



## SOCIAL SECURITY

### MEMORANDUM

Date: September 22, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Computation of Delayed Retirement Credits  
(A-09-07-17135)

The attached final report presents the results of our review. Our objective was to determine whether the Social Security Administration accurately adjusted benefits of retired wage earners for delayed retirement credits.

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

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**THE SOCIAL SECURITY  
ADMINISTRATION'S  
COMPUTATION OF DELAYED  
RETIREMENT CREDITS**

September 2008

A-09-07-17135

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**AUDIT REPORT**

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## **Mission**

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

## **Authority**

**The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:**

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

**To ensure objectivity, the IG Act empowers the IG with:**

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

## **Vision**

**We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.**



# SOCIAL SECURITY

## MEMORANDUM

Date: September 22, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Computation of Delayed Retirement Credits (A-09-07-17135)

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) accurately adjusted benefits of retired wage earners for delayed retirement credits (DRC).

## BACKGROUND

The *Social Security Act* provides that individuals who delay their retirement beyond full retirement age (FRA) will receive an increase in their monthly benefit amount.<sup>1</sup> The increase in the monthly benefit, known as a DRC, is earned beginning with the month a wage earner attains FRA and ending with the month the wage earner attains age 70. A DRC is earned for each month a wage earner was fully insured and eligible for retirement benefits, but benefits were not paid because an application was not filed, SSA applied the annual earnings test or the foreign work test, or at the wage earner's request.<sup>2</sup> The DRC increases monthly benefits by a maximum of 7.5 percent per year for retired wage earners who attain FRA in 2008.<sup>3</sup>

To ensure the accuracy of the DRCs awarded to retired wage earners, SSA performs an annual DRC Roundup Operation to identify beneficiaries who may be due an increase in their monthly benefits because of DRCs. During this operation, SSA compares the dates an individual qualified for retirement benefits, started receiving their benefit, and attained FRA to determine the appropriate number of DRCs the beneficiary is entitled to receive.

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<sup>1</sup> The *Social Security Act* § 202(w), 42 U.S.C. § 402(w).

<sup>2</sup> SSA, Program Operations Manual System (POMS), RS 00615.690A.2.a.

<sup>3</sup> SSA, POMS, RS 00615.692C and D.

We obtained two data extracts from one segment of SSA's Master Beneficiary Record (MBR). Each segment represents 5 percent of the entire MBR. The first extract from the 5-percent segment identified 39,731 retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and September 2006, and were granted at least 1 DRC. The second extract from the segment identified 70 retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and December 2004, and started receiving benefits after attaining FRA, but their benefits were not adjusted for DRCs. We selected a random sample of 275 beneficiaries for review from the first data extract, and we reviewed all 70 of the beneficiaries identified by the second data extract (see Appendix C).<sup>4</sup>

## RESULTS OF REVIEW

We found that SSA was generally effective in adjusting the monthly benefits for retired wage earners who were eligible for DRCs. However, we identified the following areas for improvement.

- Our review of a random sample of 275 retired wage earners who had at least 1 DRC found that SSA made proper payments to 269 (98 percent). The remaining six beneficiaries were improperly paid \$2,319 because an incorrect number of DRCs was granted. Of the six improperly paid beneficiaries, four were overpaid \$2,135 and two were underpaid \$184.
- Our review of 70 retired wage earners who were initially entitled to benefits after FRA, but their benefits were not adjusted for DRCs, disclosed that 51 (73 percent) were underpaid \$82,826. Based on our sample results, we estimate there are 1,020 retired wage earners who were underpaid approximately \$1.7 million (see Appendix C).

These errors occurred because monthly benefit amounts were incorrectly calculated or the DRC Roundup Operation did not always identify retired wage earners who were eligible for DRCs.

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<sup>4</sup> The MBR is divided into 20 segments, with each segment representing 5 percent of all records. We identified 39,731 beneficiaries who were granted at least 1 DRC from 1 segment of the MBR. As a result, we estimate that 794,620 beneficiaries (39,731 x 20) were granted at least 1 DRC. In addition, we identified a population of 70 beneficiaries whose date of initial entitlement was after FRA, but their benefits were not adjusted for DRCs. As a result, we estimate that 1,400 beneficiaries were initially entitled to benefits after FRA, but their benefits were not adjusted for DRCs.

