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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**Payments Resulting from Disability Insurance  
Actions Processed via the Social Security  
Administration's Manual Adjustment,  
Credit and Award Processes**

**April 2006**

**A-04-05-15042**

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**AUDIT REPORT**

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- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
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## SOCIAL SECURITY

### **MEMORANDUM**

**Date:** April 20, 2006

**Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Payments Resulting from Disability Insurance Actions Processed via the Social Security Administration's Manual Adjustment, Credit and Award Processes (A-04-05-15042)

### **OBJECTIVE**

We performed this review to determine whether Disability Insurance (DI) payments resulting from actions completed through the Manual Adjustment, Credit and Award Processes (MADCAP) were accurate and approved.

### **BACKGROUND**

The Social Security Administration (SSA) administers the Old-Age, Survivors and Disability Insurance (OASDI) program under Title II of the *Social Security Act*, as amended (Act). Section 223 of the Act<sup>1</sup> requires that SSA provide monthly DI benefits to eligible individuals who meet specific disability requirements as well as their eligible dependents. SSA's automated systems process monthly DI payments. However, when SSA's automated or direct input systems cannot completely process an action, authorized technicians at SSA's program service centers (PSC) must *manually* process the actions through the MADCAP system. For example, through the MADCAP system, authorized PSC employees may process actions that include establishing a beneficiary's Master Beneficiary Record (MBR);<sup>2</sup> initiating payment of DI benefits; updating or correcting information on the MBR (which may alter the monthly benefit amount); and terminating benefits.

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<sup>1</sup> 42 U.S.C. § 423.

<sup>2</sup> SSA establishes an MBR for each DI claimant. The MBR maintains pertinent information needed to accurately pay benefits to the claimant and all entitled dependents. The information maintained includes identification data (name, Social Security number, date of birth, address), earnings history, type and date of disability, monthly DI benefit amounts, and the reason for terminating or suspending benefit payments. Thus, any change in a claimant's or dependent's situation must be reflected on the MBR to ensure its integrity and the accuracy of benefit payments.

For the period July 1 through September 30, 2004, SSA OASDI beneficiaries received over \$773.8 million in MADCAP payments, with single payments ranging between \$1,000 and \$29,999.99. Most of these MADCAP payments, or about \$578.4 million (75 percent), were made to DI beneficiaries. The remaining payments were made to retirees and eligible survivors of deceased beneficiaries.

SSA policy requires that each MADCAP payment \$3,000 or greater be reviewed to verify the accuracy and appropriateness of the action and payment.<sup>3</sup> Within the PSCs, Post-Entitlement Technical Experts or Benefit Authorizers who did not initiate the action perform these reviews. The reviews are not required before payments are released. However, if a subsequent review reveals an erroneous payment, the beneficiary is notified of the error and necessary collection actions or additional payments are initiated.

## SCOPE AND METHODOLOGY

We reviewed a random sample of 250 DI MADCAP payments. We selected our sample from a universe of 85,200 DI MADCAP payments issued between July 1 and September 30, 2004 with a value equal to or greater than \$1,000. This universe of DI MADCAP payments ranged from \$1,000 to \$29,999.99. Payments of \$30,000 or more are not paid through the MADCAP system but are paid through SSA's Single Payment System. Accordingly, we expanded our scope to include six MADCAP payments equal to or greater than \$29,999. We tested these six payments to ensure their accuracy and to make certain payment through the MADCAP system was appropriate.

In general, DI MADCAP payments are issued to pay initial benefits to first time claimants or result from a post-entitlement action.<sup>4</sup> Most (about 74 percent) of the 250 randomly selected MADCAP payments we sampled were to pay initial DI benefits, with the remaining 26 percent issued as a result of post-entitlement actions for individuals already receiving DI benefits. Also, five of the six additional MADCAP payments selected were to pay initial DI benefits, while the remaining MADCAP payment was issued as a result of a post-entitlement action.

Our audit tested more than one control attribute for some MADCAP payments. Based on the source documents available, we determined whether (1) the action that created the MADCAP payment was appropriate and accurate and (2) there was evidence of approval for MADCAP payments \$3,000 and greater. As a result, some MADCAP payments have more than one reportable issue and are included as audit findings in more than one section of the report. Further information regarding our scope and methodology as well as our sampling methodology is in Appendices B and C.

