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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**TITLE II DISABILITY  
INSURANCE BENEFITS WITH A  
WORKERS' COMPENSATION OFFSET**

November 2006

**A-04-05-15133**

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**AUDIT REPORT**

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# SOCIAL SECURITY

## **MEMORANDUM**

Date: November 22, 2006 Refer To:

To: The Commissioner

From: Inspector General

Subject: Title II Disability Insurance Benefits with a Workers' Compensation Offset  
(A-04-05-15133)

# OBJECTIVE

Our objective was to determine the accuracy of payments of Title II Disability Insurance (DI) claims with workers' compensation (WC) offsets.

## **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 individuals who meet specific disability requirements.

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

When an injured worker qualifies for both State WC and Federal DI benefits, the combined benefits could result in workers receiving more in disability payments than they earned before they became disabled. To prevent this, Congress enacted the WC offset provision under section 224 of the Act,<sup>2</sup> which requires that SSA reduce DI benefits by the amount of any other disability benefit paid under any law or plan of the

<sup>1</sup> 42 U.S.C. § 423.

<sup>2</sup> 42 U.S.C. § 424a.

United States, a State, or a political subdivision. In this instance, SSA reduces the DI benefit based on an offset calculation set forth in its policy and procedures.<sup>3</sup>

Not all State WC benefits result in a reduction of DI benefits. Fourteen States have reverse offset laws recognized by SSA.<sup>4</sup> Those 14 States reduce WC benefits, and the injured worker receives the full DI benefit from SSA.

Our previous audits revealed weaknesses in the payment calculations of Title II DI claims involving WC benefits. The payment errors generally occurred because of human error in processing the claims. That is, SSA staff

- did not verify the amount and duration of State WC benefits,
- misinterpreted State WC benefit data,
- made data input errors, or
- miscalculated benefit redeterminations.

In previous reports, which are detailed in Appendix B, we made recommendations to improve the payment calculation process by increasing front-end reviews, reducing the backlog of WC claims with pending WC decisions, automating manual processes, and ensuring WC benefit data are verified.

In June 2004, SSA implemented the Title II Redesign Release 3 (Redesign) to improve the automated processing of Title II initial claims applications and post-entitlement actions, both of which involve WC offset claims. The Redesign's goal was to expand business automation, reduce manual tasks, improve the quality of the data stored on the master records, and reduce the number of exceptions to be worked by program service center (PSC) technicians. The Redesign streamlined the WC process to reduce manual actions and expanded the Master Beneficiary Record (MBR)<sup>5</sup> to include more WC information. Although the Redesign automates the WC offset calculation, the calculation still depends on SSA's interpretation and input of the State WC benefit data. Because each State administers its own WC program, the WC benefits data available to SSA often vary in format and content. The variability in the State WC data can contribute to SSA's misinterpretation of the data.

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<sup>3</sup> See SSA Program Operations Manual System (POMS), DI 520: Workers' Compensation/Public Disability Benefit (WC/PDB) Offset.

<sup>4</sup> These "reverse offset" States are California, Colorado, Florida, Louisiana, Minnesota, Montana, Nevada, New Jersey, New York, North Dakota, Ohio, Oregon, Washington and Wisconsin. SSA, POMS DI 52001.080(3)(a).

<sup>5</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.

## **SCOPE AND METHODOLOGY**

We reviewed a random sample of 250 DI claims from a population of 234,968 DI claims in which SSA's records indicated a WC offset began between January 1, 1998 and December 31, 2004. Because the offset start date is effective when a change in WC benefits is recorded, our population includes some DI claims with offset beginning before 1998. From our sample, we determined that 93 percent of the DI claims had a WC offset that began between January 1, 1998 and December 31, 2004; 7 percent of the claims had WC offsets that began before the January 1, 1998. To determine the accuracy of the WC offsets for these 250 cases, we

- calculated the WC offset based on the proven WC benefits data,
- compared the total benefits paid to the total benefits owed, and
- obtained SSA's review and comments for each error case.

For 18 claims, we determined the payment errors continued after December 31, 2004. During our audit, we informed SSA of the errors. SSA agreed to correct the offset calculation and adjust the DI benefits as needed. These errors would likely have continued had we not identified them or a significant event occurred that would have caused SSA to review the claims. Therefore, we estimated the number of claims and the total amount of the payment error that may have continued for 12 months after our audit period. Further information regarding our scope and methodology as well as our sampling methodology is in Appendices C and D.

## **RESULTS OF REVIEW**

We commend SSA's efforts to improve the payment accuracy of DI claims with a WC offset. We acknowledge the complexity of these claims and believe the recent Redesign contributed to improvements in the accuracy of WC claims. The percentage of payments in error identified in this report has declined significantly when compared to the percentage we reported in our prior WC offset audits. For example, in our October 2004 report, *The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset*, we identified a 31-percent payment error rate.

