for this demonstration project.

¹ Public Law 106-170, December 17, 1999.

² SSA, *Performance and Accountability Report*, Fiscal Year 2003, page 19.

***Work Incentives
Specialists***

To provide disabled beneficiaries with accurate and timely information regarding work issues, SSA has created new field-based staff positions specializing in work incentives issues. The Agency also plans to provide additional training to all employees who have a role in administering employment support programs.

AeDib

SSA is developing an electronic disability system—referred to as Accelerated Electronic Disability—to replace the paper-driven process currently in use. This initiative is expected to be fully implemented in Fiscal Year 2005.

***Updated Medical
Listings***

If individuals have impairments which meet or medically equal the severity of an impairment contained in SSA's listings, the Agency will find the individuals disabled. Because impairments may improve with recent advancements in medical treatment, updating the medical listings is necessary to ensure the standards of disability are accurate. The Agency expects to have updated most listings by the end of Fiscal Year 2004.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

32294-24-983

Date: March 30, 2004 **Refer To:** S1J-3

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

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

Subject: Office of the Inspector General (OIG) Draft Report, "Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File" (A-01-03-13019)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments to the recommendations are attached.

Please let us know if we can be of further assistance. Staff questions can be referred to Janet Carbonara at extension 53568.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “DISABLED TITLE II BENEFICIARIES WITH EARNINGS REPORTED ON THE MASTER EARNINGS FILE (MEF)” A-01-03-13019

We appreciate the opportunity to comment on the draft report. We take the issue of overpayments due to work or earnings in the disability insurance program very seriously, and we are taking a number of comprehensive measures to address this issue.

SSA generates work enforcement alerts when we receive a W-2 (or Schedule SE) for a disabled beneficiary and it is posted to the Master Earnings File (MEF). The MEF posting runs against the Disability Control File (DCF), which generates and controls the alert indicating a disabled beneficiary may have returned to work and a work continuing disability review (CDR) may be necessary for that beneficiary. During the time of the audit report, SSA did not have an interface with the DCF and the automated Continuing Disability Review Enforcement Operation (CDREO). The CDRCO/DCF link began with alerts generated starting in October 2003 (which would alert at that time for earnings on the MEF for calendar year 2002). As the audit was conducted based on beneficiaries in payment status as of March 2002, with earnings on the MEF from 1996 to 2000, the DCF could not have been used to control those alerts. We now believe that these interfaces will solve the earlier problem.

We also are working toward timelier processing of this workload by a phased roll-out of our new eWork system. The eWork system will be available to all authorized personnel throughout the nation after final roll-out later this year. The DCF is integrated with eWork, which will automate entries and permit the interaction and exchange of work information between all offices. The eWork system will also automate requests to employers to verify work activity and earnings; process the preparation of decisional and due process notices; generate work receipts; provide more detailed and useful management information; and feed into our Social Security Unified Measurement System (SUMS), currently under construction.

Our comments to the recommendations and technical comments to the report are below.

Recommendation:

Review past cases where significant earnings are present on the MEF and no determination has been made regarding trial work and/or SGA.

Comment:

We agree, where it is cost beneficial to do so and as our resources permit, to review the cases with significant earnings on the MEF where no determination has been made regarding trial work/SGA and take action.¹

¹ The first recommendation and SSA's response (shown here) were revised based on additional comments from the Agency provided June 29, 2004.

Recommendation

Ensure that future earnings enforcements are adequately controlled by management and resolved timely.

Comment

We agree. We are currently tracking earnings enforcement through the use of our automated system, the Continuing Disability Review Enforcement Operation (CDREO), which uses the MEF and specific criteria to identify beneficiaries who have worked and whose work activity appears to warrant further review. The CDREO system has recently been integrated with our DCF, which controls the earnings enforcement issues that the CDREO system generates. We are analyzing a comprehensive matching interface that will provide verification of earnings for both Title II and Title XVI beneficiaries and ensure that earnings enforcement actions generated by the CDREO system are controlled to completion.

The Agency has initiated steps to improve and accelerate the process of wage reporting for individuals who have returned to work. Changes have been made within SSA's Regional Offices to establish a corps of fully trained Area Work Incentive Coordinators (AWIC) nationwide. The AWIC's primary responsibility involves the monitoring of area work incentive workloads and activities. The roll-out of our new national database, eWork, will provide a centralized location that will use evidence of work activity to schedule and process work-related CDRs. We believe eWork will improve and speed up the CDR process and provide better management information data to control work issue workloads.

Recommendation

Ensure that earnings reported on the MEF or disclosed on beneficiary-completed forms are evaluated when medical CDRs are performed or mailer CDR forms are received.

Comment

We agree. We are providing employment support training to all direct service employees that will, with the aid of the automation effort discussed above, help ensure that all reported earnings are evaluated. The DCF now has the ability to control both a pending work issue and a pending medical issue at the same time. Prior to November 2002, we could only control one issue at a time.

Recommendation

Ensure that earnings resulting in benefit increases are evaluated to determine whether trial work activity and/or SGA were performed.

Comment

We agree. By enhancing our ability to control and timely resolve earnings enforcements (as previously described), we will also be able to ensure that earnings resulting in benefit increases are evaluated. All earnings that would be indicative of a return to work and that would result in a benefit increase will trigger controlled earnings enforcement actions.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

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OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

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OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

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