

Office of the Inspector General

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Kenneth S. Apfel
Commissioner of Social Security

Acting Inspector General

Social Security Administration's Controls over Retirement, Survivors and Disability Insurance Installment Payments

The attached final report presents the results of our review, "Social Security Administration's Controls over Retirement, Survivors and Disability Insurance Installment Payments" (A-01-96-61038). Our objective was to determine the adequacy of specific internal controls implemented by the Social Security Administration to control installment payments of Retirement, Survivors and Disability Insurance benefits.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Pamela J. Gardiner, Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SOCIAL SECURITY
ADMINISTRATION'S CONTROLS
OVER RETIREMENT, SURVIVORS
AND DISABILITY INSURANCE
INSTALLMENT PAYMENTS**

September 1998

A-01-96-61038

AUDIT REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objective of this audit was to determine the adequacy of specific internal controls implemented by the Social Security Administration (SSA) to control installment payments of Retirement, Survivors and Disability Insurance (RSDI) benefits.

BACKGROUND

In certain situations, RSDI benefits are not paid to a claimant when due, but accumulate and are later paid by SSA in installments. For example, when benefits are awarded to a claimant who needs a representative payee (Rep Payee), and the payee has not yet been appointed, the payments made on behalf of the beneficiary are held by SSA as accumulated benefits. Once a payee is appointed, the claims authorizer may pay the benefits. Depending on the amount of the accumulated benefits, the claims authorizer may elect to pay a lump sum, or make monthly installment payments. If the payment is to be made on an installment basis, then that payment will be made in addition to the regular monthly benefit payment.

In 198 of the 200 cases included in our review, the beneficiary was entitled to benefits based upon drug addiction and/or alcoholism (DA&A). The "Contract with America Advancement Act of 1996" (Public Law (P.L.) 104-121) amended the Social Security Act to deny disability benefits to individuals for whom DA&A is a contributing factor material to the disability determination. Effective March 29, 1996, benefits were no longer awarded to individuals based on DA&A. Benefit payments to DA&A beneficiaries were terminated January 1, 1997, unless the basis for disability was redetermined and SSA found that DA&A was no longer material to the beneficiary's disability. SSA notified 209,374 beneficiaries that their condition would be reviewed as a result of P.L. 104-121. Of those who received notices, 140,250 (67 percent) beneficiaries' payments were terminated.

Prior to passage of P.L. 104-121, accumulated benefits due to an entitled beneficiary because of DA&A were required to be paid in installments. This legislation eliminated the requirement to pay past due benefits in installments. Effective with a redetermination of disability, any remaining installment amount can be paid in a lump sum. However, for those DA&A beneficiaries whose benefits terminated January 1, 1997, the old law governing their entitlement continues to apply. Hence, any installment payments remaining due will continue to be paid in installments through a Rep Payee.

RESULTS OF REVIEW

SSA has not ensured that installment payments are correctly paid. In 108 of 200 cases with installment payments included in our review, the installment amounts were not correctly paid. For the 200 cases, the amount to be paid in installment payments was \$1,429,400. For the 108 cases containing payment errors, 46 were overpaid \$116,555 and 62 were underpaid \$64,538. Projecting these results to the 6,169 RSDI beneficiaries receiving installment payments as of February 1997, we estimate 1,326 beneficiaries have been overpaid \$3,660,428 and 1,789 beneficiaries have been underpaid \$1,760,596.

These 46 overpayments and 62¹ underpayments resulted for various reasons:

- In 41 cases, clerical errors occurred which caused installments to be overpaid. Even though we could not definitively determine the causes of these clerical errors, Program Operations Manual System (POMS) section DI 90070.200, which provides instructions for processing installment payments after January 1997 termination of benefits to DA&A beneficiaries, probably contributed to the number of overpayments. This section instructs SSA employees to use the amount in the Current Total Installment Amount (CTIA) field on the Master Beneficiary Record (MBR) when establishing the installment payment schedule. However, paying the amount in this field, without a proper review of the beneficiary's record, resulted in payments being processed for the wrong amount.
- In five cases, separate installment payments were paid twice in the same month, which resulted in overpayments.
- In 46 cases, monthly checks that included installment payments were held, stopping the payments from being processed. The interaction of the hold check action and the automated installment balance adjustment resulted in incorrect remaining installment balances and those 46 cases being underpaid. The POMS instructions cited above led to balances being paid incorrectly since the beneficiary's record was not reviewed prior to payment.
- In 11 cases, a Manual Adjustment, Credit and Award Process (MADCAP) action that needed to be processed to pay the remainder of the installment balance was not processed, causing these installments to be underpaid.
- In 11 other cases, beneficiaries were underpaid because installment payments stopped for undeterminable reasons prior to the full installment balance being paid.