Although we acknowledge an improvement in the payment accuracy of WC offset claims, some payment errors continue to exist in this workload. Of the 250 randomly sampled DI claims, 43 (17 percent) had payment errors. Of the 43 claims, 27 had payment errors directly related to the WC offset calculation, totaling \$158,590 (Appendix E). The remaining 16 had DI processing errors that were not related to WC offset calculation; these claims totaled \$71,524 (Appendix F). From our population of DI claims in which SSA records indicated a WC offset started between January 1, 1998 and December 31, 2004, we estimate that:

- approximately 25,377 DI claims totaling about \$149.1 million had payment errors related to the WC offset, and
- about 15,038 DI claims totaling approximately \$67.2 million had payment errors unrelated to the WC offset calculation.

Table 1 details the sampling and estimation results for the 27 payment errors related to the WC offset.

**Table 1: Summary of Sampling and Estimation Results for WC Related Errors**

Error Category	Sample – Error Claims		Estimate to Population	
	Claims	Dollars	Claims	Dollars
Underpayments	19	\$118,386	17,858	\$111,268,016
Overpayments	8	\$40,204	7,519	\$37,786,614
<b>Totals</b>	<b>27</b>	<b>\$158,590</b>	<b>25,377</b>	<b>\$149,054,630</b>

Also, 18 of the 43 claims had payment errors that continued after December 2004. Based on this error rate, we estimate that approximately 16,918 claims had payment errors totaling about \$83.1 million that may have continued through the 12-month period ended December 2005. The continuing payment errors for the 18 claims are summarized in Appendix G.

As in past audits, we determined that most of the payment errors resulted from human error. For example, we noted that SSA personnel did not always verify the amount of WC payments made to the DI beneficiary by the State or insurance carrier. This information is essential in calculating the amount to be offset. Additionally, we continued to note that SSA personnel misinterpreted or incorrectly applied the amount of WC payments to the offset calculation. Finally, we identified instances in which SSA personnel calculated the offset amount correctly but made other errors when processing the claims. Based on the continuing payment error rate and complexity of these claims, we believe SSA should explore all possible avenues, including additional legislation, to simplify and automate this process.

## **DISABILITY INSURANCE CASE PAYMENT ERRORS**

Of the 250 randomly selected DI claims with a WC offset, 43 (17 percent) had payment errors totaling \$230,114. Of these 43 claims, 27 had payment errors totaling \$158,590 that were related to the WC offset calculation. The remaining 16 payment error claims had DI processing errors unrelated to the WC offset calculation. The total payment error for these 16 claims was \$71,524.

## **PAYMENT ERRORS RELATED TO THE WC OFFSET**

Of the 27 claims with payment errors related to the WC offset, 23 errors resulted from mistakes in processing the WC offset calculation. The remaining four errors occurred because SSA staff did not verify WC benefits paid to the SSA DI beneficiary.

### **Processing Mistakes Related to the WC Offset Calculation**

In 23 claims, SSA personnel made mistakes in processing the WC offset calculations that resulted in payment errors. The payment errors for the 23 claims totaled \$140,225: 15 claims resulting in \$100,021 in underpayments and 8 claims resulting in \$40,204 in overpayments. Of the 23 payment error claims, 11 had payment errors that continued past our audit period. For these 11 claims, the monthly payment errors that continued into January 2005 totaled \$4,448 or about \$404 per case.

In general, we determined the payment errors occurred because SSA personnel

- incorrectly applied WC rates when performing the WC calculation,
- used inaccurate WC payment frequencies to calculate the WC offset, and/or
- improperly prorated lump sum WC settlements.<sup>6</sup>

Table 2 identifies the payment errors directly related to mistakes in processing the WC offset.

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

**Table 2: Processing Error Related to the WC Offset Calculation**

	Error Description	Payment Errors	Payment Error Dollars		
			Over-Payments	Under-Payments	Total Errors
1	Incorrect WC Data (amount and frequency) Applied	13	\$35,040(6)	\$56,012(7)	\$91,052
2	Lump Sum Settlement Prorated Incorrectly	2	--	\$8,261(2)	\$8,261
3	Triennial Redetermination Not Performed <sup>7</sup>	2	--	\$925(2)	\$925
4	Beneficiary Not Switched to Retirement Benefits	2	\$3,475	\$3,546	\$7,021
5	Reverse Offset not Recognized	1	--	\$12,838	\$12,838
6	WC Offset Incorrectly Applied to Auxiliary Beneficiaries	1	--	\$12,360	\$12,360
7	WC Attorney Fee Applied Incorrectly	1	--	\$6,079	\$6,079
8	WC Offset Stopped Early	1	\$1,689	--	\$1,689
<b>TOTALS</b>		<b>23</b>	<b>\$40,204</b>	<b>\$100,021</b>	<b>\$140,225</b>
<b>Note:</b> The numbers shown in ( ) indicate the number of payment error claims comprising the total dollar payment error amount.					