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<sup>3</sup> Program Operations Manual System (POMS), SM 00858.030.

<sup>4</sup> A post-entitlement, or "...adjustment action can be defined as any subsequent action taken after a claim has been initially established." POMS, SM 00810.001.

## RESULTS OF REVIEW

During our audit period, SSA issued some inaccurate MADCAP payments to DI beneficiaries. Of the 250 randomly sampled MADCAP payments, 20 (8 percent) had payment errors totaling \$57,664: \$47,061 in overpayments and \$10,603 in underpayments. We agreed with the MADCAP payment amounts issued for the six additional MADCAP payments selected for our review. Based on these payment errors, we estimate that approximately 6,816 MADCAP payments over \$1,000 that SSA issued during the period July 1 to September 30, 2004 had payment errors totaling about \$19.7 million. See Appendix C for our projection methodology.

Various mistakes contributed to these payment errors. For example, SSA staff did not always

- correctly adjust MADCAP payments for cases with workers' compensation (WC) benefits,
- reduce MADCAP payments for fees paid directly to attorneys,
- correctly offset other SSA benefits from the MADCAP payments,
- suspend or terminate payments when claimants were not eligible for benefits, or
- consider benefits paid before the MADCAP payment.

Also, MADCAP payments of \$3,000 or more did not always have documentation evidencing the required approvals. While the payments may have been appropriately reviewed and approved, we were unable to verify these actions because documentation was not always available. Of the 250 randomly selected MADCAP payments, 166 were for \$3,000 or more and required appropriate review and approval. However, 112 (67 percent) payments lacked evidence of such approval. Because the six additional MADCAP payments reviewed exceeded \$3,000, they also required the appropriate review and approval. However, we could not find evidence of approval for one of these six MADCAP payments. Additionally, of the 20 MADCAP payments we found to be incorrect, there were 12 payments that required review and approval. However, for 8 of the 12 payments, we could not locate documentation to indicate the appropriate review and/or approval was conducted. A diligent review of these MADCAP payments may have identified and corrected the payment errors more promptly.

Finally, we determined five of the six DI MADCAP payments equal to or greater than \$29,999 were one of multiple payments involving one benefit action to the same individual. Although the total benefits paid for each of the actions was correct, we believe the payment for these benefit actions would have been more appropriately made through the Single Payment System.

## MADCAP PAYMENT ERRORS

Of the 250 randomly selected MADCAP payments, 20 (or 8 percent) had payment errors totaling \$57,664: \$47,061 in overpayments and \$10,603 in underpayments.

### MADCAP PAYMENTS FOR INITIAL BENEFITS HAD ERRORS

MADCAP payments for initial DI benefits usually cover several months and are a “catch up” payment for benefits due from the beneficiary’s entitlement date to the date SSA begins processing the monthly payments. The period between entitlement and first payment is referred to as the initial award period. Of the 20 MADCAP payments with errors, 14 (70 percent) were payments for benefits due in the initial award period. The payment errors for these 14 MADCAP payments totaled \$46,649. The payment errors ranged from a \$6,776 underpayment to a \$9,323 overpayment. SSA representatives reviewed these MADCAP payments and agreed a payment error occurred. As a result, SSA initiated corrective action to release the underpayments or recover the overpayments. Table 1 details the 14 MADCAP payments that were not paid at the correct amount.

**TABLE 1: MADCAP Payment Errors for Initial Benefits**

	MADCAP Payment Amount	Correct Payment Amount	MADCAP Payment Error	Type of Payment Error
<b>Errors Related to Workers’ Compensation</b>				
1	\$15,453	\$6,130	\$9,323	Overpayment
2	8,261	140	8,121	Overpayment
3	3,361	0	3,361	Overpayment
4	20,278	20,854	576	Underpayment
<b>Errors Related to Attorney Fees</b>				
1	\$5,640	\$340	\$5,300	Overpayment
2	10,023	7,801	2,222	Overpayment
3	2,715	1,090	1,625	Overpayment
4	3,782	3,530	252	Overpayment
5	2,169	3,972	1,803	Underpayment
<b>Errors Related to Variances Between Actual Benefits Paid and Benefits Due per the MBR</b>				
1	\$17,644	\$12,146	\$5,498	Overpayment
2	3,556	3,068	488	Overpayment
3	1,324	1,620	296	Underpayment
<b>Other Errors</b>				
1	\$2,074	\$1,066	\$1,008	Overpayment
2	21,848	28,624	6,776	Underpayment
<b>Total Payment Errors</b>			<b>\$46,649</b>	

