
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**UNPROCESSED MANUAL RECALCULATIONS
FOR TITLE II PAYMENTS**

August 2008

A-03-07-17090

AUDIT REPORT



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.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- 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.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: August 14, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Unprocessed Manual Recalculations for Title II Payments (A-03-07-17090)

OBJECTIVE

To determine whether the Social Security Administration (SSA) (1) adjusted Title II benefits when earnings were removed from beneficiaries' earnings records and (2) calculated and assessed over/underpayments when appropriate.

BACKGROUND

SSA pays benefits to qualified retired and disabled workers and their dependents as well as to survivors of insured workers under Title II of the *Social Security Act*.¹ As part of administering this program, SSA is responsible for maintaining accurate individual earnings records in the Master Earnings File (MEF).² Those earnings records are used to determine eligibility for benefits as well as to calculate benefit amounts.³

When the Agency learns—from individuals or through its own processes—an earnings record may be incorrect, an SSA employee with authority to make initial determinations regarding wage evidence reviews the evidence. If the evidence is sufficient, the employee takes corrective actions to change the earnings record.⁴

SSA will recalculate benefit amounts when reopening a previous computation to change computation factors or to include or exclude additional earnings in the base year period. The previous computation must be reopened within the timeframe allowed by

¹ The *Social Security Act* § 201, et seq., 42 United States Code (U.S.C.) § 401, et seq.

² The MEF contains all earnings data reported by employers and self-employed individuals. The data are used to determine eligibility for and the amount of Social Security benefits.

³ The *Social Security Act* § 205(c)(2)(A), 42 U.S.C. § 405(c)(2)(A).

⁴ SSA, Program Operations Manual System (POMS), RS 01405.005.

administrative finality.⁵ This recalculation—effective the same month as the original computation—may change the amount of benefits the numberholder receives.⁶

Benefit recalculations based on new earnings are initiated through SSA's Automatic Earnings Reappraisal Operation (AERO) system, which is an automated process that screens earnings records that have changes in earnings information and computes the necessary changes. AERO adjusts benefits when earnings are added to a beneficiary's earnings record and notifies the beneficiary. However, when earnings are removed, AERO generates an alert⁷ for the appropriate SSA office to review the beneficiary's records and manually adjust the Primary Insurance Amount (PIA) and benefit amount as needed.⁸ (See Appendix B for more information on the AERO process.)

METHODOLOGY

To perform this review, we obtained a file of all Title II beneficiaries from 1 of 20 Social Security number (SSN) segments⁹ who were receiving benefits as of November 2006 and had wages removed from the earnings record for Tax Years (TY) 2003 through 2005. The removed wages resulted in zero total wages for those years. From this file, we selected a random sample of 133 beneficiaries and analyzed earnings records, benefit records, and AERO alerts. We referred the cases to SSA to determine whether benefits were adjusted appropriately after wages were removed from the beneficiaries' earnings records (see Appendices C and D for more information on our audit scope, methodology, and estimation results).

⁵ Administrative finality is the term SSA uses to describe the discretionary rules under which the Agency revises previously issued monthly payments. In general, the Agency will revise initial determinations regarding monthly Title II payments within 12 months for any reason, within 4 years for good cause, or at any time if fraud or similar fault exists (see SSA, POMS, GN 04001.010). According to SSA, the purpose of administrative finality is to (1) ease the administration of the program and (2) allow the public to be able to rely on the Agency's decisions (see SSA, Administrative Message AM-04020, February 3, 2004).

⁶ SSA POMS, RS 00605.401, B.2.

⁷ AERO generates an alert if the earnings meet a certain dollar threshold and if the removal of the earnings are processed within the timeframe allowed by administrative finality.

⁸ The PIA is the figure used to determine most cash benefit amounts—including monthly benefits as a worker and benefits for dependents and survivors. The PIA is based on taxable earnings averaged over the number of years worked.

⁹ The last two digits of the SSN are randomly assigned and can contain digits "00" to "99." These SSNs can be categorized into 20 segments, each containing groups of 5 digits. For this audit, we selected SSNs ending with the digits "40" to "44."

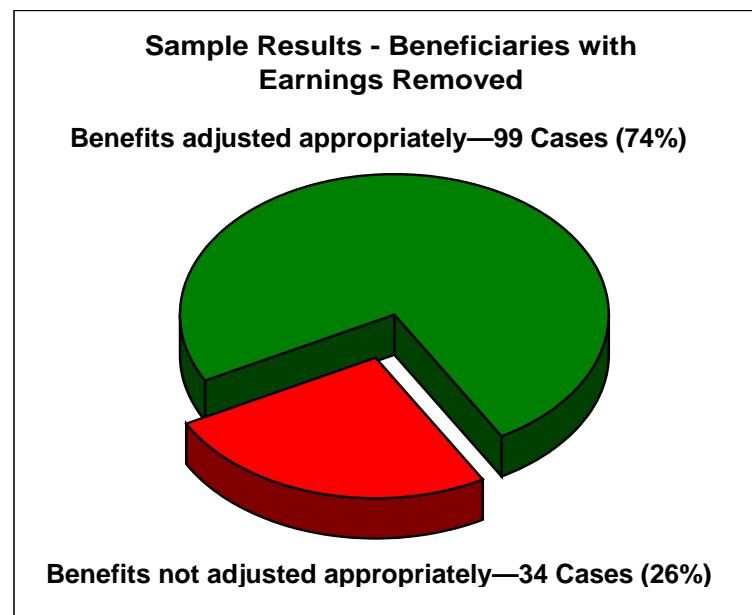
RESULTS OF REVIEW

We estimate that SSA did not adjust Title II benefits or assess over/underpayments when earnings were removed from 5,440 beneficiaries' earnings records—resulting in about \$5 million in improper payments. The Agency was not aware of the need to review the benefit amounts for approximately 5,020 of these beneficiaries. Also, we estimate about 4,660 of these beneficiaries will be paid an additional \$1.2 million, annually, because their ongoing benefits were not corrected when SSA removed the earnings.

