

Audit Report

Work Continuing Disability Reviews
for Disabled Title II Beneficiaries
with Earnings

A-01-12-12142 / May 2014

OIG

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: May 12, 2014

Refer To:

To: The Commissioner

From: Inspector General

Subject: Work Continuing Disability Reviews for Disabled Title II Beneficiaries with Earnings
(A-01-12-12142)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration was evaluating earnings reported to the Master Earnings File for disabled individuals receiving Title II benefits.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



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Attachment

Work Continuing Disability Reviews for Disabled Title II Beneficiaries with Earnings

A-01-12-12142



May 2014

Office of Audit Report Summary

Objective

To determine whether the Social Security Administration (SSA) was evaluating earnings reported to the Master Earnings File (MEF) for disabled individuals receiving Title II benefits.

Background

An individual is considered disabled under Title II of the *Social Security Act* if he/she is unable to engage in any substantial gainful activity (SGA) because of a medically determinable impairment that (1) can be expected to result in death or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months.

SSA defines SGA as work activity that involves significant physical or mental activities performed for pay or profit.

For our review, we identified 27,383 disabled Title II beneficiaries in current pay status as of July 2012 (from 1 Social Security number segment) with earnings reported on the MEF between 2007 and 2011 that may affect their entitlement to benefits. We randomly selected 275 cases from this population for detailed analysis.

Our Findings

We estimate that about 119,500 disabled beneficiaries were overpaid approximately \$1.02 billion because of work activity. SSA identified approximately \$872.58 million of these overpayments to about 107,500 beneficiaries; however, we estimate SSA did not detect approximately \$146.43 million in overpayments to about 13,900 beneficiaries. (We estimate that, as of April 2014, SSA recovered about \$489.37 million in overpayments.)

Of the 275 beneficiaries in our sample,

- 60 (22 percent) were overpaid \$511,680 because of work activity; and
- 215 (78 percent) were not overpaid despite having earnings posted to the MEF.

Our Conclusion

Despite the overpayments, SSA made improvements to the work-related continuing disability review (CDR) process. The average overpayment was \$8,114 for 9 months (whereas the average overpayment was \$18,331 for 19 months in our 2009 audit). Therefore, SSA should continue allocating resources to timely perform work-related CDRs and assess all overpayments resulting from work activity.

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ABBREVIATIONS

AERO	Automated Earnings Reappraisal Operation
CDR	Continuing Disability Review
CDREO	Continuing Disability Review Enforcement Operation
C.F.R.	Code of Federal Regulations
DCF	Disability Control File
EXR	Expedited Reinstatement
FY	Fiscal Year
GAO	Government Accountability Office
MEF	Master Earnings File
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SGA	Substantial Gainful Activity
SSA	Social Security Administration
SSN	Social Security Number
U.S.C.	United States Code

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) was evaluating earnings reported to the Master Earnings File (MEF)¹ for disabled individuals receiving Title II benefits.

BACKGROUND

SSA pays disability benefits to eligible individuals under Title II of the *Social Security Act*.² An individual is considered disabled under the *Social Security Act* if he/she is unable to engage in any substantial gainful activity (SGA) because of a medically determinable impairment that (1) can be expected to result in death or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months.³

SSA defines SGA as work activity that involves significant physical or mental activities performed for pay or profit;⁴ and the Agency has criteria for determining an individual's ability to engage in SGA.⁵ For example, for Calendar Year 2013, SSA generally considered earnings of \$1,040 per month to reflect SGA.⁶

Detecting and Evaluating Unreported Earnings

Although disabled beneficiaries are required to report work activity,⁷ they do not always do so. Therefore, SSA uses its Continuing Disability Review Enforcement Operation (CDREO) to compare earnings reported on its MEF to the benefit rolls. CDREO identifies potentially unevaluated substantial earnings that were reported on the MEF and that may affect benefit entitlement and alerts SSA to review the earnings. SSA must perform a work-related continuing disability review (CDR) when earnings indicate the beneficiary has returned to work at the SGA level.⁸

¹ The MEF is a repository of earnings information maintained by SSA.

² *Social Security Act* § 201 *et seq.*, 42 U.S.C. § 401 *et seq.*

³ *Social Security Act* § 223(d)(1), 42 U.S.C. § 423(d)(1).

⁴ 20 C.F.R. § 404.1572.

⁵ SSA, POMS, DI 10500.000 (March 28, 2013).

⁶ SSA, POMS, DI 10501.015 B (November 8, 2012). Special rules apply to individuals who are blind. We did not include blind individuals in our review.

⁷ 20 C.F.R. § 404.1588.

