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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**PENDING WORKERS' COMPENSATION:  
THE SOCIAL SECURITY ADMINISTRATION  
CAN PREVENT MILLIONS  
IN TITLE II DISABILITY  
OVERPAYMENTS**

**June 2003**

**A-08-02-12064**

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**AUDIT REPORT**

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## SOCIAL SECURITY

### MEMORANDUM

Refer To:

Date: June 6, 2003

To: The Commissioner

From: Inspector General

Subject: Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments (A-08-02-12064)

### OBJECTIVE

Our objective was to evaluate the Social Security Administration's (SSA) management of title II disability cases with pending workers' compensation (WC) issues and assess the Agency's efforts to prevent overpayments.

### BACKGROUND

WC is a system of compensation for persons injured while working or who suffer occupational diseases. Each State, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico and the Virgin Islands, require that employers operating in their jurisdictions provide WC insurance for their employees and report work-related injuries to the State or responsible WC agency. The Social Security Act requires that SSA offset disability benefits for individuals who receive Federal, State or locally administered WC benefits in most States.<sup>1</sup>

Developing WC issues is a joint field office (FO) and program service center (PSC) responsibility. When an individual applies for title II disability benefits, FO personnel determine whether WC may be involved. If SSA approves disability benefits and the applicant's WC claim is pending, SSA requires that beneficiaries report receipt of subsequent WC payments. SSA policies and procedures require that personnel follow up on WC issues until resolved. SSA's Modernized Claims System (MCS) generates a one-time diary alert after benefit approval. This diary alert reminds personnel to follow

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<sup>1</sup> SSA administers the Old-Age, Survivors and Disability Insurance program under title II of the Social Security Act. Section 223(a) of the Act (42 U.S.C. § 423(a)) provides monthly disability benefits to insured individuals meeting specific disability requirements. Section 224 (42 U.S.C. § 424a) requires SSA to offset disability benefits by any other disability benefits paid under any law or plan of the United States, a State, or political subdivision. However, 14 states are required by state law to offset WC benefits with title II disability benefits.

up on pending WC issues.<sup>2</sup> PSC personnel must manually establish additional diaries to continue developing WC issues.<sup>3</sup>

In November 2002, we issued an early alert in which we notified SSA that it improperly paid title II disability beneficiaries because SSA did not have a process in place to ensure it systematically followed up on pending WC cases and encouraged the Agency to implement such a process. This report serves as a follow up to our early alert and recommends corrective actions to improve the Agency's management of pending WC cases and prevent overpayments.

## SCOPE AND METHODOLOGY

To accomplish our objective, we interviewed FO and PSC staff responsible for processing title II disability cases with pending WC issues. Additionally, we

- reviewed relevant SSA regulations, policies, and procedures;
- obtained a data extract of 179,284 title II disability cases that had pending WC issues for 2 or more years as of July 2001;<sup>4</sup> and
- reviewed a statistical sample of 100 pending WC cases aged 2 to 19 years and 30 cases aged 20 to 39 years.

See Appendix A for more information on our sample methodology.

Working with SSA FO personnel, we contacted State WC agencies and/or insurance companies for pertinent WC payment information. SSA's Operations Support Branch, Operations Analysis Section at the Southeastern PSC calculated the amount of title II disability benefits that should have been offset because of unreported WC.

The SSA entity reviewed was the Office of the Deputy Commissioner for Operations. We conducted our audit from January through November 2002 in accordance with generally accepted government auditing standards.

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<sup>2</sup> The Program Operations Manual System (POMS), section SM 00360.135 defines a pending WC claim as one in which a beneficiary intends to file for WC benefits, is waiting on a decision, or has appealed his/her WC claim.

<sup>3</sup> SSA's WC policies and procedures are contained in POMS, section DI 52001.

<sup>4</sup> We define a case as the wage earner's account and all eligible auxiliaries (such as spouse or child).

## RESULTS OF REVIEW

In prior Office of the Inspector General reports, we have highlighted the vulnerabilities in SSA's management of title II disability cases involving WC payments.<sup>5</sup> Based on the results of this review, we are equally concerned about SSA's risk of exposure to improper payments.