### **Payment Errors Resulted from WC Offset Mistakes**

The amount of the monthly DI benefit and the resulting MADCAP payment may be affected if the beneficiary receives State WC benefits. In accordance with Federal law, SSA reduces (offsets) DI payments by the amount of any other disability benefit paid "...under any other law or plan of the United States, a State, a political subdivision...or an instrumentality of two or more States..."<sup>5</sup> Of the 14 MADCAP payment errors related to initial benefits, 4 occurred because SSA miscalculated the WC offset amount.

- In one example, the \$15,453 MADCAP payment resulted in a \$9,323 overpayment. SSA issued the MADCAP payment for benefits due during the claimant's initial award period of March 2002 through July 2004. However, SSA did not include attorney fees and other related expenses when it prorated the WC lump sum settlement.<sup>6</sup> As a result, SSA should have paid the beneficiary \$6,130, not \$15,453.
- In a second case, the \$8,261 MADCAP payment was almost entirely overstated. The MADCAP payment was for benefits due during the claimant's initial award period of June 2002 through March 2004. When it calculated benefits due for this period, SSA only considered the claimant's WC lump sum settlement and overlooked \$321.35 in weekly periodic WC payments. After including the periodic WC payments in the offset calculation, we determined the claimant was overpaid \$8,121.

The Office of the Inspector General (OIG) has been studying the effect of WC offsets on DI payments since 1996; the first audit report was issued in September 1998. See Appendix D for a complete list of OIG audit reports addressing the payment accuracy of DI cases with WC offsets. In prior WC-related reports, we acknowledged that the DI workload involving WC offset was complex and that the Agency has made efforts to improve the payment accuracy of this workload. Nevertheless, payment errors continue to exist. As such, we continue to support the recommendations listed in the reports found in Appendix D.

### **MADCAP Payments Were Not Always Adjusted for Attorney Fees**

Five of the 14 error cases occurred because SSA staff did not properly adjust the initial award payment for attorney fees. An individual applying for DI benefits may choose to have legal or other representation at an SSA eligibility hearing. When a claimant elects to have representation and is deemed eligible for DI benefits, the representative may request direct payment of approved fees from SSA. SSA will deduct these fees from the claimant's MADCAP payment.

In one case, the MBR indicated SSA approved a fee of \$5,300 for the beneficiary's attorney. However, the fee was not withheld from the beneficiary's MADCAP payment.

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<sup>5</sup> The Social Security Act, § 224, 42 U.S.C. § 424a.

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

In the other case, a \$1,625 attorney fee was not withheld from the MADCAP payment. As a result, the MADCAP payments were overstated \$5,300 and \$1,625, respectively.

### **MADCAP Payments Did Not Always Equal the Benefit Amount Recorded on the Beneficiary's MBR**

For three other initial award MADCAP payments, we agreed with the monthly amount of DI benefits SSA determined was due the beneficiaries. However, a discrepancy existed between the actual amount paid and the amount SSA calculated was due.

In one case, SSA issued a \$17,644 MADCAP payment for benefits accrued during a beneficiary's initial award period of February 1999 to August 2004. However, before SSA made the \$17,644 payment, it issued an \$8,571 MADCAP payment for a portion of these benefits. Therefore, SSA paid \$26,215 in DI benefits for the initial award period when only \$20,717 should have been paid. As a result, SSA overpaid the beneficiary \$5,498 via these MADCAP payments.

### **Other Types of MADCAP Payment Errors**

Of the two remaining MADCAP payments, one was understated because SSA incorrectly suspended benefits when a beneficiary was not incarcerated for 30 continuous days. The second was overstated because SSA staff did not properly adjust the initial award MADCAP payment to reflect other SSA benefits received.