⁸ 20 C.F.R. § 404.1590(b)(5). Because earnings posted to an individual's record may include amounts that are not related to current work (such as, bonuses, termination pay, and sick pay), SSA must evaluate the earnings to determine whether they represent earnings from SGA performed after entitlement to disability benefits began.

In 2004, the Agency implemented an automated system called eWork to assist in controlling and processing work-related CDRs. This automated system is a structured, policy-driven automation tool that applies the principles of a work-related CDR in a logical sequence.

Work Incentives

Congress amended the *Social Security Act* with the intent to provide disabled beneficiaries incentives to return to work. When SSA conducts a work-related CDR it must consider how using work incentives may affect disability benefits.

Disabled beneficiaries are granted one trial work period during a period of disability in which they may test their ability to work while still receiving benefits.⁹ If SSA determines a beneficiary continues to be disabled after the trial work period ends, benefits can continue being paid during an extended period of eligibility.¹⁰ During this period, SSA will pay benefits for any month in which the beneficiary does not engage in SGA. If the beneficiary engages in SGA at any time after the extended period of eligibility, their eligibility for Title II disability benefit payments ends. However, individuals whose entitlement ends because of SGA may become entitled to benefits again if they are no longer engaging in SGA and are still disabled (see Appendix A for additional background information).

Other work incentives SSA must consider during a work-related CDR include the following.

- **Subsidy** – An employer may subsidize the earnings of an employee with a serious medical impairment by paying more in wages than the reasonable value of the actual services performed. When this occurs, the excess is regarded as a subsidy rather than earnings.¹¹
- **Impairment-Related Work Expenses** – The cost of certain items and services a disabled beneficiary needs to work can be deducted from earnings in determinations of SGA, even though such items and services are also needed for normal daily activities.¹²
- **Unsuccessful Work Attempt** – Earnings are disregarded from work attempts of 6 months or less that ended because of the beneficiary's impairment or the removal of special conditions related to the beneficiary's impairment that are essential to performing the job.¹³

⁹ SSA, POMS, DI 13010.035 (February 15, 2013). Generally, beneficiaries are granted 9 trial work months (which do not need to be consecutive) during a rolling 60-month period. Also, see 20 C.F.R. §404.1592.

¹⁰ SSA, POMS, DI 13010.210 (January 13, 2010). The extended period of eligibility begins with the month immediately following the completion of the trial work period and lasts 36 consecutive months.

¹¹ SSA, POMS, DI 10505.101 A (January 25, 2011).

¹² SSA, POMS, DI 10520.001 A (March 25, 2004).

¹³ SSA, POMS, DI 24005.001 D1 (June 1, 2010).

SSA's work incentive programs are complex and often difficult for disabled beneficiaries to understand; therefore, many disabled beneficiaries fail to report earnings because they are afraid the earnings will adversely affect their benefits. When disabled beneficiaries do not report earnings, SSA must rely on the CDREO for an alert that it may be necessary to initiate a work-related CDR. Earnings do not get posted to the MEF until after the year is complete; therefore, SSA does not receive CDREO alerts until well after the beneficiary earns wages, sometimes as long as 18 to 24 months later. As a result of this delay, overpayments may occur because of the length of time between when the beneficiary worked and when SSA learned of the work and processed a work-related CDR determination.

Prior Audit Reports

In a 2004 review, we determined that SSA had not evaluated all earnings reported to the MEF between 1996 and 2000 for disabled individuals who were receiving Title II benefits as of March 2002.¹⁴ We estimated that approximately \$1.37 billion in overpayments resulting from about 63,000 disabled beneficiaries' work activity was not identified.

Our 2009 audit found SSA did not evaluate all earnings reported on the MEF between 2001 and 2006 for disabled individuals who were receiving Title II benefits as of July 2007.¹⁵ We estimated approximately \$1.34 billion in overpayments resulting from about 49,000 disabled beneficiaries' work activity was not identified. SSA agreed with the recommendations in both prior reports (see Appendix B for recommendations included in our two prior reports).

To conduct our current review, we identified 27,383 disabled Title II beneficiaries in current pay status as of July 2012 (from 1 Social Security number [SSN] segment) with earnings reported on the MEF between 2007 and 2011 that may have affected their entitlement to benefits.¹⁶ We randomly selected 275 cases from this population for detailed analysis (see Appendix C for our scope, methodology, and sample results).

¹⁴ SSA OIG, *Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-03-13019), July 2004.

¹⁵ SSA OIG, *Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-08-28075), April 2009.

