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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**IMPROPERLY PAID  
LUMP-SUM DEATH  
PAYMENTS**

August 2006

**A-08-05-25145**

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**AUDIT REPORT**

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## **Mission**

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

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- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
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- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

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## SOCIAL SECURITY

### **MEMORANDUM**

**Date:** August 18, 2006

**Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** Improperly Paid Lump-Sum Death Payments (A-08-05-25145)

### **OBJECTIVE**

Our objective was to determine whether the Social Security Administration (SSA) improperly paid Lump-Sum Death Payments (LSDP) when a recoverable overpayment existed on a deceased numberholder's record.

### **BACKGROUND**

SSA may pay a lump-sum death benefit of \$255 upon the death of a person who has enough quarters of coverage to be insured under the Social Security program.<sup>1</sup> This payment is limited to a surviving spouse who was living with the worker at the time of death or a minor child who, in the month of the wage earner's death, is eligible for certain Social Security benefits based on the worker's record. SSA policy requires that an LSDP be withheld when there is a recoverable overpayment on the deceased numberholder's record.<sup>2</sup> When SSA does not recognize an overpayment exists, it may improperly pay the LSDP rather than reduce/recover the overpayment.

To accomplish our objective, we interviewed some field office, program service center and Headquarters personnel responsible for LSDP issues. Additionally, we reviewed SSA's policies and procedures for processing LSDPs. To determine the dollar value of improperly paid LSDPs, we obtained a data extract from SSA's Master Beneficiary

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<sup>1</sup> Program Operations Manual System (POMS), section SM 00805.035.

<sup>2</sup> POMS, section GN 02205.003.

Record<sup>3</sup> and the Recovery of Overpayments, Accounting and Reporting System<sup>4</sup> of 3,464 numberholders who died in Calendar Year (CY) 2004, had an LSDP annotated on their record, and had an overpayment at the time of death.<sup>5</sup>

We reviewed a random sample of 250 records from our extract of 3,464 to determine (1) whether SSA paid the LSDP, (2) whether SSA withheld the LSDP to reduce an existing overpayment and (3) what system SSA used to process the case. SSA generally pays LSDPs using the Modernized Claims System (MCS).<sup>6</sup> However, if an overpayment exists on the deceased numberholder's record, program service center personnel process the LSDP through the Manual Adjustment, Credit and Award Processing (MADCAP) System.<sup>7</sup> If SSA personnel directly input death information into the Postentitlement Online System,<sup>8</sup> the Title II Processing System pays the LSDP.<sup>9</sup>

## RESULTS OF REVIEW

Despite policies to the contrary, SSA frequently paid LSDPs when a recoverable overpayment existed on a deceased numberholder's record. Based on the sample of 250 cases reviewed where an overpayment existed on the record, we estimate SSA incorrectly processed approximately 2,536 (73 percent), resulting in about \$570,597 the Agency should have withheld to reduce existing overpayments. Although we did not attempt to quantify the amount of LSDPs the Agency incorrectly paid before CY 2004, program service center personnel acknowledged that these processes had been in place for many years. As such, we believe SSA lost the opportunity to reduce/recover millions of dollars in overpayments.

Although SSA has the opportunity to reduce existing overpayments by withholding LSDPs, it has not routinely done so. MCS does not withhold LSDPs when a recoverable overpayment exists on the deceased numberholder's record. In addition,

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<sup>3</sup> The Master Beneficiary Record is a file of every Retirement Survivors Disability Insurance beneficiary. SSA establishes the record on an account basis when the Agency receives an initial claims action.

<sup>4</sup> The Recovery of Overpayments, Accounting and Reporting System controls the recovery and collection activity of legally defined overpayments. We did not consider incorrect benefits paid after the beneficiary's death in our review.

<sup>5</sup> See Appendix B for more information on our methodology.

<sup>6</sup> MCS is an application program that processes initial award actions.

<sup>7</sup> MADCAP, also referred to as the Manual system, is the vehicle for Master Beneficiary Record updates when full automated processing by the Title II processing applications cannot be accomplished. MADCAP actions are processed in program service centers.

<sup>8</sup> The Postentitlement Online System is a vehicle for direct input of Title II post-entitlement actions.

<sup>9</sup> Title II Processing System, also known as the Title II Redesign, automatically adjusts benefits for survivors and pays an LSDP to a spouse living in the same household as the wage earner when SSA receives notification of death.