- In one case, a \$21,848 MADCAP payment resulted in a \$6,776 underpayment. During the initial award period, SSA withheld 8 months of benefits because the beneficiary was incarcerated. According to SSA policy,<sup>7</sup> for benefits to be suspended, the beneficiary must be confined for more than 30 consecutive days. However, during this 8-month period, the beneficiary was only incarcerated on weekends, not for 30 consecutive days. Therefore, the beneficiary was entitled to benefits during this 8-month period. As a result, the MADCAP payment was understated by \$6,776.
- In the second case, the claimant was entitled to both DI and Supplemental Security Income (SSI)<sup>8</sup> benefit payments for the same period. To avoid claimants receiving overpayments, the initial award MADCAP payment should be reduced by the amount of SSI payments already received. The beneficiary received \$4,728 in SSI payments that should have been deducted from the MADCAP payment. However, only \$3,720 was deducted. Thus, SSA personnel overstated the MADCAP payment by \$1,008.

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<sup>7</sup> POMS, GN 02607.025.D.

<sup>8</sup> SSI is authorized by Title XVI of the Act, Sections 1601 through 1637 of the Social Security Act, 42 U.S.C. §§ 1381 through 1383f. The basic purpose of SSI is "...to provide supplemental security income to individuals who have attained age 65 or are blind or disabled..." Section 1601 of the Social Security Act, 42 U.S.C. § 1381.

## MADCAP PAYMENTS FOR POST-ENTITLEMENT ACTIONS HAD ERRORS

After a beneficiary's DI eligibility, SSA may become aware of events or circumstances that affect the amount of DI benefits to which the individual is entitled or the individual's eligibility. For example, a MADCAP payment may occur (1) when a change in circumstances causes an increase in benefits and SSA must retroactively adjust the beneficiary's DI benefits or (2) when undeliverable benefits are reissued to a corrected address. Of the 20 MADCAP payments with errors, 6 (30 percent) were issued as a result of post-entitlement actions. These six MADCAP payment errors totaled \$11,015 and ranged from a \$1,152 underpayment to a \$5,005 overpayment. For the six cases, SSA agreed a payment error occurred and has initiated corrective action. Table 2 details the six MADCAP payments with payment errors.

**TABLE 2: MADCAP Payment Errors for Post-Entitlement Actions**

MADCAP Payment Amount	Correct Payment Amount	MADCAP Payment Error	Type of Payment Error
<b>Errors Due to SSA Not Considering Previous Benefit Payments</b>			
\$5,706	\$701	\$5,005	Overpayment
1,872	624	1,248	Overpayment
1,228	70	1,158	Overpayment
<b>Other Errors</b>			
\$1,310	\$0	\$1,310	Overpayment
1,142	0	1,142	Overpayment
3,618	4,770	1,152	Underpayment
<b>Total Payment Errors</b>		<b>\$11,015</b>	

### MADCAP Payment Did Not Always Consider Previous Benefits Paid

For three of the six MADCAP payments with errors, SSA did not consider previous benefits paid before issuing the MADCAP payment. In one case, the MADCAP payment resulted in the receipt of duplicate benefits. For the two other MADCAP payments with errors, SSA suspended or terminated the individuals' DI benefits and subsequently reinstated the benefits. However, when making the MADCAP payments, SSA did not consider the beneficiaries had received a portion of the unpaid benefits.

- For example, SSA issued a \$5,706 MADCAP payment to correct what it believed was an underpayment that resulted from entitlement to higher DI benefits and the individual's entitlement to survivor benefits for an 8-month period. We agreed the beneficiary was entitled to both DI benefits and, after the death of a spouse, survivor benefits in the amounts SSA established. However, after calculating what had already been paid, we determined the beneficiary was only due a \$701 MADCAP payment. The MADCAP payment incorrectly included payment for survivor benefits previously paid to the beneficiary. Therefore, SSA overpaid the beneficiary \$5,005.