Our review disclosed that SSA overpaid title II disability beneficiaries millions of dollars. Of the 178,900 WC cases aged 2 to 19 years, we sampled 100 cases and found that 30 cases (30 percent) had unreported WC payments totaling almost \$900,000. Of these 30 cases, 10 (33 percent) resulted in title II disability overpayments totaling over \$67,000. As such, we estimated SSA overpaid 17,890 beneficiaries almost \$121 million because of unreported WC payments (see Appendix B for our sample appraisal). These may be conservative estimates because some State WC agencies purged older cases, which could have resulted in additional overpayments.

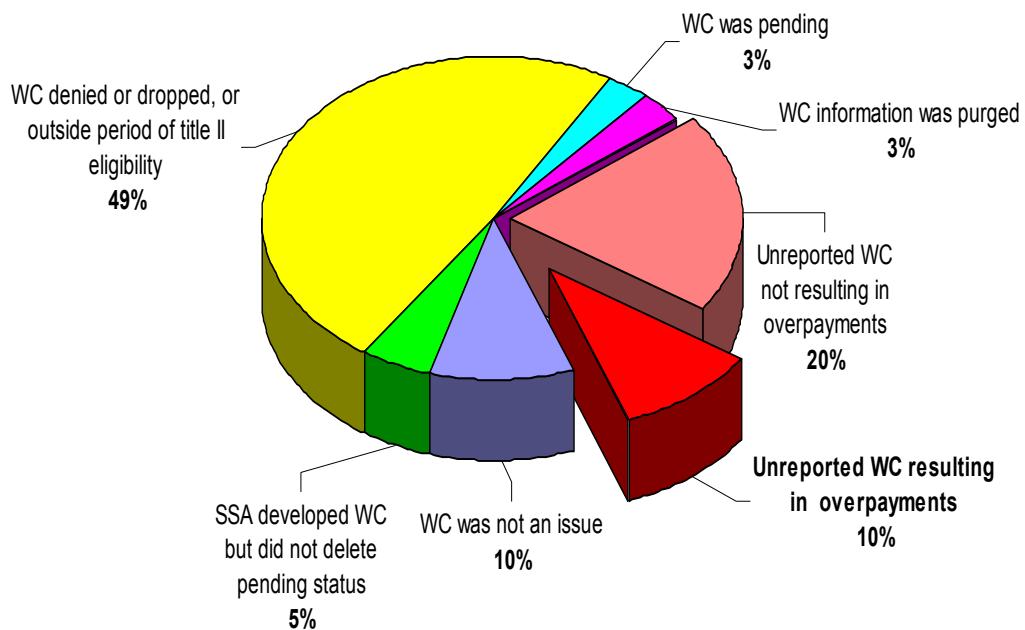
Based on our sample of 100 WC cases aged 2 to 19 years, we estimated the following results to our population of 178,900 cases:

- 87,661 (49 percent) involved situations in which the State WC agency denied the claim, the beneficiary dropped the claim, or the beneficiary received WC payments outside his/her period of title II eligibility;
- 35,780 (20 percent) involved unreported WC payments SSA did not identify; however, these did not result in overpayments;
- 17,890 (10 percent) involved unreported WC payments SSA did not identify, which resulted in title II overpayments;
- 17,890 (10 percent) involved situations in which SSA personnel had information that WC was not an issue when applicants filed for title II disability benefits;
- 8,945 (5 percent) were developed and resolved by SSA, but the Agency failed to delete the pending designation;
- 5,367 (3 percent) were awaiting settlement of the WC claim at the time of our audit (some of these cases could potentially result in overpayments if SSA fails to follow up on them); and
- 5,367 (3 percent) were purged by a State WC agency because of the age of the case (some of these cases could have resulted in overpayments, but records were not available to make this determination).

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<sup>5</sup> *Worker's Compensation Unreported by Social Security Beneficiaries* (A-04-98-64002), November 1999, and *Effects of State Awarded Workers' Compensation Payments on Social Security Benefits* (A-04-96-61013), September 1998.

**Figure 1: Estimated Status of 178,900 WC Cases Pending as of July 2001**



Of the 384 cases aged 20 to 39 years, we sampled 30 cases and found that 4 (13 percent) had unreported WC payments, but none of these resulted in overpayments.