¹⁶ Beginning June 25, 2011, SSA assigns all SSNs randomly. Before June 25, 2011, SSA assigned SSNs within the confines of the area numbers allocated to a particular State based on data keyed to SSA's enumeration system. See SSA, POMS, RM 10201.050 (June 23, 2011). The last 2 digits of the SSN were randomly assigned and could contain digits "00" to "99." SSNs can be categorized into 20 segments, each containing 5 sequential groups of these digits. One segment is a representation of all 20 segments. For this audit, we selected SSNs ending with the digits "35" to "39" and randomly sampled 275 cases from this segment. In total, we estimate there are about 547,660 beneficiaries in all 20 segments.

RESULTS OF REVIEW

SSA made efforts to reduce overpayments resulting from work activity. However, we found that SSA did not evaluate all earnings posted to the MEF. Therefore, overpayments still occurred.

We estimate that about 119,500 disabled beneficiaries were overpaid approximately \$1.02 billion because of work activity.¹⁷ SSA identified approximately \$872.58 million of these overpayments to about 107,500 beneficiaries; however, we estimate SSA did not detect approximately \$146.43 million in overpayments to about 13,900 beneficiaries.¹⁸ (We estimate that, as of April 2014, SSA recovered about \$489.37 million in overpayments.)

Of the 275 beneficiaries in our sample,

- 60 (22 percent) were overpaid \$511,680 because of work activity; and
- 215 (78 percent) were not overpaid despite having earnings posted to the MEF.¹⁹

Beneficiaries Overpaid Because of Work Activity

In total, 60 beneficiaries in our sample were overpaid \$511,680 because of work activity.²⁰ SSA identified \$438,152 in overpayments made to 54 beneficiaries; however, for 7 beneficiaries, SSA did not evaluate all work activity and therefore we identified \$73,528 in undetected overpayments during our audit.²¹

¹⁷ When primary workers are ineligible for benefits because of work activity, any auxiliary beneficiaries (that is, spouses and children) are also ineligible. Therefore, our overpayment calculations and estimates include overpayments to the working beneficiaries as well as overpayments to auxiliary beneficiaries.

¹⁸ The Government Accountability Office (GAO) issued a report in which it estimated SSA made \$1.29 billion disability benefit payments that were potentially improper to about 36,000 individuals as of January 2013. However, GAO's estimate included individuals who did not have a work-related CDR completed by SSA, which would have identified potentially disqualifying work activity (such as a trial work period). See GAO, *Disability Insurance: Work Activity Indicates Certain Social Security Disability Insurance Payments Were Potentially Improper*, (GAO-13-635), August 2013.

¹⁹ For example, earnings for 126 beneficiaries were below SGA amounts and therefore did not result in overpayments. See Appendix D for additional reasons why beneficiaries were not overpaid despite their earnings.

²⁰ As of April 2014, SSA had recovered \$245,733 (48 percent) of the \$511,680 overpaid because of work from 52 beneficiaries. (The \$245,733 only includes amounts successfully recovered by SSA—it does not include amounts waived or deleted by the Agency.)

²¹ In total, 60 beneficiaries were overpaid because of work activity. However, for one beneficiary, SSA identified some of the overpayment resulting from work activity, but not all the overpayment; thus, one beneficiary is counted in both the identified and undetected overpayment categories.

Beneficiaries with Undetected Overpayments

Of the 275 beneficiaries in our sample, SSA did not evaluate all work activity and/or post overpayments for 7 (3 percent). This resulted in undetected overpayments totaling \$73,528.²²

Undetected overpayment periods for the seven cases ranged from 1 to 18 months, with an average of 9 months. Additionally, the undetected overpayments ranged from \$728 to \$28,275, with an average of \$10,504 and a median of \$8,246.

Below are examples of these seven beneficiaries.

- One disabled beneficiary began receiving benefits in July 2006. This beneficiary had substantial earnings for 2007 and 2008. SSA processed benefit recalculations and increased his benefits each year based on his earnings; however, SSA did not evaluate the earnings to determine whether they were SGA. This case was referred to SSA in June 2013. In October 2013, SSA evaluated the earnings and posted a \$28,275 overpayment for 18 months. Four other cases were similar to this case as SSA did not review earnings and post an overpayment because of work activity until after we referred the case in June 2013. The earnings in those three cases were for Tax Years 2007 through 2011.

SSA improved the work CDR process in 2012 and 2013—described in the next section of this report. Had the Agency implemented these improvements sooner, it may have identified these four beneficiaries.

- In December 2012, SSA evaluated earnings for one disabled beneficiary and determined them to be SGA, resulting in the individual being overpaid for 24 months. SSA assessed a \$6,282 overpayment in February 2013; however, the overpayment only represented 6 months of overpayments. In June 2013, we referred this case to SSA, and, in July 2013, the Agency assessed a \$16,127 overpayment for 18 months, making the total overpayment \$22,409 for 24 months.
- In February 2013, SSA evaluated earnings for one disabled beneficiary and determined earnings to be SGA; however, the Agency did not assess an overpayment for the months determined to be SGA. Therefore, in June 2013, we referred the case to SSA, and, in August 2013, the Agency assessed an \$8,246 overpayment for 6 months.