- In a second case, SSA determined the beneficiary was no longer entitled and terminated DI benefits. The termination decision was later reversed, and the claimant was owed \$1,872 for 3 months of unpaid benefits. While the termination decision was being appealed, the beneficiary received two benefit payments—a monthly payment and a critical payment. Yet, when determining the amount of the MADCAP payment to compensate for the termination reversal, SSA failed to consider the benefits the individual had already received. As a result, SSA overpaid the beneficiary \$1,248.

### **Other Types of MADCAP Payment Errors**

In the remaining three post-entitlement MADCAP actions, payment errors resulted because (1) the amount of DI benefits SSA calculated did not agree with the amounts paid, (2) benefits should have been terminated when a dependent beneficiary turned age 18, and (3) SSA did not return all excess benefits withheld to pay the attorney fee.

- In the first case SSA issued a \$1,310 MADCAP payment to correct an underpayment resulting from an increase in DI benefits due the beneficiary. However, when we compared the total benefits due to the total benefits paid for the period the benefits were corrected, we determined the beneficiary was overpaid \$45. As a result, the beneficiary was not due the \$1,310 MADCAP payment.
- In the second case, SSA issued a \$1,142 MADCAP payment for 2 months of unpaid benefits. However, the MADCAP payment was not due because the dependent beneficiary's payments should have been terminated at age 18. Benefits may continue after age 18 if the dependent beneficiary is a full-time student.<sup>9</sup> However, we found no evidence the dependent beneficiary was a full-time student.

### **DOCUMENTATION WAS NOT AVAILABLE TO SUBSTANTIATE REVIEW OF MADCAP PAYMENTS**

If a MADCAP payment is issued for \$3,000 or more, SSA's policy<sup>10</sup> requires a complete review of the action to verify its accuracy. From our sample of 250 randomly selected MADCAP payments, 166 met the \$3,000 threshold and were subject to the policy. However, 112 (67 percent) of these payments lacked documentation to substantiate the review and approval of the actions taken and the payment amount. All six of the additional MADCAP payments selected for review exceeded \$3,000 and required a review of the actions taken and approval of the payment amount. However, one of these MADCAP payments lacked evidence of such approval. While these payments may have been appropriately reviewed and approved, we were unable to verify these actions because documentation was not available. We did note that 12 of the 20 incorrect MADCAP payments we identified required a review and approval; however, evidence documenting such approvals was unavailable for 8 of these payments and the payment errors were not detected before our review.

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<sup>9</sup> POMS, RS 00203.035.

<sup>10</sup> POMS, SM 00858.030.

SSA's policy does not provide specific guidance on how or where the review and approval should be documented or how long the evidence should be retained. Depending on local procedures, annotation of a technician's review and approval and retention of the evidence can vary among and within SSA's PSCs. For example, the type of document or action taken determines the retention period, whether short-term or long-term. If a payment's statement of approval was attached to a short-term retention document, this evidence would not be available after 120 days. Because our review scope contained a sample of MADCAP payments issued between July 1 and September 30, 2004, we are unable to accurately determine the number of MADCAP payments that were reviewed and approved. Rather, we could only identify those payments that lacked documentation to substantiate a review and approval.

### **PAYMENT THROUGH THE SINGLE PAYMENT SYSTEM WOULD HAVE BEEN MORE APPROPRIATE FOR SOME MADCAP ACTIONS**

Because payments of \$30,000 or more are paid through SSA's Single Payment System (SPS), we reviewed six MADCAP payments equal to or greater than \$29,999 to ensure payment through the MADCAP system was appropriate. Five of the six DI MADCAP payments represented portions of larger payments due the beneficiaries. Although the total benefits paid were correct, we believe it would have been more appropriate to pay the total benefits through the SPS. Also, if a payment issued through SPS requires a review, benefits are not released until approved. For example, SPS payments of \$50,000 or more require management approval. Therefore, payments made through the SPS provide an additional layer of control in that the payments are reviewed before issuance. Table 3 details the MADCAP payments of \$29,999 or more that were part of multiple payments involving one type of benefit action.