¹ Sixty-two of 200 installment cases have been underpaid. However, the detailed cases total 72 because some installments were underpaid for more than 1 reason. For example, six installments were underpaid due to a held check and the remainder not being paid through a Manual Adjustment, Credit and Award Process action. These six installments are in both categories.

- In four cases, an underpayment special payment amount (SPA) was set up on the MBR to track the remaining installment balance. The amount set up in the underpayment SPA field was understated. As a result, even after the SPA amount is paid, these beneficiaries will be underpaid.

CONCLUSIONS AND RECOMMENDATIONS

Though fewer individuals may be receiving installment payments in the future because of passage of P.L. 104-121, SSA's automated system for controlling installment payments will continue to be used. Thus, SSA's system of internal controls needs to be strengthened over the manual entering of initial payment balances into the automated system and manual override of the established payment schedule.

We recommend that SSA:

- Review the records of the 6,169 beneficiaries with installment payments included in our review so that the approximately 1,326 beneficiaries overpaid an estimated \$3,660,428 and approximately 1,789 beneficiaries underpaid an estimated \$1,760,596 can be identified, overpayments recovered, and underpayments properly paid.
- Require review and signature by a second employee to establish an initial payment balance or to manually override the established payment schedule to ensure that installment balances are accurately paid.

AGENCY COMMENTS

In response to our draft report, SSA agreed with our first recommendation, but did not agree with our second recommendation. With regard to our second recommendation, SSA stated that the intricacies of implementing P.L. 104-121 led to these cases being processed incorrectly. As such, SSA does not believe that it is prudent to initiate a two-tier process for the manual aspects of installment processing when the accuracy findings were based on a sample almost exclusively made up of a problematic workload that no longer exists.

OIG RESPONSE

We agree that since the DA&A workload no longer exists, fewer installment payments will be made in the future. However, we continue to believe that the problems found in our review in manually calculating payment amounts were caused by clerical errors and that internal controls need to be strengthened.

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INTRODUCTION

OBJECTIVE

The objective of this audit was to determine the adequacy of specific internal controls implemented by SSA to control installment payments of RSDI benefits.

BACKGROUND

In certain situations, RSDI benefits are not paid to a claimant when due, but accumulate and are later paid by SSA in installments. For example, when benefits are awarded to a claimant who needs a Rep Payee, and the payee has not yet been appointed, the benefit payments made on behalf of the beneficiary are held by SSA as accumulated benefits. Once a payee is appointed, the claims authorizer pays the benefits. Depending on the amount of the accumulated benefits, the claims authorizer may elect to pay a lump sum, or make monthly installment payments. If payment is to be made on an installment basis, then payment will be made in addition to the regular monthly benefit payment. The claims authorizer enters "IN" in the Special Indicator Code field. This allows the MADCAP system to issue a monthly installment payment in addition to the regular monthly benefit payment.

Previously, SSA relied on manual diaries to cease installment payments. Often, these diaries were processed after the maturity date, causing an overpayment. For RSDI benefits, SSA initiated an automated system to cease ongoing² installment payments timely. However, SSA's installment payment system relies on manual processes. Specifically, SSA relies on manual processes to establish beginning installment balances and to pay remaining installments to beneficiaries whose payments have been terminated.

In 198 of the 200 cases included in our review, the beneficiary was entitled to benefits based upon DA&A. The "Contract with America Advancement Act of 1996" (P.L. 104-121) amended the Social Security Act to deny disability benefits to individuals for whom DA&A is a contributing factor material to the disability determination. Effective March 29, 1996, benefits are not awarded to individuals based on DA&A. Benefit payments to DA&A beneficiaries were terminated January 1, 1997, unless the basis for disability was redetermined and SSA found that DA&A was no longer material to the beneficiary's disability. SSA notified 209,374 beneficiaries that their condition would be reviewed as a result of P.L. 104-121. Of those who received notices, 140,250 (67 percent) beneficiaries' payments were terminated as of May 30, 1997.

² Ongoing installments are installment payments made to RSDI beneficiaries who are in current pay status. For these cases, the installment payment is paid in addition to the regular monthly payment.