When SSA determines a beneficiary is overpaid, the Agency needs to calculate and post the overpayment.²³ Additionally, as soon as possible, SSA must send written notice to the

²² In June 2013, we referred 27 cases to SSA in which it appeared work activity was not evaluated. By March 2014, SSA had evaluated the work activity for all cases referred, of which 20 did not result in SGA and 7 resulted in undetected overpayments.

²³ SSA, Benefit Authorizer Basic Training Program, 2013. Also, see SSA, POMS, GN 02201.001 A (July 20, 2010).

beneficiary indicating the amount overpaid and his/her liability for repayment.²⁴ The Agency did not follow its policy and procedure for the two beneficiaries above, as SSA did not record the overpayment or issue an overpayment notice until after our referral.

Steps SSA Took to Improve Work CDRs

According to SSA, it made the following improvements to its work-related CDR processes and management information.

- Established a dedicated staff that targets the oldest cases.
- Prioritized enforcement alerts (for cases with unreported earnings) by the amount of earnings—working the cases with highest earnings first to minimize overpayments.
- Improved communications between field offices and processing centers for priority cases that must be transferred between components.
- Established a standard report for work-related CDR management information and overpayments.
- Reorganized policy instructions so all work-related CDR issues are in a specific section.²⁵
- Created a section on its Intranet policy site that contains links to work-related CDR resources.

Additionally, SSA improved its CDREO alert process. In October 2010, SSA began a pilot in one of the program service centers using a statistical predictive model to prioritize CDREO alerts, working cases likely to incur large work-related overpayments first. The predictive model scored cases based on such factors as historical earnings, prior work-related CDRs, previous benefit increases due to earnings, overpayments, amount of monthly benefits, time on the rolls, and type of impairment. In June 2011, SSA expanded the pilot to include three program service centers, covering over 60 percent of the CDREO workload. According to SSA, it implemented the predictive model nationwide in June 2013.

Furthermore, in October 2012, SSA began a new pilot to delay the benefit increase resulting from an Automated Earnings Reappraisal Operation (AERO) re-computation for a disability beneficiary with a pending work CDR. Using the CDREO predictive model, SSA identified the top 10 percent of scored cases pending in the processing centers and field offices, matched these cases against the October AERO increase cases, and identified cases that were due a benefit increase based on the AERO re-computation. SSA delayed the AERO increase for these high-scoring cases until its next AERO recomputation run in March 2013. This allowed SSA

²⁴ SSA, POMS, GN 02201.009 (April 15, 2011).

²⁵ SSA, POMS, DI 13010 (September 6, 2012).

employees 6 additional months to complete work CDRs before benefits were automatically increased. SSA is continuing this effort. In October 2013, the Agency identified a new sample of cases and planned to analyze the data in April 2014.

Comparison of Sample Results of OIG Audits

The improvements SSA made to the work-related CDR process are illustrated by comparing the sample results of our 2004 and 2009 audits to our current audit.²⁶ As Table 1 illustrates, when we conducted our 2004 audit, the average overpayment for our sample was just above \$18,000 with an average of 22 months overpaid, as compared to our current review of an average overpayment just above \$8,000 with an average of 9 months overpaid. Additionally, total overpayments decreased by about \$1 million when comparing our 2004 audit to our current review. The decrease in total work-related overpayments is an indication of how SSA is working cases with highest earnings first to minimize overpayments.

Table 1: Comparison of OIG Audits

	2004 Audit	2009 Audit	Current Audit
Population (1 segment)	29,871 beneficiaries receiving benefits as of March 2002	25,904 beneficiaries receiving benefits as of July 2007	27,383 beneficiaries receiving benefits as of July 2012
Years of Earnings on MEF	1996 to 2000	2001 to 2006	2007 to 2011
Sample Size	275 beneficiaries	275 beneficiaries	275 beneficiaries
Number of Beneficiaries Overpaid Due to Work Activity	79 beneficiaries	92 beneficiaries	60 beneficiaries
Overpayments Due to Work Activity	\$1,449,121	\$1,686,409	\$511,680
Overpayments Identified by SSA	\$820,354 (57 percent)	\$977,350 (58 percent)	\$438,152 (86 percent)
Overpayments Undetected by SSA	\$628,767 (43 percent)	\$709,059 (42 percent)	\$73,528 (14 percent)
Number of Months Overpaid	1 to 123 months	1 to 90 months	1 to 40 months
Average Number of Months Overpaid	22 months	19 months	9 months
Range for Overpayments	\$401 to \$100,000	\$440 to \$108,417	\$420 to \$29,730
Average Overpayment	\$18,343	\$18,331	\$8,114

²⁶ SSA OIG, *Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-03-13019), July 2004; and *Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-08-28075), April 2009.