SSA overpaid one beneficiary \$8,527 because personnel incorrectly applied WC data received from the insurance carrier. In this case, the DI beneficiary was paid on two WC claims—one claim through a lump sum payment and the other through weekly payments. SSA correctly applied the lump sum benefits but did not include the \$244 weekly WC benefits in the offset calculation.

In another example, we identified an underpayment of more than \$3,500. The underpayment occurred because SSA applied a WC offset to the DI benefit when the beneficiary should have been receiving reduced Retirement Insurance Benefits (RIB).<sup>8</sup> According to the MBR, the beneficiary elected early reduced RIB in April 1996 in place of DI benefits (subject to a WC offset). However, SSA continued to pay offset DI benefits, resulting in a large underpayment.

<sup>7</sup> To protect against inflation, SSA is required to redetermine the beneficiary's average current earnings for those workers who had a WC/PDB offset. The triennial redetermination should be made when Title II DI benefits have been offset for 3 consecutive years because of WC payments. A triennial redetermination can result in increased benefits since the average current earnings—a component of the offset calculation—are recalculated using a ratio adjusted for inflation.

<sup>8</sup> When a DI beneficiary is age 62 to 64 and their WC offset is ongoing, the beneficiary may elect to receive RIB. The election may occur when the reduced monthly RIB exceeds the monthly DI benefits (after WC offset). Once the early RIB is elected, the reduced RIB continues after full retirement age.

We understand that interpreting the myriad of State WC benefits data may be difficult for SSA personnel processing a WC claim. Although most States maintain information regarding the status of WC claims, detailed settlement and benefit payment information is usually maintained by the employer's insurance carrier. The insurance carrier's WC information is often only available to SSA in paper record, and the format varies by insurance carrier. Further, obtaining hard copy WC data from a multitude of insurance carriers can be tedious, and the timely receipt of information depends on the responsiveness of the insurance carriers.

As stated earlier, the proper interpretation and application of this information are essential in calculating a correct WC offset. Given the complexity of this process and the continuing error rate in WC claims, we encourage SSA to explore alternate methods for obtaining, standardizing and applying State WC information.

### **Payment Errors Occurred Because SSA Personnel Did Not Always Verify WC Benefits**

In 4 of the 27 payment error claims, the errors occurred because SSA did not verify WC benefits paid by the State or insurance carrier. The payment errors for these four claims resulted in \$18,365 in underpayments.

Critical components of the WC offset calculation are the amount of WC benefits paid by the State or insurance carrier and whether they are paid weekly, bi-weekly, or monthly. If SSA personnel apply incorrect WC data in the offset calculation, a payment error is likely to occur. The most reliable way of ensuring the accuracy of WC data is to obtain independent proof of the WC data from the insurance carrier administering the claim.

In March 2006, SSA issued a policy requiring that personnel permanently retain all proof of State WC benefits or public disability benefits (PDB) in the official claims folder.<sup>9</sup> Prior SSA policy required that SSA staff verify WC benefits but did not specify where the proof should be maintained.<sup>10</sup> This policy also required that staff processing claims enter relevant WC information in SSA systems. Although the prior policy did not require that staff maintain proof of WC benefits, in practice, WC proofs were often maintained in either the beneficiary's case folder or the paperless system.

For 109 (43 percent) of the 250 claims reviewed, we did not locate independent proof of the WC benefits in SSA's case folder or on the paperless system. For many of these claims, WC data were recorded on the MBR.<sup>11</sup> Presumably, these data (WC payment amount and frequency) were obtained from documentation provided by the DI beneficiary, State or insurance carrier when SSA staff calculated the WC offset. For

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<sup>9</sup> POMS, DI SF52001.150 A.

<sup>10</sup> POMS, DI 52001.150.

<sup>11</sup> Our audit did not rely on the electronic WC data. We attempted to obtain independent verification of the WC benefit data for each case lacking evidence that the data were proven.

19 (17 percent) of the 109 claims, SSA staff annotated on the MBR that the WC data used to calculate the offset were not proven. We obtained proof of the WC benefit data for all but 2 of the 19 claims and determined that 4 had reportable underpayment errors.<sup>12</sup> SSA representatives reviewed the four claims and agreed that these errors existed. Table 3 details the four underpayment claims caused by SSA personnel's use of unverified WC data.