## **BENEFICIARIES WHO RECEIVED DRCS WERE GENERALLY PAID CORRECTLY**

A DRC is earned for each month a retired wage earner attains FRA and ending with the month the wage earner attains age 70. A DRC is earned for each month the wage earner is fully insured and eligible for retirement benefits, but does not receive them because an application was not filed; benefits were due, but not paid because of the annual earnings test, the foreign work test; or benefits were not paid at the wage earner's request to earn DRCs.<sup>5</sup>

Based on our review of a random sample of 275 retired wage earners who had at least 1 DRC, we found that SSA correctly granted DRCs and adjusted the monthly benefits for 269 (98 percent) beneficiaries. The remaining six beneficiaries were improperly paid \$2,319. These improper payments occurred because SSA granted DRCs the beneficiaries were not eligible to receive or the DRCs were incorrectly calculated. For example, SSA incorrectly granted 1 beneficiary 27 DRCs based on the beneficiary's attainment of FRA in September 1999. However, the beneficiary was not eligible for DRCs until October 2001, the date the beneficiary was fully insured and eligible for retirement benefits. Therefore, the beneficiary was overpaid \$1,457 through November 2007.

## **BENEFICIARIES WHO SHOULD BE GRANTED ADDITIONAL DRCS**

The annual DRC Roundup Operation is designed to ensure the accuracy of the DRCs that should be granted to retired wage earners. We estimate there were about 1,400 retired wage earners in current pay status who were initially entitled to retirement benefits after attaining FRA, but their benefits were not adjusted for DRCs. Based on our review of the 70 retired wage earners we identified, we determined that SSA did not always grant DRCs and adjust the monthly benefits for retired wage earners.

These errors occurred because monthly benefit amounts were incorrectly calculated or the DRC Roundup Operation did not identify retired wage earners who were eligible for DRCs.<sup>6</sup> As a result, we found that SSA underpaid \$82,826 to 51 beneficiaries in our sample. Based on our sample results, we estimate that SSA underpaid about \$1.7 million to approximately 1,020 beneficiaries (see Appendix C).

For example, one retired wage earner was entitled to an increase in retirement benefits due to her delayed retirement. At the time, SSA correctly identified the beneficiary was entitled to 60 DRCs; however, the beneficiary's monthly benefits were not increased to give credit for the DRCs. As a result, SSA underpaid the beneficiary \$14,327 from September 1990 to November 2007. In another example, a beneficiary was entitled to an increase in monthly benefits due to delayed retirement. However, SSA did not

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<sup>5</sup> SSA, POMS, RS 00615.690A.2.a.

<sup>6</sup> SSA staff informed us that systems changes made in June and August 2004 ensured that all retired wage earners eligible for DRC would be properly identified.

identify that the beneficiary was eligible for 36 DRCs and did not increase his monthly benefits accordingly. As a result, SSA underpaid the beneficiary \$2,233 from February 2003 to November 2007.

## **CONCLUSION AND RECOMMENDATIONS**

Our review found that SSA was generally effective in adjusting the monthly benefits for retired wage earners who were eligible for DRCs. However, we found that SSA should take corrective actions for those beneficiaries in our review who were not properly granted DRCs. Specifically, we estimate that SSA underpaid about \$1.7 million to approximately 1,020 beneficiaries. Therefore, we recommend that SSA:

1. Take corrective action to pay underpayments and establish overpayments for the 57 beneficiaries identified by our audit.
2. Identify and take corrective action on the population of retired wage earners who are underpaid because they are eligible for additional DRCs.
3. Remind staff of the requirements for granting DRCs and the proper adjustments to monthly benefit amounts.

## **AGENCY COMMENTS**

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



Patrick P. O'Carroll, Jr.

# *Appendices*

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[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Sampling Methodology, Results and Estimates

[APPENDIX D](#) – Agency Comments

[APPENDIX E](#) – OIG Contacts and Staff Acknowledgments



## Acronyms

DRC	Delayed Retirement Credit
FRA	Full Retirement Age
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

### Scope and Methodology

We reviewed the provision of the *Social Security Act* that provides an increased monthly benefit to retired wage earners who delay their retirement beyond full retirement age (FRA).<sup>1</sup> We obtained two data extracts from one randomly selected segment of the Social Security Administration's (SSA) Master Beneficiary Record (MBR). Each segment represents 5 percent of the entire MBR. The first extract from the 5-percent segment consisted of 39,731 retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and September 2006 and were granted at least 1 delayed retirement credit (DRC). The second extract from the segment consisted of 70 retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and December 2004 and started receiving benefits after attaining FRA, but their benefits were not adjusted for DRCs. We selected a random sample of 275 beneficiaries for review from the first data extract and reviewed all 70 of the beneficiaries identified in the second data extract.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act*, U.S. Code, and SSA's Program Operations Manual System;
- interviewed SSA employees from the Western Program Service Center and the Office of Retirement and Survivors Insurance Systems; and
- reviewed queries from SSA's MBR and Master Earnings File.

We obtained a general understanding of the internal control structure to plan the audit and determine the nature, extent, and timing of the tests to be performed. Specifically, we reviewed SSA's policies and procedures related to computing and granting DRCs.