CONCLUSION

Our current review estimates approximately \$1.02 billion in overpayments existed because of disabled beneficiaries' work activity for Tax Years 2007 through 2011. SSA identified approximately \$872.58 million of these overpayments but \$146.43 million went undetected. Despite these overpayments, SSA made improvements to the work-related CDR process. The average overpayment was \$8,114 for 9 months (whereas the average overpayment was \$18,331 for 19 months in our 2009 audit). Therefore, SSA should continue allocating resources to timely perform work-related CDRs and assess all overpayments resulting from work activity.

AGENCY COMMENTS

SSA reviewed the draft report but did not provide any comments. See Appendix E.

APPENDICES

Appendix A – BACKGROUND

Title II of the *Social Security Act* provides benefits to individuals who—having insured themselves for benefits through sufficient, recent work under Social Security-covered employment—have lost their ability to work because of a severe, long-term disability.¹ In addition, the program provides benefits to disabled adult children and disabled widow(er)s of insured workers.² The number of beneficiaries and total monthly benefits paid in December 2012 is shown in Table A–1.³

Table A–1: Number of Disabled Beneficiaries and Total Monthly Benefits Paid

As of December 2012	Beneficiaries		Benefits Paid (dollars in thousands)	
Disabled Workers	8,826,591	87%	\$9,977,027	92%
Disabled Audit Children	1,006,676	10%	\$725,285	6%
Disabled Widow(er)s	255,472	3%	\$181,760	2%
Total	10,088,739	100%	\$10,884,072	100%

The Definition of Disability

The Social Security Administration (SSA) considers an individual to be disabled if he/she is unable to engage in any substantial gainful activity (SGA) because of an impairment that (1) can be expected to result in death or (2) has lasted (or can be expected to last) for a continuous period of at least 12 months.⁴

SGA

The *Social Security Act* grants SSA the authority to establish criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA.⁵ The Agency defines SGA as work activity that involves significant physical or mental activities performed for pay or profit. Work may be substantial even if it is seasonal or part-time or if the individual does less, is paid less, or has less responsibility than in previous

¹ *Social Security Act* § 223 *et seq.*, 42 U.S.C. § 423 *et seq.* Generally, when disabled workers are entitled to benefits, their spouses and children may also be entitled as auxiliary beneficiaries. *Social Security Act* §§ 202 (b), (c) and (d), 42 U.S.C. §§ 402 (b), (c) and (d).

² *Social Security Act* §§ 202 (d), (e) and (f), 42 U.S.C. §§ 402 (d), (e) and (f).

³ SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012*, page 21.

⁴ *Social Security Act* § 223(d)(1), 42 U.S.C. § 423(d)(1).

⁵ *Social Security Act* § 223(d)(4)(A), 42 U.S.C. § 423(d)(4)(A).

work. Work activity is gainful if it is the kind of work usually done for pay or profit, whether or not a profit is realized.

According to SSA, usually the best measurement of a person's ability to work is the amount of pay received.⁶ For example, for Calendar Year 2013, the Agency generally considered earnings of \$1,040 per month to reflect an individual's ability to engage in SGA.⁷ However, the Agency only considers wages earned through an individual's own effort in determining whether the SGA level is met. For example, if it is necessary for an employer to provide special help for an individual to work, the value of such special assistance may be considered a subsidy and deducted from earnings. In addition, impairment-related work expenses incurred by a disabled individual are also deducted from earnings before determining whether earnings reflect SGA. Therefore, SSA considers only the earnings based on the individual's own productivity in determining whether earnings reflect SGA.

How Work Affects Entitlement to Benefits

SSA encourages disabled individuals to return to work.⁸ Congress has passed numerous amendments to the *Social Security Act* with the intent to provide disabled individuals incentives to return to work.⁹

The Trial Work Period

The trial work period allows a disabled beneficiary the chance to test his/her ability to work and hold a job without losing his/her disability benefits. During this period, the beneficiary may perform services for compensation or gain and still be considered disabled. The trial work period consists of 9 trial work months that do not have to be consecutive but must fall within a 60-consecutive month rolling period.¹⁰

⁶ SSA, POMS, DI 24001.025 A (January 5, 2007).

⁷ SSA, POMS, DI 10501.015 B (November 8, 2012). Special rules apply to individuals who are blind.

⁸ SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012*, page 6. Trial work period and extended period of eligibility are just two examples of work incentives.

⁹ SSA, POMS, DI 13010.001 (April 22, 2009).

¹⁰ SSA, POMS, DI 13010.035 (February 15, 2013).