**Table 3: Incorrect WC Benefit Data Resulted in Under-Payment Errors**

Payment Error	SSA's WC Data		OIG's Verified WC Data	
	WC Amount	WC Frequency	WC Amount	WC Frequency
1	\$10,601	\$550	Weekly-Ongoing	\$187
2	4,407	\$536	Weekly	\$424
3	1,728	\$932	Monthly	\$606
4	1,629	\$193	Weekly	\$129
	\$18,365	Total Under-Payment Errors		

In the first case, we identified a \$10,601 underpayment that occurred because SSA used a \$550 weekly WC benefit amount to calculate the beneficiary's offset. The \$550 weekly amount was the State of Kentucky's maximum WC benefit. SSA used this rate because it did not verify the WC benefits. We obtained the WC verification for this case and determined the weekly WC benefit was \$187, and the benefits terminated on June 13, 2003. As a result of these differences, the claimant was underpaid \$10,601 from February 2003 through December 2004 (during our audit period). SSA agreed the beneficiary had been underpaid and will release the total benefits due the beneficiary through the time the adjustment was made in April 2006.

At the time of our review, SSA was still paying all four of the claims in error. The four claims had continuing underpayment errors that ranged from \$74 to \$513 per month. Had we not identified the payment errors, the beneficiaries would likely continue to be underpaid until a significant life event occurred that would have caused SSA to reevaluate the claims.

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<sup>12</sup> We requested that SSA obtain the WC verification for all 19 claims. However as of September 2006, SSA had not provided us with WC verification for two claims. Therefore, we calculated the WC offset based on the WC benefit information SSA recorded on the MBR.

## **PROCESSING MISTAKES NOT RELATED TO THE WC OFFSET CALCULATION RESULTED IN PAYMENT ERRORS**

Sixteen of the 43 payment errors resulted from processing mistakes unrelated to the WC offset calculation. The payment errors for the 16 claims totaled \$71,524. Of the 16 payment error claims, 3 continued beyond our audit period. For the three claims, the total monthly payment error that continued into January 2005 was \$1,691, or on average about \$563 per case.

SSA's automated systems typically process monthly DI payments. However, when SSA's automated or direct input systems cannot completely process an action, authorized technicians at SSA's PSCs must manually process the action. For example, authorized PSC employees may process actions that include initiating payment of DI benefits, disbursing attorney fees from benefit payments, recording overpayments, terminating benefits, and updating or correcting information on the MBR (which may alter the monthly benefit amount).

Examples of the processing mistakes we identified follow.

- Benefits paid to the beneficiary did not agree with the amount of benefits due.
- The attorney fee was paid, but the fee was not offset against the benefit payment issued to the beneficiary.
- The overpayment was not recognized and recorded on the MBR.

Table 4 details the payment errors caused by processing mistakes that were not related to the WC offset calculation.

**Table 4: Processing Errors NOT Related to the WC Offset Calculation**

	<b>Error Description</b>	<b>Number of Payment Errors</b>	<b>Payment Error Dollars</b>		
			<b>Over- Payments</b>	<b>Under- Payments</b>	<b>Total Errors</b>
1	Total Benefits Paid Did Not Agree to Total Benefits Owed	9	\$4,686(1)	\$13,641(8)	\$18,327
2	Supplemental Security Income (SSI) Windfall Offset was Processed Incorrectly	2	--	\$29,993(2)	\$29,993
3	Benefits Not Adjusted for Attorney Fees	2	\$11,139(2)	--	\$11,139
4	Overpayment Not Recorded	1	\$8,656	--	\$8,656
5	Initial Award (catch-up) Benefits were Underpaid	1	--	\$2,765	\$2,765
6	Benefits Not Adjusted for Receipt of Ancillary or Non-recurring payments	1	\$644	--	\$644
<b>Totals</b>		<b>16</b>	<b>\$25,125</b>	<b>\$46,399</b>	<b>\$71,524</b>

**Note:** The numbers shown in ( ) indicate the number of payment error claims comprising the total dollar payment error amount.

We determined SSA underpaid one beneficiary \$2,722. We agreed with SSA's WC offset calculation. However, when we compared the total benefits paid to the total benefits owed on the claim, we identified an underpayment error. After reviewing the case, SSA agreed with our analysis and explained the payment error resulted from a benefit authorizer's mistake that was unrelated to the WC offset calculation.

Also, SSA overpaid a beneficiary \$8,656 because the individual's benefits were not terminated when he died in February 2004. SSA continued to pay the beneficiary until December 2004—when it determined the individual had died. However, SSA personnel did not record an overpayment on the beneficiary's MBR. Until we notified the Agency, it did not attempt to recover any of the overpayment.