## **SSA Can Prevent Title II Disability Overpayments**

These millions of dollars in overpayments could have been prevented had SSA personnel routinely followed up on WC issues, as required by POMS.<sup>6</sup> We recognize that following up on WC issues can be time consuming and require significant resources. However, we believe SSA has a stewardship responsibility to ensure it properly pays beneficiaries, thus avoiding overpayments.

Although SSA's MCS generates a one-time diary alert, PSC personnel must manually establish additional diaries to control future development. However, we found they did not always do so. For example, in one case, SSA personnel failed to adequately control development of the beneficiary's appeal of his WC claim and subsequent award, resulting in a \$28,363 overpayment. In another case, SSA personnel failed to adequately follow up on the pending WC claim, resulting in an \$8,090 overpayment.

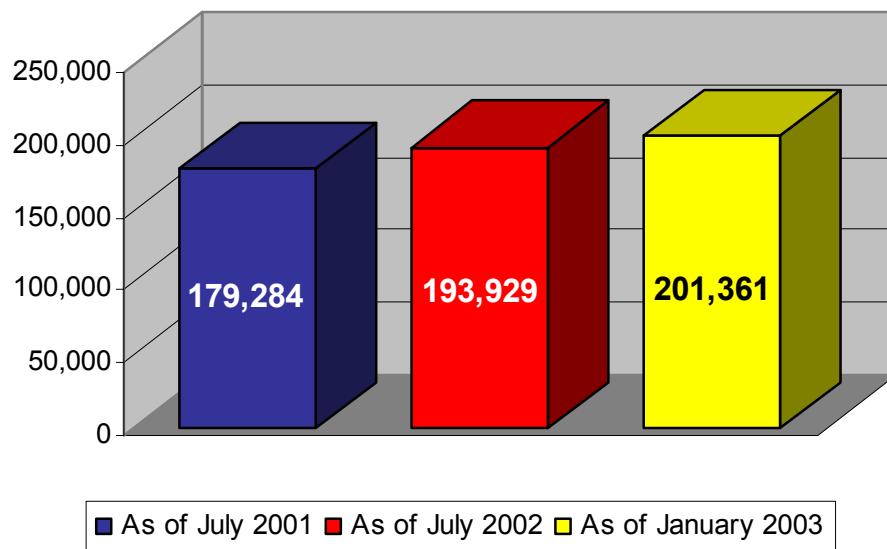
SSA does not have an automated process in place to ensure it systematically and routinely follows up on cases with pending WC issues. This would allow SSA to make timely adjustments to title II benefit payments and avoid overpayments. SSA could generate automated alerts until personnel resolve WC issues. Additionally, SSA could periodically produce a report showing how many WC cases are pending and how long

<sup>6</sup> POMS, section DI 52001.145B.6 and 7.

they have been pending. Management would use this report to monitor the status of cases and ensure personnel take appropriate action to resolve WC issues.

FO and PSC personnel agreed that SSA could prevent overpayments by developing and implementing an automated process to ensure it systematically and routinely follows up on cases with pending WC issues. We believe the potential savings that would occur by preventing these overpayments would greatly exceed any costs associated with implementing such a process. Given that SSA's pending WC workload is growing, as shown in Figure 2, we believe SSA should take immediate action to reduce its risk of exposure to improper payments.

**Figure 2: Title II Cases with WC Issues Pending for 2 or More Years**



## SSA Needs Accurate Information To Effectively Manage WC Cases

To effectively manage title II disability cases with pending WC, SSA personnel need to know the correct status of cases. However, we estimated that SSA failed to remove the pending WC designation, as required by POMS,<sup>7</sup> from almost 9,000 title II disability cases after SSA personnel resolved WC issues. We believe this hinders SSA's ability to effectively manage its WC workload.

We also estimated there were about 17,890 cases for which SSA personnel had information that WC was not an issue when applicants filed for title II disability benefits. However, SSA classified the cases as having pending WC issues because MCS automatically designated them as such when claimants stated they had work-related injuries. We found that WC was not an issue in these cases because claimants had received company disability insurance, sick pay, or other benefits that were exempt

<sup>7</sup>POMS, section DI 52001.145B.7.

from WC; were self-employed and not self-insured for WC; or had not filed for WC within the statute of limitations. We believe SSA should consider systems enhancements that detect such situations and exclude them from further review.