**TABLE 3: Multiple Payments for One Type of Benefit Action**

Reason for Payment	Processing System	Payment Date	Payment Amount
Initial Award	MADCAP (1)	07/07/2004	\$29,999.97
	MADCAP (2)	07/08/2004	29,999.97
	MADCAP	07/12/2004	5,766.51
	<b>Total</b>		<b>\$65,766.45</b>
Survivor Benefits	MADCAP (3)	09/01/2004	\$29,999.99
	MADCAP	09/14/2004	10,596.01
	<b>Total</b>		<b>\$40,596.00</b>
Initial Award	MADCAP (4)	08/23/2004	\$29,999.00
	SPS	08/26/2004	99,617.00
	<b>Total</b>		<b>129,616.00</b>
Initial Award	MADCAP (5)	08/20/2004	\$29,999.28
	SPS	09/21/2004	11,394.00
	<b>Total</b>		<b>41,393.28</b>

**Note:** The numbers 1 through 5 shown in the ( ) indicate the MADCAP payments tested as part of our review.

## **CONCLUSION AND RECOMMENDATIONS**

MADCAP payments are issued for various reasons—to pay initial benefits or as a result of post-entitlement actions. The MADCAP payment errors we identified resulted from mistakes in processing various claims actions. In general, these mistakes seemed to occur because SSA staff did not recognize all of the factors that affect DI benefits. Some of the MADCAP payment errors could have been avoided if SSA staff verified actions taken to the source documentation, such as attorney fee agreements, WC settlement agreements, and prisoner incarceration records. Because SSA staff processes numerous complex actions, diligence is critical to ensuring payment accuracy. We recommend that SSA:

1. Issue a reminder and, if necessary, further guidance to responsible PSC staff requiring that all underlying actions resulting in MADCAP payments be verified to the supporting documentation.
2. Provide specific guidance on documenting the review and approval of MADCAP payments \$3,000 or more and the retention of review evidence.
3. Ensure payments of \$30,000 or more, which are related to the same individual and action, are processed through SPS.

## **AGENCY COMMENTS**

SSA agreed with all our recommendations. However, the Agency expressed a concern about the scope of our audit work. Specifically, the Agency stated that our audit only included DI cases processed by the Southeastern Program Service Center, when, in fact, most of the disability cases are processed in the Office of Disability Operations. See Appendix E for the full text of SSA's comments.

## **OIG RESPONSE**

We concur with SSA's response to our specific recommendations. However, further clarification of the scope of our work is necessary to address the Agency's stated concern. Our audit tested a random sample of MADCAP payments. The audit sample was selected from a defined universe of MADCAP payments processed by all responsible SSA components—nationwide. During our audit, we visited the Southeastern Program Service Center to obtain an understanding of how MADCAP payments are processed. However, our audit sample covered MADCAP actions processed by SSA PSCs across the country, including the Office of Disability Operations.



Patrick P. O'Carroll, Jr.

# **Appendices**

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[\*\*APPENDIX A\*\*](#) – Acronyms

[\*\*APPENDIX B\*\*](#) – Scope and Methodology

[\*\*APPENDIX C\*\*](#) – Sampling Methodology and Results

[\*\*APPENDIX D\*\*](#) – Prior Audit Reports

[\*\*APPENDIX E\*\*](#) – Agency Comments

[\*\*APPENDIX F\*\*](#) – OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

DI	Disability Insurance
MADCAP	Manual Adjustment, Credit and Award Processes
MBR	Master Beneficiary Record
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
PSC	Program Service Center
SPS	Single Payment System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code
WC	Workers' Compensation

### **Scope and Methodology**

To accomplish our objectives, we reviewed a random sample of 250 Disability Insurance (DI) Manual Adjustment, Credit and Award Processes (MADCAP) payments. Payments of \$30,000 or more are not paid through the MADCAP system, but are paid through the Social Security Administration's (SSA) Single Payment System.

Accordingly, we expanded our scope to include six MADCAP payments equal to or greater than \$29,999. We tested these six payments to ensure their accuracy and make certain payment through the MADCAP system was appropriate. Based on the source documents available, we determined whether (1) the action creating the MADCAP payment was appropriate and accurate and (2) documentation was present showing evidence of approval for MADCAP payments \$3,000 and greater. As a result, some MADCAP payments have more than one reportable issue and are included as audit findings in more than one section of the report.