Extended Period of Eligibility

After completing the trial work period, the extended period of eligibility begins. The extended period of eligibility provides a 36-month re-entitlement period during which a beneficiary can be re-entitled to benefits if his/her work activity falls below SGA level.¹¹ The first time a beneficiary works above the SGA level in the extended period of eligibility, the beneficiary no longer meets the requirements for disability due to work and the disability ceases; however, SSA continues paying disability benefits for the month the disability ceased and the following 2 months, which the Agency calls the grace period. Eligibility for benefits will not completely terminate until the beneficiary has earnings above the SGA level after the 36-month re-entitlement period of the extended period of eligibility.¹²

Expedited Reinstatement

Certain previously entitled individuals may request expedited reinstatement (EXR) of their Title II disability benefits when their medical condition no longer permits them to perform SGA. EXR is a safety net for individuals who make use of SSA-administered work incentives, successfully return to work, and, consequently, lose their entitlement to Title II disability benefits.¹³

¹¹ SSA, POMS, DI 13010.210 (January 13, 2010).

¹² SSA, POMS DI 13010.201 A (January 13, 2010). SSA reported that it terminated benefits to 38,228 disabled beneficiaries during Calendar Year 2012 because the beneficiaries were performing SGA. (SSA, *Annual Statistical Report on the Social Security Disability Insurance Program, 2012*, page 128.)

¹³ SSA, POMS, DI 13050.001 (March 10, 2011).

Appendix B – STATUS OF RECOMMENDATIONS FROM PRIOR AUDITS

In July 2004, we issued a report, *Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-03-13019). The following tables list the four recommendations from this report, the Social Security Administration's (SSA) actual/proposed actions when the report was issued, and the status as of January 2014.

Table B–1: Recommendation 1

Recommendation - Review past cases where significant earnings are present on the Master Earnings File (MEF) and no determination has been made regarding trial work and/or substantial gainful activity (SGA).	
SSA's comments and/or actions from July 2004 report	SSA agreed to review cases with significant earnings on the MEF where no determination had been made regarding trial work/SGA and take action where it was cost beneficial to do so and as resources permitted.
Status as of 2014	Although SSA originally agreed with this recommendation, the Agency later stated it would not be a prudent use of its limited resources.

Table B–2: Recommendation 2

Recommendation – Ensure that future earnings enforcements are adequately controlled by management and resolved timely.	
SSA's comments and/or actions from July 2004 report	<p>SSA agreed with this recommendation. The Agency stated it was tracking earnings enforcement through the Continuing Disability Review Enforcement Operation (CDREO). The CDREO system was integrated with SSA's Disability Control File (DCF), which controls the earnings enforcement issues that the CDREO system generates. Additionally, SSA was also analyzing a comprehensive matching interface that would provide verification of earnings for both Title II and XVI beneficiaries and ensure earnings enforcement actions generated by the CDREO systems were controlled until completed.</p> <p>The Agency also stated it had initiated steps to improve and accelerate the process of wage reporting for individuals who returned to work. Additionally, SSA stated that their new national database, eWork, would provide a centralized location that would use evidence of work activity to schedule and process work-related continuing disability reviews (CDR).</p>

Recommendation – Ensure that future earnings enforcements are adequately controlled by management and resolved timely.	
Status as of 2014	In June 2013, SSA nationally implemented a statistical predictive model to prioritize CDREO alerts, so the Agency could work cases likely to incur large work-related overpayments first. The predictive model scores cases on a variety of factors including but not limited to the following: (1) historical earnings, (2) prior work-related CDRs, (3) previous benefit increases due to earnings, and (4) type of impairment.

Table B–3: Recommendation 3

Recommendation – Ensure that earnings reported on the MEF or disclosed on beneficiary-completed forms are evaluated when medical CDRs are performed or mailer CDR forms are received.	
SSA's comments and/or actions from July 2004 report	SSA agreed with this recommendation stating it would provide employment support training to all direct service employees that would help ensure all reported earnings would be evaluated. SSA also stated the DCF now had the ability to control both a pending work issue and a pending medical issue at the same time; whereas, before November 2002, the DCF could only control one issue at a time.
Status as of 2014	SSA provided employment support training to all direct service employees in fall 2003. Additionally, eWork was implemented nationally in 2004. This was a new system to control and process disability work activity and work CDRs.

Table B–4: Recommendation 4

Recommendation – Ensure that earnings resulting in benefit increases are evaluated to determine whether trial work activity and/or SGA were performed.	
SSA's comments and/or actions from July 2004 report	SSA agreed with the recommendation and stated that by enhancing its ability to control and timely resolve earnings enforcements (as previously described, see recommendation two), SSA would also be able to ensure earnings resulting in benefit increases would be evaluated. All earnings that would indicate a return to work and result in a benefit increase would trigger controlled earnings enforcement actions.