Knowing the correct status of title II claims classified as having pending WC issues is important so SSA personnel will not retrieve and analyze cases that no longer require development. SSA personnel agreed that knowing the correct status would assist them in effectively managing the growing WC workload.

## **CONCLUSION AND RECOMMENDATIONS**

If SSA does not take a proactive role in properly managing its pending WC workload, it will continue to build a significant backlog of pending WC cases and pay millions of dollars in title II disability overpayments. Accordingly, we encourage SSA to expeditiously implement an automated process whereby the Agency can systematically and routinely follow up on cases with pending WC issues.

We recommend that SSA:

1. Initiate actions to recover the 10 title II disability overpayments we identified, where feasible.
2. Take steps to reduce its backlog of title II disability cases having pending WC issues.
3. Develop and implement an automated process to ensure the Agency systematically and routinely follows up on new pending WC cases.
4. Explore systems enhancements that would detect situations in which WC is not applicable to prevent personnel from retrieving and analyzing cases that no longer require development.

## **AGENCY COMMENTS**

SSA generally agreed with our recommendations. Regarding Recommendation 1, SSA stated it began recovery action for the 10 cases prior to issuance of the audit report and has completed 8 of the 10 cases with the remaining cases to be completed by the end of June 2003. Regarding Recommendation 2, SSA stated it started a study on April 24, 2003 to detect high-risk and high-payoff cases. SSA expects to complete the study by the end of fiscal year 2003, at which time it will use the results to develop a plan for handling categories of cases where additional processing would be cost effective. Regarding Recommendations 3 and 4, SSA stated it will evaluate and consider any programming issues once it completes the study indicated in Recommendation 2.

The full text of SSA's comments is included in Appendix C.

## OIG RESPONSE

We believe SSA's response and planned actions adequately address Recommendations 1 and 2. However, we believe SSA's response to Recommendations 3 and 4 does not effectively respond to our goal of preventing title II disability overpayments and effectively managing the WC workload.

Regarding SSA's response to Recommendation 3, we acknowledge SSA's efforts in detecting high-risk and high-payoff WC cases and developing a plan for handling categories of cases where additional processing would be cost effective. While we believe these initiatives are useful, they only address the Agency's existing pending WC workload. It is unclear how the study results will address the preventive nature of our recommendation. The intent of Recommendation 3 is to encourage the Agency to systematically and routinely follow up on new pending WC cases so that it can make timely adjustments to benefits and avoid overpayments. Accordingly, we ask SSA to commit the necessary resources to expeditiously develop and implement an automated process to address this issue.

Regarding SSA's response to Recommendation 4, we acknowledge SSA's efforts to study its pending WC workload. However, it is unclear how the study results will assist SSA in managing its pending WC workload by detecting situations in which WC is not applicable. As discussed in this report, not knowing the correct status of cases with pending WC issues hinders SSA's ability to effectively manage its WC workload. Knowing the correct status of pending WC cases is important so SSA personnel will not retrieve and analyze cases that no longer require development. Accordingly, we encourage SSA to commit the necessary resources to identify systems enhancements that would detect situations in which WC is not applicable.



James G. Huse, Jr.

# *Appendices*

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APPENDIX A – Sample Methodology

APPENDIX B – Sample Appraisal

APPENDIX C – Agency Comments

APPENDIX D – OIG Contacts and Staff Acknowledgments

## ***Appendix A***

### **Sample Methodology**

We obtained a data extract of 179,284 title II disability cases with pending workers' compensation (WC) issues as of July 2001.<sup>1</sup> From this extract, we reviewed a statistical sample of 100 pending WC cases aged 2 to 19 years and 30 cases aged 20 to 39 years. We found that 10 of the 100 sampled cases resulted in title II disability overpayments. None of the 30 sampled cases resulted in overpayments. See Appendix B for our sample appraisal.