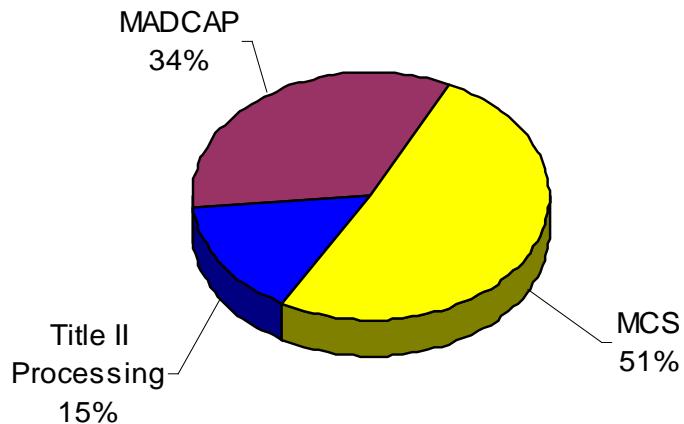
SSA personnel who manually process cases through MADCAP do not always apply LSDPs to existing overpayments, as required. Furthermore, SSA's automated Title II Processing System does not routinely process LSDPs correctly when a recoverable overpayment exists on the record.

### **SSA IMPROPERLY PAID LUMP-SUM DEATH PAYMENTS**

SSA improperly paid thousands of dollars in LSDPs when a recoverable overpayment existed on a deceased numberholder's record. Based on our analysis of the sample of 250 CY 2004 LSDPs, we estimate that SSA incorrectly processed about 2,536 (73 percent). As a result, SSA paid approximately \$570,597 it should have withheld to reduce existing overpayments.

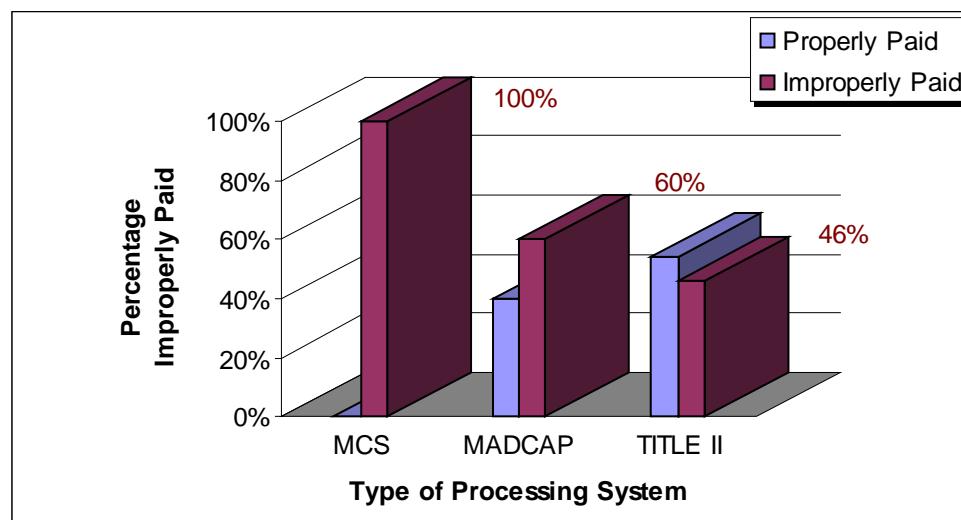
SSA processed 128 (51 percent) of the sample of 250 LSDP cases we reviewed through MCS, as shown in Figure 1. SSA processed 84 (34 percent) of the cases through MADCAP and the remaining 38 (15 percent) through SSA's Title II Processing System.

**FIGURE 1: SSA PROCESSED MOST OF THE LUMP-SUM DEATH PAYMENTS THROUGH MCS**



As illustrated in Figure 2, our sample results showed that SSA improperly paid 100 percent of the LSDPs processed through MCS when a recoverable overpayment was on the record. Additionally, SSA improperly paid 60 percent of the LSDPs it processed through MADCAP and 46 percent of cases it processed through the Title II Processing System when an overpayment existed on the deceased wage earner's record. These errors resulted in \$27,986 processed through MCS, \$9,724 processed through MADCAP and \$3,470 processed through the Title II Processing System that should have been withheld to reduce existing overpayments.

**FIGURE 2: PERCENTAGE OF LUMP-SUM DEATH PAYMENTS SSA IMPROPERLY PAID**



Should the situation remain unchanged, we estimate that, over the next year, SSA will incorrectly process about 2,500 additional LSDP cases, resulting in approximately \$570,000 the Agency will not withhold to reduce existing overpayments.

### **Modernized Claims System is Not Programmed to Recognize Overpayments**

Based on our analysis, we determined that MCS does not recognize overpayments on deceased numberholders' records before processing LSDPs. Rather, SSA relies on field office personnel to identify existing overpayments and send LSDP claims to program service centers for manual processing.<sup>10</sup> Personnel at the two field offices we visited told us they were unaware that LSDPs should not be processed through MCS when a recoverable overpayment exists. It appears that SSA policy could be more specific regarding the processing of such actions through MCS. Although SSA policies state that LSDPs are not payable when an overpayment is on the record,<sup>11</sup> it is not among the list of exclusions that are found in MCS procedures (that is, that they should

<sup>10</sup> POMS, section GN 01010.040 A. & C.2.