Prior to passage of P.L. 104-121, accumulated benefits due to an entitled beneficiary because of DA&A were required to be paid in installments. Monthly installments could only be made to the extent that the sum of the installment and the amount of any current benefit payable did not exceed twice the amount of the individual's benefit rate for the preceding month. P.L. 104-121 eliminated the requirement to pay past due benefits in installments to former DA&A beneficiaries who remained eligible for benefits because of another impairment. Effective with a redetermination of disability, any remaining installment amount should be paid in a lump sum. However, for those DA&A beneficiaries whose benefits terminated January 1, 1997, the old law governing their entitlement continues to apply. Hence, any installment payments remaining due will continue to be paid in installments through a Rep Payee.

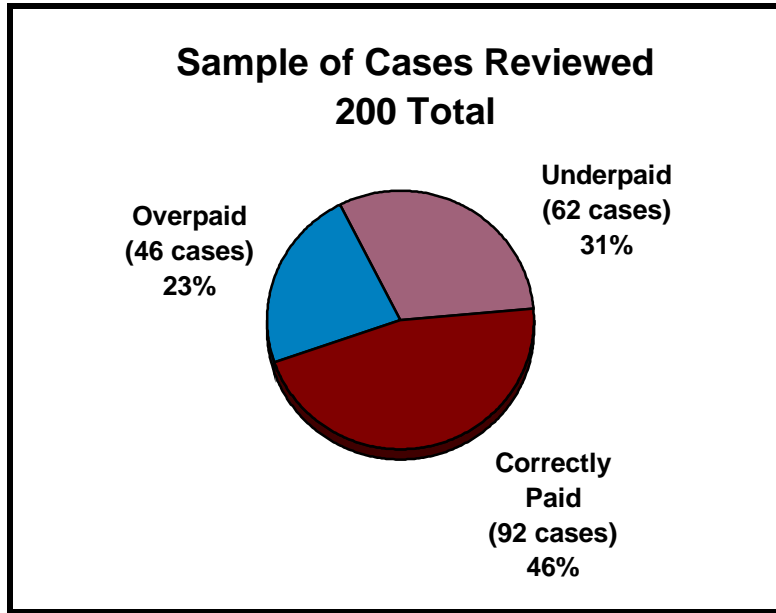
SCOPE AND METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidelines;
- sampled 200 cases from 6,169 which had installment balances as of February 1997 (see Appendix A for details of our sampling methodology);
- reviewed SSA records of installment benefits paid on behalf of the 200 beneficiaries in our sample; and
- consulted with individuals in the program service centers responsible for the cases included in our review.

We assessed the internal controls over establishing, maintaining, and eliminating installment payment balances. Our audit was conducted between May 1997 and March 1998 in Boston, Massachusetts. Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW



SSA has not ensured that installment payments are correctly paid. In 108 of the 200 cases sampled, the installment balance was not correctly paid. For the 200 cases, the amount to be paid in installments was \$1,429,400. For the 108 cases, 46 installments were overpaid \$116,555 and 62 installments were underpaid \$64,538. Projecting these results to the 6,169 RSDI beneficiaries receiving installment payments as of February 1997, we estimate

1,326 beneficiaries have been overpaid \$3,660,428 and 1,789 beneficiaries have been underpaid \$1,760,596. In 38 of the 46 cases overpaid, the beneficiaries were no longer receiving benefits at the time of our review; however, in 8 of the overpaid cases, the beneficiaries were still receiving benefits at the time of our review. These cases were overpaid, even though automated controls had been instituted by SSA.

OVERPAID CASES

In 46 of the 200 cases included in our review, the beneficiaries were overpaid. These 46 overpayments were caused by clerical errors and multiple installment payments in the same month for the same beneficiary.

Clerical Errors

- In 41 of the 46 overpaid cases, clerical errors occurred which caused the beneficiaries to be overpaid \$112,508. Of the 41 clerical errors in our review, 39 were processed by the Office of Central Operations (OCO). We interviewed a Payment Determination Specialist at OCO, but the specialist was unable to determine the cause of these clerical errors. The Payment Determination Specialist stated that once an incorrect action is taken, it is very difficult to determine “what”

and “why” it was done. The types of clerical errors involved were varied and numerous, some examples are as follows:

- In 21 of 41 cases overpaid, manual payments were made through the critical payment system.
- In two cases, a full monthly installment amount rather than the remaining installment balance was paid as the final payment.
- In one case, the amount paid in installments included a 7-month period in which the beneficiary was incarcerated and not entitled to benefits. However, the suspension for incarceration was not taken into account when the ending installment balance was paid. This beneficiary was overpaid \$10,446 of which \$7,994 is attributable to the period of incarceration.
- In one case, the Benefits Authorizer (BA) took action to pay the last of the installment balance, but erroneously paid out too much money. The BA released an \$8,135 payment when the remaining installment balance was \$1,220. This action caused the beneficiary to be overpaid \$6,915.