Aging (years) <sup>2</sup>	Year of Application	Number of Title II Cases	Number of Title II Cases Reviewed by the Office of the Inspector General	Number of Cases with Title II Overpayments
02	1999	15,012	8	0
03	1998	13,898	8	2
04	1997	13,173	7	2
05	1996	12,833	7	1
06	1995	12,826	7	0
07	1994	16,767	9	0
08	1993	16,033	9	1
09	1992	15,364	9	0
10	1991	13,471	8	1
11	1990	11,258	6	1
12	1989	8,320	5	0
13	1988	6,232	3	1
14	1987	6,031	3	1
15	1986	5,751	3	0
16	1985	4,781	3	0
17	1984	3,815	2	0
18	1983	2,850	2	0
19	1982	485	1	0
<b>Subtotals</b>		<b>178,900</b>	<b>100</b>	<b>10</b>
20 – 39	1962-1981	384	30	0
<b>Totals</b>		<b>179,284</b>	<b>130</b>	<b>10</b>

<sup>1</sup> We define a case as the wage earner's account and all eligible auxiliaries (such as spouse or child).

<sup>2</sup> We aged the population of pending WC cases based on the time from the applicant's date of filing to July 2001. We selected cases that had been pending for two or more years because it takes state WC agencies about 2 years to finalize WC claims.

## ***Appendix B***

### **Sample Appraisal**

<b>Results and Projections</b>	
<b>Population size in items</b>	<b>178,900</b>
<b>Sample size in items</b>	<b>100</b>
<b>Attribute Projections</b>	
<b>Sample cases – Number of title II beneficiaries overpaid because of unreported Workers' Compensation (WC) payments</b>	<b>10</b>
<b>Projection – Number of title II beneficiaries overpaid because of unreported WC payments</b>	<b>17,890</b>
<b>Projection lower limit</b>	<b>9,888</b>
<b>Projection upper limit</b>	<b>29,286</b>
<b>Variable Projections</b>	
<b>Sample cases – Title II overpayments resulting from unreported WC payments</b>	<b>\$67,537</b>
<b>Projection – Title II overpayments resulting from unreported WC payments</b>	<b>\$ 120,823,693</b>
<b>Projection lower limit</b>	<b>\$ 24,508,353</b>
<b>Projection upper limit</b>	<b>\$ 217,139,033</b>

We made all projections at the 90-percent confidence level.

## ***Appendix C***

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### **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: May 19, 2003 Refer To: S1J-3

To: James G. Huse, Jr.  
Inspector General

From: Larry W. Dye  
Chief of Staff

Subject: Office of the Inspector General Draft Report, "Pending Workers' Compensation: The Social Security Administration Can Prevent Millions in Title II Disability Overpayments"  
(A-08-02-12064)—INFORMATION

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

Please let us know if we can be of further assistance. Staff questions can be referred to Janet Carbonara at extension 53568.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "PENDING WORKERS' COMPENSATION: THE SOCIAL SECURITY ADMINISTRATION (SSA) CAN PREVENT MILLIONS IN TITLE II DISABILITY OVERPAYMENTS" A-08-02-12064**

We appreciate the opportunity to comment on this draft report.

**Recommendation 1**

Initiate actions to recover the 10 title II disability overpayments that were identified, where feasible.

**Comment**

SSA began the recovery action for the 10 cases prior to the audit report being issued. Currently 8 of the 10 cases have been completed with the remaining cases to be completed by the end of June 2003.

**Recommendation 2**

Take steps to reduce its backlog of title II disability cases having pending workers' compensation (WC) issues.

**Comment**

SSA started a study on April 24, 2003 to detect high-risk and high-payoff cases. The study will require an estimated 5 months to complete because some of the cases will require extensive development to obtain up-to-date workers' compensation information. The study is expected to be completed by the end of fiscal year 2003, at which time we will use the results to develop a plan for handling categories of cases where additional processing would be cost effective.

**Recommendation 3**

Develop and implement an automated process to ensure the Agency systematically and routinely follows up on new pending WC cases.

**Comment**

Once the study indicated in recommendation 2 is complete, we will evaluate and consider any programming issues.

#### **Recommendation 4**

Explore systems enhancements that would detect situations in which WC is not applicable to prevent personnel from retrieving and analyzing cases that no longer require development.

#### **Comment**

Once the study indicated in recommendation 2 is complete, we will evaluate and consider any programming issues.

## ***Appendix D***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Walter Bayer, Director, (215) 597-4080

Jeff Pounds, Deputy Director, (205) 801-1606

### ***Acknowledgments***

In addition to the persons named above:

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Susan Phillips, Auditor

Kimberly Beauchamp, Writer-Editor

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The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.