We determined the computer-processed data from the MBR were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed our work in Richmond, California, between February and May 2008. The entities audited were SSA's Offices of Operations and Systems.

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<sup>1</sup> The *Social Security Act* § 202(w), 42 U.S.C. § 402(w).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Sampling Methodology, Results and Estimates

We obtained two data extracts from a randomly-selected segment of the Social Security Administration’s (SSA) Master Beneficiary Record (MBR). The first extract consisted of retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and September 2006 and had at least one delayed retirement credit (DRC). The second extract consisted of retired wage earners in current pay status who became entitled to retirement benefits between January 1999 and December 2004 and started receiving benefits after attaining full retirement age, but their benefits were not adjusted for DRCs.

### Retired Wage Earners Who Had at Least 1 DRC

Our first extract consisted of 39,731 records that were selected from 1 of the 20 segments of SSA’s MBR.<sup>1</sup> We randomly selected 275 records to determine whether SSA complied with its policies and procedures for granting DRCs for those beneficiaries. Our review found that SSA made proper payments to 269 (98 percent) of the beneficiaries. The remaining six beneficiaries were improperly paid \$2,319 because an incorrect number of DRCs was granted. The following tables provide the details of our sample results.

**Table 1 – Population and Sample Size**

Description	Number of Beneficiaries
Population Size (Data extract from 1 segment)	39,731
Sample Size	275

**Table 2 – Incorrect DRCs Granted**

Description	Number of Beneficiaries	Improper Payments
Sample Results	6	\$2,319

<sup>1</sup> The MBR is divided into 20 segments for processing and updating. Each segment represents 5 percent of all records. We randomly selected a sample of 275 records from our population of 39,731 records that we extracted from the 1 segment of the MBR.

## Retired Wage Earners Whose Benefits Were Not Adjusted For DRCs

Our second extract consisted of 70 records that were selected from 1 of the 20 segments of SSA's MBR.<sup>2</sup> We reviewed all 70 records to determine whether SSA complied with its policies and procedures for the granting of DRCs for those beneficiaries. Our review found that SSA underpaid \$82,826 to 51 beneficiaries. The following table provides the details of our review results and estimates.

**Table 3 – Review Results and Estimates**

<b>Description</b>	<b>Number of Beneficiaries</b>	<b>Underpayments</b>
Review Results	51	\$82,826
Estimate for Entire MBR <sup>3</sup>	1,020	\$1,656,520

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<sup>2</sup> Id.

<sup>3</sup> Represents the review results multiplied by 20 segments.

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** September 11, 2008 **Refer To:** S1J-3

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

**From:** David V. Foster /s/ (Jim Winn for David Foster)  
Executive Counselor to the Commissioner

**Subject:** Office of the Inspector General (OIG) Draft Report, "Review of the Social Security Administration's Computation of Delayed Retirement Credits" (A-09-07-17135)--  
INFORMATION

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

Please let me know if we can be of further assistance. Please direct staff 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, "REVIEW OF THE SOCIAL SECURITY ADMINISTRATION'S COMPUTATION OF DELAYED RETIREMENT CREDITS" (A-09-07-17135)**

Thank you for the opportunity to review and comment on the draft report. We are pleased with the report's finding that we were generally effective in adjusting the monthly benefits for retired wage earners who were eligible for delayed retirement credits (DRC). Below are our responses to the specific recommendations. Our responses describe actions already taken or planned to address the areas needing improvement.

**Recommendation 1**

Take corrective action to pay underpayments and establish overpayments for the 57 beneficiaries identified by the audit.

Response

We agree. Once we receive a list of the 57 beneficiaries identified by the audit, we will take corrective action to pay underpayments and establish overpayments.

**Recommendation 2**

Identify and take corrective action on the population of retired wage earners who are underpaid because they are eligible for additional DRCs.

Response

We agree. Systems enhancements made in 2004 have addressed the concerns in this recommendation.

**Recommendation 3**

Remind staff of the requirements for granting DRCs and the proper adjustments to monthly benefit amounts.

Response

We agree. We will issue training materials in September 2008 that will remind staff of the requirements for granting DRCs and the proper adjustments to monthly benefit amounts.



## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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

Joseph Robleto, Audit Manager, (510) 970-1737

### ***Acknowledgments***

In addition to those named above:

Timothy E. Meinholz, Senior Auditor

Manfei Lau, Senior Auditor

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-09-07-17135.

## **DISTRIBUTION SCHEDULE**

Commissioner of Social Security

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Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Committee on the Budget, House of Representatives

Chairman and Ranking Minority Member, Committee on Oversight and Government Reform

Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Committee on Finance

Chairman and Ranking Minority Member, Subcommittee on Social Security Pensions and Family Policy

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board

## **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

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.

### **Office of Investigations**

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Counsel to the Inspector General**

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.