## **CONCLUSION AND RECOMMENDATIONS**

We acknowledge the improvements SSA has made in the WC offset process. Most notably, we are encouraged by the Title II Redesign implementation, which automated and simplified some aspects of this process. However, the payment accuracy of DI benefits with a WC offset still depends on decisions and data SSA staff records when processing claims. Paying correct benefit amounts to injured workers is important and is a part of SSA's goal of providing world-class service and ensuring stewardship of trust fund resources. Accordingly, we remain concerned that the payment error rate is higher than should be acceptable to the Agency. Therefore, we recommend that SSA:

1. Support legislation that would simplify and standardize the WC offset calculation.
2. Work with States to standardize the format used to report WC benefits to SSA.
3. Continue to explore electronic data exchanges with the States that maintain automated WC databases.
4. Determine whether assigning WC offset claims only to technicians specialized in this workload would be cost-effective and improve payment accuracy.
5. Increase management oversight of the WC offset calculation, including the verification of WC benefits.

## **AGENCY COMMENTS AND OIG RESPONSE**

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



Patrick P. O'Carroll, Jr.

# **Appendices**

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**APPENDIX A** – Acronyms

**APPENDIX B** – Prior Audit Reports

**APPENDIX C** – Scope and Methodology

**APPENDIX D** – Sampling Methodology and Results

**APPENDIX E** – Payment Errors Caused by Workers’ Compensation Offset Processing Mistakes

**APPENDIX F** – Payment Errors Unrelated to the Workers’ Compensation Offset Calculation

**APPENDIX G** – Continuing Payment Errors

**APPENDIX H** – Agency Comments

**APPENDIX I** – OIG Contacts and Staff Acknowledgments

## ***Appendix A***

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### **Acronyms**

DI	Disability Insurance
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
RIB	Retirement Insurance Benefits
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code
WC	Workers' Compensation

## ***Appendix B***

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### **Prior Audit Reports**

<b>Social Security Administration, Office of the Inspector General Reports Related to Payment Accuracy in Disability Insurance Claims Involving Workers' Compensation Offsets</b>		
<b>Common Identification Number</b>	<b>Report Title</b>	<b>Date Issued</b>
A-04-96-61013	Effects of State Awarded Workers' Compensation Payments on Social Security Benefits	September 1998
A-04-98-62001	The Social Security Administration Incorrectly Paid Attorney Fees on Disability Income Cases When Workers' Compensation Payments Were Involved	March 2000
A-06-03-13022	The Social Security Administration's Workers' Compensation Data Match with the State of Texas	April 2003
A-08-02-12064	Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	June 2003
A-04-02-21054	Title II Disability Insurance Benefits with Workers' Compensation Underpayment Errors Exceeding \$70,000	July 2003
A-04-03-13042	The Social Security Administration's Clean-up of Title II Disability Insurance Cases with a Workers' Compensation Offset	October 2004
A-06-05-15024	The Social Security Administration's Match of Disability Insurance Records with Texas Workers' Compensation Payment Data	August 2005
A-08-05-25132	Follow-up of Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments	September 2005
A-04-05-15042	Payments Resulting from Disability Insurance Actions Processed via the Social Security Administration's Manual Adjustment, Credit, and Award Processes	April 2006
A-14-06-16049	Implementation of Workers' Compensation in Title II Redesign Release 3	June 2006

### **Scope and Methodology**

We reviewed a random sample of 250 Disability Insurance (DI) claims from a population of 234,968 DI claims in which the Social Security Administration (SSA) indicated a workers' compensation (WC) offset began between January 1, 1998 and December 31, 2004. Because the offset start date is updated when a change in WC benefits is recorded, our population includes some DI claims with offset beginning before 1998. From our sample, we determined that 93 percent of the DI claims had a WC offset that began between January 1, 1998 and December 31, 2004, and 7 percent of the claims had WC offsets that began before January 1, 1998.

To accomplish our audit objective, we:

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

For each of the 250 sampled claims, we:

- Obtained SSA's DI case folder and paperless file and reviewed all relevant documents related to the WC offset.
- Obtained WC verification for claims that did not have updated documentation.
- Completed SSA's Interactive Comps Facility screen to calculate the WC offset and resulting DI benefits.
- Prepared an SSA Form 2204 to compare the total benefits paid to the total benefits owed.

We deemed a WC case 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 or

- the overpayment was equal to or greater than 3 percent of the beneficiary's total case payments.

All material error claims were forwarded to SSA for review and comment.

The SSA entities reviewed were the Offices of Income Security Programs and Disability Programs under the Deputy Commissioner for Disability and Income Security Programs. The electronic data used for this audit were sufficiently reliable to meet our audit objective. Our tests of internal controls were limited to gaining an understanding of the laws, regulations and polices that govern the processing of DI claims with a WC offset and performing the audit steps identified above. We performed the review in Atlanta, Georgia, and Baltimore, Maryland. We conducted our audit from May 2005 to April 2006 in accordance with generally accepted government auditing standards.