We do not have conclusive evidence as to the cause of these overpayments. However, SSA’s procedures for processing installment payments after the January 1997 termination of benefits to DA&A beneficiaries stated that the SSA employee should use the amount in the CTIA field on the MBR when establishing the installment payment schedule. Paying the amount in this field, without a proper review of the beneficiary’s record, appears to have contributed to the cause of these overpayments. Additionally, we spoke with an Operations Analyst at the Western Program Service Center and were informed that even though these instructions said to pay the amount in the installment field, he manually recalculated the amount due the beneficiary. This analyst calculated the amount to be paid in two cases included in our review. In both cases, the analyst determined that the CTIA amount on the MBR was incorrect.

Two Payments in 1 Month

In 5 of 46 overpaid cases, 2 installment payments were paid in the same month to the same beneficiary. In all five cases, a regular installment payment and a manual installment were both paid. These payments caused beneficiaries to be overpaid \$4,047. In four of these five cases, the two installment payments were made in January 1997.

UNDERPAID CASES

In 62 of the 200 cases included in our review, beneficiaries were underpaid. These underpayments happened for various reasons, including: (1) held checks,

(2) remainder of installment balance not being paid, (3) installments stopping prior to being fully paid, and (4) understated SPAs.

Held Checks

In 46 cases, a check that included an installment payment was held, resulting in installment payments being underpaid. The total underpayment amount related to these checks being held is \$34,182. Forty-one of the 46 held checks occurred in January 1997. P.L. 104-121 states that benefits to individuals entitled as DA&A beneficiaries terminated January 1, 1997, unless the basis for their disability was redetermined and SSA found that DA&A was no longer material to the disability determination. All 46 beneficiaries were entitled to benefits based upon DA&A and benefits for these individuals terminated in January 1997. As stated previously, SSA's procedures for processing installment payments after January 1997 stated that the employee should use the amount in the CTIA field on the MBR when establishing the installment payment schedule. Paying the amount in this field without a proper review of the beneficiaries' records contributed to the cause of these underpayments. The interaction of the hold check action and the automated installment balance adjustment resulted in incorrect remaining installment balances and 46 cases being underpaid.

Remainder of Installment Balances

In 11 cases, MADCAP actions were not processed to pay the remainder of the installment balance. In each of these cases, the MBR showed that the remainder would be paid through a MADCAP action; however, necessary actions were not taken and these cases were underpaid. The total underpayment amount attributed to the MADCAP actions not being processed is \$6,938.

Installment Stopped

In 11 cases, installment payments stopped for an undeterminable reason prior to the full installment balance being paid. SSA officials could not determine why these installment payments were stopped because the action was not documented in the case folder or on the MBR. These 11 beneficiaries have been underpaid \$20,841.

Understated SPA Field

In four cases, installment payments stopped and an underpayment SPA was set up on the MBR to track the remaining installment amount. Three of the four SPAs were established because the beneficiaries died. In these cases, the underpayment SPA was set up for less than the amount that still needed to be paid in installments. As a result, even after these underpayment SPAs are paid in full, these four beneficiaries will still be underpaid \$2,578.

ONGOING INSTALLMENTS

In 38 of 46 cases overpaid, the beneficiaries were no longer receiving benefits at the time of our review. However, in eight of the overpaid cases, the beneficiaries were still receiving benefit payments at the time of our review. These cases were overpaid even though automated controls had been instituted by SSA. Our discussions with SSA officials and review of internal controls over installments indicated that controls over ongoing installment payments to beneficiaries in current pay status should preclude overpayments from occurring. We found that:

- In five of the eight overpaid cases, automated controls were overridden and installments were manually paid.
- In two cases, the amount set up as an installment balance was fully paid. However, the amount initially set up to be paid in installments was incorrect and these two beneficiaries were overpaid.
- One installment was overpaid because payments continued after the installment balance was fully paid. This case was reviewed by a specialist at OCO, who could not determine why payments continued despite the automated controls.