<sup>11</sup> POMS, section GN 02205.003 B & GN 02301.065 A.

not be processed through MCS).<sup>12</sup> Office of Systems personnel stated they did not know that MCS would pay the LSDP when an overpayment exists on the deceased numberholder's record. However, as previously indicated, SSA improperly paid 100 percent of the LSDPs we reviewed that personnel processed through MCS, rather than reducing existing recoverable overpayments. Office of Systems personnel acknowledged that corrections to MCS could prevent the Agency from improperly paying LSDPs when a recoverable overpayment exists on a deceased numberholder's record.

### **Program Service Center Personnel Frequently Did Not Apply Lump-Sum Death Payments to Existing Overpayments**

Program service center personnel who manually processed cases through MADCAP frequently did not apply LSDPs to existing overpayments, as required by POMS.<sup>13</sup> Our analysis showed that program service center personnel improperly processed LSDPs in the following ways.

- Personnel did not consider the existing overpayment on the deceased numberholder's record when processing the LSDP claim.
- Personnel attempted to apply LSDPs to existing overpayments by using special accrual entry codes (AB and AA).<sup>14</sup> Our analysis showed, and program service center personnel agreed, that MADCAP did not process these LSDP cases correctly. In these instances, MADCAP withheld the LSDPs, but did not reduce the overpayment on the deceased numberholder's record. Personnel stated they believed this occurred because of a problem with MADCAP.
- Personnel withheld LSDPs, but did not reduce the overpayment by the LSDP amount. Personnel stated they believed these instances occurred because benefit authorizers failed to complete the overpayment recovery action.

Program service center personnel acknowledged that staff should be reminded of their responsibility to apply LSDPs to reduce an existing overpayment on a deceased numberholder's record.

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<sup>12</sup> Modernized Systems Operations Manual, MCS 004.002.

<sup>13</sup> POMS, section GN 02205.003 B & GN 02301.065 B.

<sup>14</sup> POMS, section SM 00848.310 instructs personnel to use a special entry code (AB) to reduce/recover overpayments that are already recorded on the MBR.

## **Title II Processing System Did Not Routinely Process Lump-Sum Death Payments Correctly**

Based on our analysis of LSDPs reviewed, we determined the Title II Processing System did not consistently recognize existing overpayments on a deceased numberholder's record. Because there is no automated control, the Agency depends on staff to identify existing overpayments and send the case for manual processing. As a result, when personnel input death information into the Postentitlement Online System and an overpayment existed on the deceased numberholder's record, the Agency paid the LSDP rather than reduce the existing overpayment.

As previously discussed, SSA improperly paid 46 percent of the LSDP cases we reviewed that were processed through the Title II Processing System. In certain circumstances, the Title II Processing System applied LSDPs to reduce existing overpayments. For example, we identified instances in which the Title II Processing system correctly applied LSDPs to existing overpayments when SSA was already withholding a portion of a beneficiary's regular monthly benefit to collect an existing overpayment on the numberholder's record. Program service center personnel with whom we spoke acknowledged the Title II Processing system could be corrected to prevent the Agency from paying LSDPs when a recoverable overpayment exists on a deceased numberholder's record.

## **CONCLUSION AND RECOMMENDATIONS**

SSA improperly paid thousands of dollars each year in LSDPs. SSA should apply these payments to reduce/recover existing overpayments on deceased numberholders' records. If SSA does not take additional steps to address this problem, it will continue to improperly pay thousands of dollars each year. As such, we recommend that SSA:

1. Consider fully automating the process of withholding an LSDP to reduce any existing recoverable overpayment on the record.
2. Remedy weaknesses within MCS, MADCAP and the Title II Processing System that allow LSDPs to be paid when recoverable overpayments exist.

## **AGENCY COMMENTS AND OIG RESPONSE**

SSA agreed with our recommendations. The Agency's comments are included in Appendix C.



Patrick P. O'Carroll, Jr.

# **Appendices**

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**APPENDIX A** – Acronyms

**APPENDIX B** – Scope, Methodology and Sample Appraisal

**APPENDIX C** – Agency Comments

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

## ***Appendix A***

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### **Acronyms**

CY	Calendar Year
LSDP	Lump-Sum Death Payment
MADCAP	Manual Adjustment, Credit and Award Processing
MCS	Modernized Claims System
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration

# **Scope, Methodology and Sample Appraisal**

To accomplish our objectives, we performed the following steps.