# **Sampling Methodology and Results**

## **Sampling Methodology**

We reviewed a random sample of 250 Disability Insurance (DI) claims from a population of 234,968 DI claims in which the Social Security Administration's (SSA) records indicated a workers' compensation (WC) offset began between January 1, 1998 and December 31, 2004. Because the offset start date is effected when a change in WC benefits is recorded, some of our population includes DI claims with offset beginning before 1998. From our sample, we determined that 93 percent of the DI claims had a WC offset that began between January 1, 1998 and December 31, 2004, and 7 percent of the claims had WC offsets that began before January 1, 1998. Our dollar payment error projection was based on the total benefits paid on the 250 sampled items during the 6-year period January 1, 1998 through December 31, 2004. We made all projections at the 90-percent confidence level.

## **Sampling Results**

### **Estimation of Payment Errors—DI Claims With a WC Offset Calculation Error (January 1, 1998 through December 31, 2004)**

<u>Projections of Attribute Appraisals:</u> <b>DI Claims With a WC Offset Calculation Error</b>	
<b>Attribute Appraisal Projections</b>	
<b>Population and Sample Data</b>	<b>Number of Claims</b>
Total Population	234,968
Sample Size	250
Payment Errors Resulting in an <u>Underpayment</u>	19
Payment Errors Resulting in an <u>Overpayment</u>	8
<b>Projection to Population – <u>Underpayments</u></b>	<b>Number of Claims</b>
Lower Limit	11,830
Point Estimate	17,858
Upper Limit	25,731
<b>Projection to Population – <u>Overpayments</u></b>	<b>Number of Claims</b>
Lower Limit	3,765
Point Estimate	7,519
Upper Limit	13,390

<b><u>Projections of Variable Appraisals:</u></b>	
<b>DI Claims With a WC Offset Calculation Error</b>	
<b>Variable Appraisal Projections</b>	
<b>Population and Sample Data</b>	<b>Dollar Value of Claims</b>
Sample	\$9,351,517
Total DI claims Involving a WC offset with a Payment Error	\$158,590
Payment Errors Resulting in an <u>Underpayment</u>	\$118,386
Payment Errors Resulting in an <u>Overpayment</u>	\$40,204
<b>Projection to Population – <u>Underpayments</u></b>	<b>Dollar Value of Claims</b>
Lower Limit	\$49,644,626
Point Estimate	\$111,268,016
Upper Limit	\$172,891,405
<b>Projection to Population – <u>Overpayments</u></b>	<b>Dollar Value of Claims</b>
Lower Limit	\$12,397,025
Point Estimate	\$37,786,614
Upper Limit	\$63,176,203

**DI Claims With Payment Errors Unrelated to the WC Offset Calculation  
(January 1, 1998 through December 31, 2004)**

<b>DI Claims With Payment Errors Unrelated to the WC Offset Calculation</b>	
<b>Attribute Appraisal Projections</b>	
<b>Population and Sample Data</b>	<b>Number of Claims</b>
Total Population	234,968
Sample Size	250
Payment Errors	16
<b>Projection to Population</b>	<b>Number of Claims</b>
Lower Limit	9,530
Point Estimate	15,038
Upper Limit	22,456
<b>Variable Appraisal Projections</b>	
<b>Population and Sample Data</b>	<b>Dollar Value of Claims</b>
Sample	\$9,351,517
Total DI Claims With Payment Errors Unrelated to the WC Offset	\$71,524
<b>Projection to Population</b>	<b>Dollar Value of Claims</b>
Lower Limit	\$26,295,266
Point Estimate	\$67,223,696
Upper Limit	\$108,152,127

## **Estimation of DI Claims Involving a WC Offset that Had Continuing Payment Errors during the Period January through December 2005**

We determined that 18 claims had payment errors that continued after December 31, 2004. We believe the payment errors would have likely continued had we not identified them, or a significant event occurred that would have caused SSA to review the claims. Therefore, we conservatively estimated that the payment errors would have continued, on average, for at least 12 months after our audit period. Our estimate was based on two factors:

1. the attribute point estimate of claims with a payment error that continued after December 31, 2004 and
2. the total case dollar payment error that continued through January 2005.