CONCLUSIONS AND RECOMMENDATIONS

Prior to beginning our review, SSA officials informed us that automated controls were in place to ensure that installment balances could not be overpaid. However, during our review, we determined that SSA relies on manual processes to establish beginning installment balances and to pay remaining installments to beneficiaries whose payments have been terminated. Also, automated controls were sometimes manually overridden and more than the amount in the installment balance was paid.

Though fewer individuals may be receiving installment payments in the future because of passage of P.L. 104-121, SSA continues to use an automated system for controlling installment payments. Thus, SSA's system of internal controls needs to be strengthened over the manual entering of initial payment balances into the automated system and manual override of the established payment schedule. Internal controls would be strengthened by adding a control procedure to have a second employee review the manual calculation of beginning installment balances or whenever an established payment schedule is manually overridden.

We recommend that SSA:

1. Review the records of the 6,169 beneficiaries with installment payments included in our review so that the approximately 1,326 beneficiaries overpaid an estimated \$3,660,428 and approximately 1,789 beneficiaries underpaid an estimated \$1,760,596 can be identified, overpayments recovered, and underpayments properly paid.
2. Require review and signature by a second employee to establish an initial payment balance or to manually override the established payment schedule to ensure that installment balances are accurately paid.

AGENCY COMMENTS

In response to our draft report, SSA agreed with our first recommendation, but did not agree with our second recommendation. Specifically, SSA agreed to review the records of beneficiaries with installment payments to ensure that these beneficiaries were properly paid. With regard to our second recommendation, SSA stated that the intricacies of implementing P.L. 104-121 were the reason these cases were processed incorrectly. As such, SSA does not believe that it is prudent to initiate a two-tier process for the manual aspects of installment processing when the accuracy findings were based on a sample almost exclusively made up of a problematic workload that no longer exists.

OIG RESPONSE

We agree that since the DA&A workload no longer exists, fewer installment payments will be made in the future. However, we continue to believe that the types of problems found in our review when manually calculating the payment amount are caused by clerical errors and not related to the beneficiaries' impairment. As such, a second review of the manual calculation before the payment is made would be a prudent measure in ensuring that payment amounts are correct. Internal controls over manual processes are inherently weak and should be supplemented to ensure that calculations are accurate. Since SSA indicates that fewer installment payments will be made in the future, the resources needed for a second employee to verify the manual calculation should not be significant.

APPENDICES

METHODOLOGY AND RESULTS OF STATISTICAL SAMPLING

From the Social Security Administration, we obtained extracts from the Master Beneficiary Record of cases that had an entry in the Current Ongoing Installment Amount field in February and April of 1997. We compared these extracts and stratified them for sampling purposes. The first stratum consisted of 1,537 cases which had installment payments in February 1997 but the installment payments ended by April 1997. The second stratum consisted of 4,632 cases which had installment payments in February 1997 and were still ongoing in April of 1997. Using a stratified random sample design, we randomly sampled 100 of the 1,537 cases and 100 of the 4,632 cases. Overall, 108 beneficiaries have been overpaid or underpaid. For the 108 beneficiaries, 46 were overpaid \$116,555 and 62 were underpaid \$64,538.

Sample Results	Installment Ended April 1997	Installment Ongoing April 1997	Total
Population Dollars	\$436,414	\$992,986	\$1,429,400
Population Size	1,537	4,632	6,169
Sample Size	100	100	200
Attribute Projections			
Sample Overpayments	26	20	46
Projected Overpayments	400	926	1,326
Precision (plus or minus)			322
Sample Underpayments	35	27	62
Projected Underpayments	538	1,251	1,789
Precision (plus or minus)			357
Dollar Projections			
Overpayment Dollars	\$56,168	\$60,387	\$116,555
Projected O/P Dollars	\$863,305	\$2,797,123	\$3,660,428
Precision (plus or minus)			\$1,464,482
Underpayment Dollars	\$39,704	\$24,834	\$64,538
Projected U/P Dollars	\$610,258	\$1,150,338	\$1,760,596
Precision (plus or minus)			\$497,316

Note: All precision figures were calculated at the 90 percent confidence level.

SSA's COMMENTS

MAJOR REPORT CONTRIBUTORS

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SSA ORGANIZATIONAL CHART