We deemed a MADCAP payment to have a reportable error when our review determined that

- an underpayment error was equal to or greater than 1 percent of the beneficiary's total case payments (up to the MADCAP payment) or
- the overpayment was equal to or greater than 3 percent of the beneficiary's total case payments (up to the MADCAP payment) or
- the underpayment or overpayment error was equal to or greater than \$500.

We also:

- Interviewed SSA program service center personnel regarding procedures to process and review MADCAP payments.
- Reviewed relevant laws and SSA's policies and procedures.
- Reviewed previous reports pertaining to MADCAP payments.
- Queried SSA's Master Beneficiary Record; Supplemental Security Record; Payment History Update System; Retirement, Survivors, and Disability Insurance Payment History and Worksheet; Master Earnings File; and Workers' Compensation worksheets.
- Obtained SSA's DI case folders and paperless files and reviewed all relevant documents related to the DI MADCAP payment.

We performed our audit work in Atlanta, Georgia. Additionally, we visited the Southeastern Program Service Center in Birmingham, Alabama. We conducted our work from January through October 2005. The electronic data used for this audit were sufficiently reliable to meet our audit objectives. The entities audited were the Offices of Income Security Programs and Disability Programs under the Deputy Commissioner for Disability and Income Security Programs. We conducted our audit in accordance with generally accepted government auditing standards.

# **Sampling Methodology and Results**

## **Sampling Methodology**

In total, we reviewed a random sample of 250 Title II Disability Insurance (DI) Manual Adjustment, Credit and Award Processes (MADCAP) payments. We selected our sample from a universe of 85,200 DI MADCAP payments equal to or greater than \$1,000 that were issued between July 1 and September 30, 2004. The universe of DI MADCAP payments ranged from \$1,000 to \$29,999.99. Because payments of \$30,000 or more are not paid through the MADCAP system, but are paid through the Social Security Administration's Single Payment System, we expanded our scope to include six MADCAP payments equal to or greater than \$29,999. We tested these six payments to ensure their accuracy and make certain payment through the MADCAP system was appropriate.

The following chart details our sample selections.

<b>MADCAP Payments by Dollar Amount</b>	<b>Population Decisions</b>	<b>Population Dollars</b>	<b>Sample Size</b>	<b>Sample Dollars</b>
\$1,000 to \$29,998.99	85,194	\$578,231,620	250	\$1,719,603
\$29,999 to \$29,999.99	6	179,997	6	179,997
<b>Totals</b>	<b>85,200</b>	<b>\$578,411,617</b>	<b>256</b>	<b>\$1,899,600</b>

## Sampling Results

### Overall Results – MADCAP Payments Resulting in a Payment Error

<u>Projections of Attribute and Variable Appraisals</u>	
MADCAP Payments Resulting in a Payment Error	
Attribute Appraisal Projections	
Population and Sample Data	Decisions
Total Population	85,194
Sample Size	250
MADCAP Payments Resulting in a Payment Error	20
Projection to Population	Projections
Lower Limit	4,573
Point Estimate	6,816
Upper Limit	9,719
Variable Appraisal Projections	
Population and Sample Data	Dollars
Total Population	\$578,231,620
Sample Size	\$1,719,603
MADCAP Payment Errors	\$57,664
Projection to Population	Projections
Lower Limit	\$9,901,029
Point Estimate	\$19,650,378
Upper Limit	\$29,399,727

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

## ***Appendix D***

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### **Prior Audit Reports**

<b>Social Security Administration, Office of the Inspector General Reports Related to Payment Accuracy in Disability Insurance Cases Involving Workers' Compensation Offsets</b>		
<b>Common Identification Number</b>	<b>Report Title</b>	<b>Date Issued</b>
A-04-96-61013	Effects of State Awarded Workers' Compensation Payment on Social Security Benefits	September 1998
A-04-98-64002	Worker's Compensation Unreported by Social Security Beneficiaries	December 1999
A-04-98-62001	The Social Security Administration Incorrectly Paid Attorney Fees on Disability Income Cases When Worker's Compensation Payments Were Involved	March 2000
A-06-03-13022	The Social Security Administration's Workers' Compensation Data Match with the State of Texas	April 2003
A-08-02-12064	Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	June 2003
A-04-02-21054	Title II Disability Insurance Benefits with Worker's Compensation Underpayment Errors Exceeding \$70,000	July 2003
A-04-03-13042	The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset	October 2004
A-06-05-15024	The Social Security Administration's Match of Disability Insurance Records with Texas Workers' Compensation Payment Data	August 2005
A-08-05-25132	Follow-up of Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	September 2005