<b>Projections of Attribute Appraisals:</b>	
<b>DI Claims Involving a WC Offset With Continuing Payment Errors</b>	
<b>Attribute Appraisal Projections</b>	
<b>Population and Sample Data</b>	<b>Number of Claims</b>
Total Population	234,968
Sample Size	250
Claims With a Continuing Payment Error	18
<b>Projection to Population</b>	<b>Number of Claims</b>
Lower Limit	11,057
Point Estimate	16,918
Upper Limit	24,645

<b>1-Year Estimate — DI Claims Involving a WC Offset With Continuing Payment Errors</b>	
<b>Sample Results</b>	<b>Dollar Value of Claims</b>
Total Continuing Payment Errors for January 2005	\$7,372
<b>Projection to Population</b>	<b>Dollar Value of Claims</b>
Lower Limit	\$3,408,914
Point Estimate	\$6,928,736
Upper Limit	\$10,448,559
<b>Estimated Payment Error for the 12-Month Period January through December 2005 (Based on Point Estimate)</b>	<b>\$83,144,832</b>

## ***Appendix E***

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### Payment Errors Caused by Workers' Compensation Offset Processing Mistakes

<b>Error Description</b>	<b>Under-Payment Amount</b>	<b>Over-Payment Amount</b>
1. Applied Incorrect Workers Compensation (WC) Data	\$28,971	--
2. Reverse Offset Error	\$12,838	--
3. Applied Incorrect WC Data	\$12,377	--
4. Inappropriately Offset Auxiliaries	\$12,360	--
5. WC Offset Based on Unverified WC Benefits	\$10,601	--
6. Applied Incorrect WC Data	--	\$8,527
7. Applied Incorrect WC Data	\$8,402	--
8. Applied Incorrect WC Data	--	\$8,257
9. Applied Incorrect WC Data	--	\$7,937
10. Applied Incorrect WC Data	--	\$6,890
11. Lump Sum Proration Error	\$6,595	--
12. WC Attorney Fees were Incorrectly Applied	\$6,079	--
13. WC Offset Based on Unverified WC Benefits	\$4,407	--
14. Beneficiary Elected Early Retirement Insurance Benefits	\$3,546	--
15. Beneficiary Elected Early Retirement Insurance Benefits	--	\$3,475
16. Applied Incorrect WC Data	\$3,343	--
17. Applied Incorrect WC Data	--	\$2,501
18. WC Offset Based on Unverified WC Benefits	\$1,728	--
19. WC Offset Stopped too Early	--	\$1,689
20. Lump Sum Proration Error	\$1,666	--
21. WC Offset Based on Unverified WC Benefits	\$1,629	--
22. Applied Incorrect WC Data	\$1,283	--
23. Applied Incorrect WC Data	--	\$928
24. Applied Incorrect WC Data	\$907	--
25. Applied Incorrect WC Data	\$729	--
26. Triennial Not Performed	\$517	--
27. Triennial Not Performed	\$408	--
<b>TOTALS</b>	<b>\$118,386</b>	<b>\$40,204</b>
<b>TOTAL UNDER &amp; OVERPAYMENTS</b>		<b>\$158,590</b>

## **Appendix F**

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### **Payment Errors Unrelated to the Workers' Compensation Offset Calculation**

<b>Error Description</b>	<b>Under-Payment Amount</b>	<b>Over-Payment Amount</b>
1. Supplemental Security Income Windfall Offset Processed Incorrectly	\$20,810	--
2. Supplemental Security Income Windfall Offset Processed Incorrectly	\$9,183	--
3. Failure to Post Overpayment	--	\$8,656
4. Attorney Fee Error	--	\$5,839
5. Attorney Fee Error	--	\$5,300
6. Total Benefits Paid were More than Total Benefits Due	--	\$4,686
7. Total Benefits Paid were Less than Total Benefits Due	\$2,790	--
8. Incorrect Initial Award	\$2,765	--
9. Total Benefits Paid were Less than Total Benefits Due	\$2,722	--
10. Total Benefits Paid were Less than Total Benefits Due	\$2,497	--
11. Total Benefits Paid were Less than Total Benefits Due	\$1,941	--
12. Total Benefits Paid were Less than Total Benefits Due	\$1,686	--
13. Total Benefits Paid were Less than Total Benefits Due	\$1,039	--
14. Benefits Not Adjusted for Non-Routine Payments	--	\$644
15. Total Benefits Paid were Less than Total Benefits Due	\$584	--
16. Total Benefits Paid were Less than Total Benefits Due	\$382	--
<b>Total</b>	<b>\$46,399</b>	<b>\$25,125</b>
<b>TOTAL UNDER &amp; OVERPAYMENTS</b>		<b>\$71,524</b>

## **Appendix G**

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### **Continuing Payment Errors**

Eighteen of our 43 (41 percent) payment error claims had a payment error that occurred during our audit period and continued after December 2004. We believe the payment errors would have likely continued had we not identified them, or a significant event occurred that would have caused SSA to review the claims. The claims with continuing payment errors are summarized below.