- Reviewed pertinent sections of the Social Security Administration's (SSA) policies and procedures.
- Interviewed some field office, program service center and Headquarters personnel responsible for Lump-Sum Death Payment (LSDP) issues.
- Obtained a data extract of 3,934 numberholders who died in Calendar Year 2004, had an LSDP annotated on their record, and had an overpayment at the time of death. We did an initial review and excluded 470 of the cases based on the following criteria:
  - ✓ 174 cases in which the overpayments were not correctly posted to the record when the LSDP was processed;
  - ✓ 252 cases in which the overpayment was for Title XVI cross-recovery and was only recoverable from the overpaid Title XVI recipient;
  - ✓ 5 cases in which the date of death was incorrect on SSA's records and therefore should not have been included in our audit period;
  - ✓ 1 case in which no claim was made for the LSDP;
  - ✓ 1 invalid overpayment;
  - ✓ 6 bankruptcy cases;
  - ✓ 12 cases in which a waiver, explanation or reconsideration was pending on the overpayment; and
  - ✓ 19 cases dealing with misuse by a representative payee.

Excluding these cases, our LSDP population totaled 3,464 cases.

- Reviewed a randomly selected sample of 250 records from our population to (1) determine whether SSA paid the LSDP, (2) determine whether SSA withheld the LSDP to reduce an existing overpayment, and (3) what system SSA used to process the LSDP cases.

The SSA entity audited was the Deputy Commissioner for Operations. We relied primarily on the Master Beneficiary Record; Recovery of Overpayments, Accounting and Reporting System; and Payment History Update System to complete our review. We determined the data were sufficiently reliable to satisfy our audit objectives. We limited our review of internal controls to the steps identified above. We conducted our audit from September 2005 through April 2006 in accordance with generally accepted government auditing standards.

**Table 1: Sample Results, Projections on Incorrectly Paid LSDPs**

<b>SAMPLE ATTRIBUTE AND VARIABLE APPRAISAL</b>	
Total Population of numberholders who died in Calendar Year 2004, had an LSDP annotated on their record and an overpayment existed at the time of death	3,464
Sample Size	250
<b>Attribute Projections</b>	
Number of incorrectly processed LSDP cases	183
<b>Estimate incorrectly processed LSDP cases in Population</b>	<b>2,536</b>
Projection—Lower Limit	2,369
Projection—Upper Limit	2,688
<b>Variable Projections</b>	
Overpayment Amounts in Sample Resulting from SSA incorrectly Processing LSDP cases	\$41,180
<b>Estimate of Overpayment Amounts in Population Resulting from SSA Incorrectly Processing LSDP Cases</b>	<b>\$570,597</b>
Projection—Lower Limit	\$529,740
Projection—Upper Limit	\$611,454
<i>Projections made at the 90-percent confidence level.</i>	

## **Appendix C**

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### **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: August 9, 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, "Improperly Paid Lump-Sum Death Payments" (A-08-05-25145) -- 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 Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “IMPROPERLY PAID LUMP-SUM DEATH PAYMENTS”**  
**(A-08-05-25145)**

Thank you for the opportunity to review and comment on the draft report. Please find below our response to the specific recommendations.

**Recommendation 1**

The Social Security Administration (SSA) should consider fully automating the process of withholding a Lump Sum Death Payment (LSDP) to reduce any existing recoverable overpayment on the record.

**Response**

We agree. We have considered fully automating this process. We believe it is technologically feasible to either fully automate overpayment offset with an LSDP, or we can produce an online or batch exception to prevent payment release. This would produce exceptions for Payment Service Center manual processing. See our response to recommendation 2 below for a description of actions planned to fully automate or generate an exception within our existing systems.

**Recommendation 2**

SSA should remedy weaknesses within Modernized Claims System (MCS), Manual Adjustment, Credit and Award Processing (MADCAP) System and the Title II Processing System that allow LSDPs to be paid when recoverable overpayments exist.

**Response**

We agree. We believe the Title II processing system can be configured to recognize and withhold the LSDP from existing overpayments on record. We are examining upcoming scheduled releases (date of release has not yet been scheduled) to determine whether such changes can be accommodated. Of course, if this results in a significant change, an Information Technology Advisory Board (ITAB) re-approval for the existing project will be needed. For MADCAP, it appears to be technologically feasible to generate an exception when an LSDP is being paid and an overpayment exists on the record for any beneficiary. We will submit an ITAB template that will be considered as systems resources are available. Finally, for MCS, a change was implemented in April 2006 to produce a payment exception when an overpayment is reflected in the Beneficiary Overpayment/Underpayment Data (BOUD) field for the numberholder. In November 2006, a payment exception will be produced when the field inputs an LSDP and an overpayment is posted in the BOUD field of the Master Beneficiary Record or the Special Payment Amount field for any beneficiary of record.

## ***Appendix D***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Kim Byrd, Director, (205) 801-1605

Jeff Pounds, Audit Manager, (205) 801-1606

### ***Acknowledgments***

In addition to those named above:

Susan G. Evans, Auditor

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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-08-05-25145.

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OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

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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.

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