## **Appendix E**

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### **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

**Date:** April 3, 2006 **Refer To:** S1J-3

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

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

**Subject:** Office of the Inspector General (OIG) Draft Report, "Payments Resulting from Disability Insurance Actions Processed via the Social Security Administration's Manual Adjustment, Credit and Award Processes" (A-04-05-15042) -- INFORMATION

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

Please let me know if we can be of further assistance. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff on extension 54636.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "PAYMENTS RESULTING FROM DISABILITY INSURANCE ACTIONS PROCESSED VIA THE SOCIAL SECURITY ADMINISTRATION'S MANUAL ADJUSTMENT, CREDIT AND AWARD PROCESSES" (A-04-05-15042) -- INFORMATION**

Thank you for the opportunity to review and comment on the draft report.

The report identified general workload categories, such as worker's compensation, attorney fees and paid vs. payable that contribute to incorrect payment amounts. We agree that these are error-prone workloads. SSA has been working to improve the accuracy of these and other workloads through activities such as the Worker's Compensation Cleanup and refresher training on recurring problem areas. We also issue local procedural supplements, such as the Southeast Program Service Center (SEPSC) Operations Bulletin 04-1253, regarding the proper way to process Single Payment System (SPS) payments.

We note, per Appendix B, Scope and Methodology, that the audit work was performed in the SEPSC. Since the bulk of the disability cases are processed in the Office of Disability Operations, we believe including the work of that processing center might have provided a more accurate assessment of the extent of the issues identified in the report.

We note OIG's concern that they could not verify that certain payments were properly approved. The processing centers have been operating in a paperless environment for about six years with a 120-day retention period that has proven sufficient for their business processes, including local quality reviews. Currently, almost all computer-generated output has a short-term retention. The Manual Adjustment, Credit and Award Processing (MADCAP) Direct Data Entry (MACADE) input that resulted in the MADCAP action, as well as the resulting Master Beneficiary Record (MBR) and any notices released, are available long-term. Should OIG wish to review the payments of \$3000 or more in the future, they could alert the processing centers within the 120-day period and the documentation could be obtained.

Our specific responses to the report's recommendations are provided below.

**Recommendation 1**

Issue a reminder and, if necessary, further guidance to responsible PSC staff requiring that all underlying actions resulting in MADCAP payments be verified to the supporting documentation.

Response:

We agree. Any effort to help ensure that the proper payment is made through MADCAP would be beneficial. We will issue national reminders through an Administrative Message by April 21, 2006.

## **Recommendation 2**

Provide specific guidance on documenting the review and approval of MADCAP payments \$3,000 or more and the retention of review evidence.

Response:

We agree. We will include reminders in our Administrative Message (see response to Recommendation 1) about documenting the review and approval of MADCAP payments of \$3,000 or more and the retention of review evidence. However, as discussed above, we have concerns regarding the retention of review evidence.

## **Recommendation 3**

Ensure payments of \$30,000 or more, which are related to the same individual and action, are processed through SPS.

Response:

We agree. SPS has built-in edits that help prevent some incorrect payments. (For example, SPS has an online edit, "ATTORNEY PAYMENT EXCEEDS AMOUNT WITHHELD," which is generated when the SPS amount exceeds the attorney fee withheld amount reflected on the MBR.) Accordingly, we will include a reminder in our Administrative Message (see response to Recommendation 1).

## ***Appendix F***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Kimberly A. Byrd, Director, (205) 801-1605

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

### ***Acknowledgments***

In addition to those named above:

Teaketa Turner, Senior Auditor

Shane Henley, Auditor

Charles Lober, Information Technology Specialist

Kimberly Beauchamp, Writer-Editor

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[www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-04-05-15042.

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The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

## **Office of Audit**

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.

## **Office of Investigations**

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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

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.

## **Office of Resource Management**

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.