#### **Payment Errors Continuing After December 2004**

	Error Description	Number of Continuing Payment Errors	Total Dollar Payment Error For January 2005
1	Incorrect Workers' Compensation (WC) Data (amount and frequency) Applied	6	\$1,728
2	No Verification	4	\$1,233
3	Total Benefits Paid Did Not Agree to Total Benefits Paid	3	\$1,691
4	Triennial Redetermination Not Performed	2	\$660
5	Beneficiary Not Switched to Retirement Benefits	1	\$1,447
6	WC Offset Incorrectly Applied to Auxiliary Beneficiaries	1	\$330
7	WC Offset Stopped Early	1	\$283
	TOTALS	18	\$7,372

## ***Appendix H***

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### **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: November 6, 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, "Title II Disability Insurance Benefits with a Workers' Compensation Offset" (A-04-05-15133) – INFORMATION

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

Let me know if we can be of further assistance. Staff inquiries may be directed to Ms. 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, "TITLE II DISABILITY INSURANCE BENEFITS WITH A WORKERS' COMPENSATION OFFSET" (A-04-05-15133) -- INFORMATION**

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

The workers' compensation (WC) workload, although a very small workload compared to other SSA workloads, has always been complex and challenging. Over the past several years, SSA has made great strides in improving the accuracy of the computations. Much of the improvement is a result of Title 2 redesign enhancements that automated and simplified some aspects of this process. The payment accuracy of DI benefits with a WC offset is impacted greatly by the quality and timeliness of the data supplied by the States. Although we presume this data to be accurate, we frequently find ourselves re-verifying cases and getting different information that results in underpayments and/or overpayments. This, in conjunction with human error, when transmitting information into the system, contributes to a number of errors related to this workload. We continue to remind employees on the WC processes and have recently started gathering data that will be used to provide refresher training to the technicians.

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

**Recommendation 1**

Support legislation that would simplify and standardize the WC offset calculation.

Response:

We agree. A standardized calculation would make it easier for the Agency to train technicians to do this work accurately, without having to teach different calculations to selected groups. Further, management's ability to reassess work/resources as needed would be greatly enhanced due to the decreased need for the specialized abilities of the technicians. Accordingly, we strongly support legislation that would simplify and standardize WC offset calculations. There is currently a proposal in the President's Fiscal Year 2007 Budget that would simplify WC offset for all new beneficiaries by imposing offset at a flat percentage of benefits for a limited 5-year period.

**Recommendation 2**

Work with States to standardize the format used to report WC benefits to SSA.

Response:

We agree. Standardizing the reporting of WC benefits information would simplify processing. However, it would be difficult to facilitate a national format that all States would follow for obvious reasons, not the least of which would be the financial investment required from the States to update and maintain the information.

### **Recommendation 3**

Continue to explore electronic data exchanges with the States that maintain automated WC databases.

Response:

We agree. Such exchanges would allow for an expeditious transfer of data to the Agency. Time spent by technicians trying to obtain accurate WC information would be reduced along with the processing time of these cases. In addition, the level of accuracy in processing these cases would improve due to the availability of the most recent WC data.

### **Recommendation 4**

Determine whether assigning WC offset claims only to technicians specialized in this workload would be cost-effective and improve payment accuracy.

Response:

We agree in part. The Agency has already looked at the ramifications of specialization of the WC offset workloads. At the current staffing levels and given the amount of other priority workloads and service levels to maintain, it would be difficult to dedicate a specialized group of technicians for this workload. However, we would be willing to reevaluate the issue in the future as part of our ongoing efforts to improve our stewardship of the program.

Many WC offset actions, both for initial disability claims and in post-entitlement situations, are processed in our field offices and, with current resource constraints, specialization would not be cost-effective. Assigning all WC offset actions to a specific claims representative or technical expert would be difficult in field offices due to staffing and other workload concerns. However, we will continue to monitor field office inputs to determine specific training needs.

On the other hand, in our processing centers, specialization has already occurred in targeted reviews of WC offset cases. Along with that specialization, technicians are provided continuous refresher training and feedback to ensure a continued improvement in payment accuracy.

### **Recommendation 5**

Increase management oversight of the WC offset calculation, including the verification of WC benefits.

Response:

We agree. In addition to the increase of technical reviews of WC offset cases, as noted in our comments to recommendation 4, we have established a website that allows for continual monitoring by management the ongoing payment accuracy of these cases.

In addition, several of our processing centers worked together to create a national project to conduct weekly random quality reviews of current cases involving WC/Public Disability Benefit offset. These processing centers have developed an application that will standardize the way they evaluate the quality of this workload and identify error-prone case characteristics. We will use this information to determine training needs for technical staff and reduce the number of deficiencies in this critical workload.

# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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Frank Nagy, Audit Manager (404) 562-5552

### ***Acknowledgments***

In addition to those named above:

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Shane Henley, Auditor

Brennan Kraje, Statistician

Kimberly Beauchamp, Writer-Editor

For additional copies of this report, please visit our web site at  
[www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-04-05-15133.

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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.