Recommendation – Ensure that earnings resulting in benefit increases are evaluated to determine whether trial work activity and/or SGA were performed.

Status as of 2014

In October 2012, SSA began a new pilot to delay the benefit increase resulting from an Automated Earnings Reappraisal (AERO) re-computation for a disability beneficiary with a pending work-related CDR. SSA used the CDREO predictive model to identify the top 10 percent of scored cases pending in the processing centers and field offices, matched these cases against the October AERO increase cases, and identified cases that were due benefit increases due to the AERO re-computation. The Agency delayed the AERO increase for these high-scoring cases until its next AERO recomputation run in March 2013, allowing SSA employees 6 additional months to conduct and complete a work-related CDR. In October 2013, the Agency identified a new sample of cases and planned to analyze the data in April 2014.

In April 2009, we issued a report, *Follow-up on Disabled Title II Beneficiaries with Earnings Reported on the Master Earnings File* (A-01-08-28075). The following table lists the recommendation from this report, SSA's actual/proposed actions when the report was issued, and the status as of January 2014.

Table B-5: Recommendation 1

Recommendation – Develop and implement a plan to allocate more resources to timely perform work-related CDRs—and assess overpayments resulting from work activity—for cases identified by the agency's earnings enforcement process.

SSA's comments and/or actions from April 2009 report

SSA agreed with the recommendation stating the resources provided by the Recovery Act and SSA's Fiscal Year (FY) 2009 appropriations, field offices would be able to reduce the pending levels of workloads, including work CDRs.

Recommendation – Develop and implement a plan to allocate more resources to timely perform work-related CDRs—and assess overpayments resulting from work activity—for cases identified by the agency’s earnings enforcement process.

Status as of 2014

SSA made the following improvements to their work-related CDR processes and management information:

1. established a dedicated staff, which targets the oldest cases first;
2. prioritized enforcement alerts (for cases with unreported earnings) by the amount of earnings and works the cases with highest earnings first to minimize overpayments;
3. improved communications between field offices and processing centers for priority cases that must be transferred between components;
4. established an agency standard report for work CDR management information and overpayments; and,
5. reorganized policy instructions so all work-related CDR issues are in a specific section,¹
6. created a section on its Intranet policy site which contains links to work-related CDR resources.

On January 22, 2014, the Acting SSA Commissioner issued a message to employees noting that with funding in the FY 2014 budget, which was recently signed by the President, the Agency will be able to expand its capacity to complete more cost-effective CDRs.²

¹ SSA, POMS, DI 13010 (September 6, 2012).

² SSA, Commissioner’s Broadcasts, January 22, 2014.

Appendix C – SCOPE AND METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable sections of the *Social Security Act* and Social Security Administration's (SSA) regulations, rules, policies, and procedures.
- Reviewed prior Office of the Inspector General reports.
- Obtained a file of all disabled Title II beneficiaries from 1 of 20 Social Security number segments who were receiving benefits as of July 2012. We then determined which of these beneficiaries had earnings reported on the Master Earning File (MEF) for years 2007 to 2011. We further narrowed this population by excluding cases in which the beneficiaries were entitled to disability benefits based on blindness or the reported earnings were in the year of, or before, the beneficiaries' current date of entitlement for benefits.
- Identified a population of 27,383 beneficiaries with earnings reported on the MEF between 2007 and 2011 that may impact their entitlement to benefits.
- Selected a random sample of 275 cases from the population we identified for detailed analysis. Specifically, we analyzed available information on the Agency's systems to determine whether SSA evaluated the reported earnings and adjusted benefit payments, as appropriate. For cases in which we needed additional information, we requested SSA's assistance to determine whether the earnings represented work activity that affected entitlement to benefits. For cases in which overpayments resulted due to work activity, we determined the amount successfully recovered by SSA.

We conducted our audit between May 2013 and January 2014, in Boston, Massachusetts. The principal entities audited were the Offices of Research, Demonstration and Employment Support, and Disability Policy under the Office of the Deputy Commissioner for Retirement and Disability Policy and the Office of Disability Determinations and SSA's field offices and program service centers under the Office of the Deputy Commissioner for Operations.¹ We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We tested the data obtained for our audit and determined them to be sufficiently reliable to meet our objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ In December 2013, the Offices of Program Development and Research and Employment Support Programs merged to become the Office of Research, Demonstration and Employment Support. Additionally, the Offices of Disability Programs and Medical and Vocational Expertise merged to become the Office of Disability Policy. See SSA Memorandum, Executive Personnel Assignments, December 11, 2013.

Sample Results

Table C–1: Population and Sample Size

Population (one segment)	27,383
Sample Size	275
Estimated Number of Beneficiaries in the Universe (Population of audited segment multiplied by 20)	547,660

Table C–2: Overpayments Due to Work Activity²

	Number of Beneficiaries	Dollars
Sample Results	60	\$511,680
Point Estimate	5,974	\$50,950,344
Projection Lower Limit	4,875	\$37,253,121
Projection Upper Limit	7,199	\$64,647,568
Estimate in 20 Segments (Point estimate multiplied by 20)	119,480	\$1,019,006,880
Note: All projections are at the 90-percent confidence level.		

Table C–3: Overpayments Due to Work Activity Identified by SSA Prior to Our Audit

	Number of Beneficiaries	Dollars
Sample Results	54	\$438,152
Point Estimate	5,377	\$43,628,857
Projection Lower Limit	4,325	\$31,229,826
Projection Upper Limit	6,565	\$56,027,888
Estimate in 20 Segments (Point estimate multiplied by 20)	107,540	\$872,577,140
Note: All projections are at the 90-percent confidence level.		

² When primary workers are ineligible for benefits because of work activity, any auxiliary beneficiaries (that is, spouses and children) are also ineligible. Therefore, our overpayment calculations and estimates include overpayments to the working beneficiaries as well as overpayments to auxiliary beneficiaries.

Table C–4: Overpayments Not Identified by SSA³

	Number of Beneficiaries	Dollars
Sample Results	7	\$73,528
Point Estimate	697	\$7,321,487
Projection Lower Limit	331	\$1,428,420
Projection Upper Limit	1291	\$13,214,555
Estimate in 20 Segments (Point estimate multiplied by 20)	13,940	\$146,429,740

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

Table C–5: Overpayments Successfully Recovered by SSA

	Dollars
Sample Results ⁴	\$245,733
Point Estimate	\$24,468,704
Projection Lower Limit	\$16,505,529
Projection Upper Limit	\$32,431,879
Estimate in 20 Segments (Point estimate multiplied by 20)	\$489,374,080

Note: All projections are at the 90-percent confidence level

³ The seven beneficiaries with undetected overpayments include one beneficiary for whom SSA identified some of the overpayment resulting from work activity, but not all the overpayment.

⁴ The \$245,733 only includes amounts successfully recovered by SSA—it does not include amounts waived or deleted by the Agency.

Appendix D– BENEFICIARIES NOT OVERPAID DESPITE EARNINGS

For 215 (or 78 percent) of the 275 cases in our sample, earnings reported on the Master Earnings File did not result in overpayments. Table D–1 describes the various reasons why the beneficiaries were not overpaid despite their earnings.

Table D–1: Reasons Why Beneficiaries Were Not Overpaid

Reasons Why Beneficiaries Were Not Overpaid	Number of Beneficiaries
Earnings were below Substantial Gainful Activity (SGA) Amounts ¹	126
Earnings from trial work activity only	58
Earnings resulted from unsuccessful work attempts ²	12
Earnings from subsidized work ³	9
Earnings were substantial, but the Social Security Administration stopped benefits timely and no overpayments resulted	5
Earning represented special wage payments	4
Earnings did not belong to the beneficiary	1
TOTAL	215

¹ The Agency has criteria for determining when services performed or earnings derived from services demonstrate an individual's ability to engage in SGA. (See SSA, POMS, DI 10500.000 (March 28, 2013)). For example, for Calendar Year 2013, SSA generally considered earnings of \$1,040 per month to reflect SGA.

² An unsuccessful work attempt is an effort to do substantial work but reduces to a non-SGA level after a short time because of the individual's disability. Work performed during an unsuccessful work attempt does not prevent a finding of disability. (See SSA, POMS, DI 11010.145 (January 28, 2013)).

³ If it is necessary for an employer to provide special help for an individual to work, the value of the special assistance may be considered a subsidy and would not be counted when calculating an individual's earnings to determine whether an individual engaged above the SGA level. (See SSA, POMS, DI 24001.025 (January 5, 2007)).

Appendix E – AGENCY COMMENTS



MEMORANDUM

Date: April 23, 2014 Refer To: S1J-3

To: Patrick P. O’Carroll, Jr.
Inspector General

From: Katherine Thornton /s/
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Work Continuing Disability Reviews for Disabled Title II Beneficiaries with Earnings” (A-01-12-12142) -- INFORMATION

Thank you for the opportunity to review the draft report. We agree with the report as written and offer no comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

Appendix F – MAJOR CONTRIBUTORS

Judith Oliveira, Director, Boston Audit Division

David Mazzola, Audit Manager

Frank Salamone, Senior Auditor

Kevin Joyce, IT Specialist

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