SAMPLE RESULTS

Of the 133 beneficiaries in our samples:

- 34 (26 percent) were overpaid approximately \$130,238 because SSA did not recalculate benefit amounts or assess overpayments when earnings were removed from their earnings records.¹⁰ Because the Agency took action on the cases we referred, SSA saved an additional \$34,602 over 12 months by correcting benefit amounts for 30 of these 34 beneficiaries.
- 99 (74 percent) did have their benefits adjusted and overpayments assessed, as needed, when earnings were removed from their earnings records or no benefit adjustment was necessary.



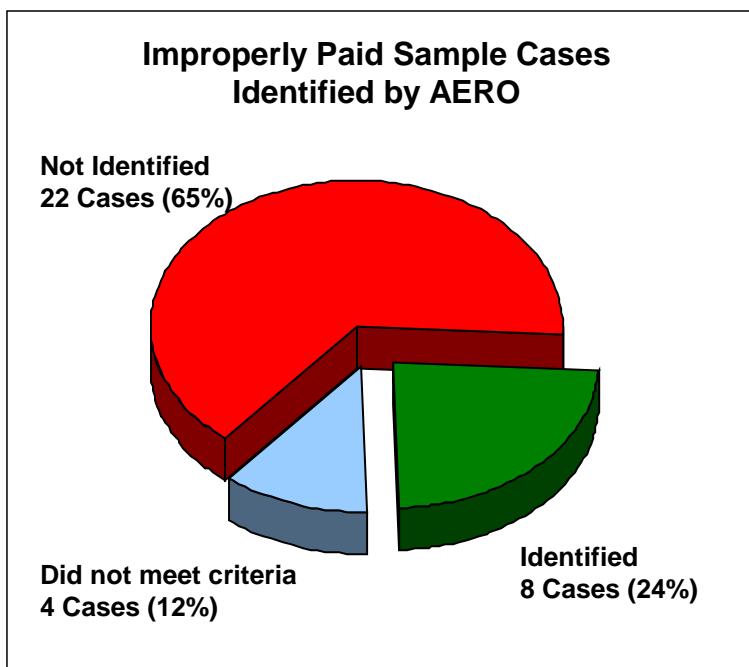
In a few cases, other individuals used the beneficiary's SSN—either erroneously or through identity theft—which caused wages earned by another individual to be used in the computation of benefits. Some examples are as follows.

¹⁰ These 34 beneficiaries (and auxiliaries—such as spouses or children—receiving benefits on their records) were paid incorrectly for about 38 months, on average—ranging from 9 to 59 months. Of these beneficiaries, 33 were overpaid \$131,978 and 1 was underpaid \$1,740—for a net overpayment totaling \$130,238. To be conservative in our estimate, we did not include the entire amount of two very large overpayments for beneficiaries in two of our populations. SSA assessed overpayments of \$21,623 and \$5,630—substantially more than the next highest overpayment amount in their respective populations. Therefore, we removed these overpayment amounts—and associated future savings—when we estimated the overpayments and savings in the populations.

- A 32-year old man began receiving disability benefits in 2003 because of a spinal cord injury that left him wheelchair-bound. Someone else began using his SSN, and wages were posted to his earnings record in 2003, 2004, and 2005. SSA used the earnings to compute his benefits. In May 2006, the beneficiary informed SSA that he did not work in those years, and the Agency removed the earnings from his record. AERO generated an alert in October 2006 for this case to be reviewed and have the benefits adjusted. As of September 2007, the alert was still pending, and we asked SSA to complete the review. SSA determined this beneficiary was overpaid \$18,864, and three auxiliary beneficiaries on his record were overpaid \$12,945. If SSA had not adjusted the benefits, these individuals would have been overpaid an additional \$5,256 over the next 12 months.
- A 34-year old man living in Puerto Rico had been receiving disability benefits since 1999. Since then, wages were posted to his record from restaurant and retail jobs in Massachusetts and Kansas. In 2005, he disclaimed all earnings posted after 1999—stating that he had never worked in, or been to, the continental United States, and SSA removed the earnings from his record. Upon our referral, the Agency determined he was overpaid \$11,191 because his benefits were not adjusted when the earnings were removed. Additionally, three auxiliary beneficiaries on his record were overpaid \$10,432. If SSA had not adjusted the benefits, these individuals would have been overpaid an additional \$11,796 over the next 12 months.
- A 46-year old woman had received disability benefits for depression since 2002. When she and her husband filed a joint tax return for 2003, their tax preparer incorrectly filed earnings to the beneficiary's SSN instead of her husband's SSN. SSA moved the earnings to the correct record a few months later. Upon our referral, the Agency determined she had been overpaid \$5,630. If SSA had not adjusted her benefits, she would have been overpaid an additional \$1,584 over the next 12 months.

These cases show that SSA must be vigilant in adjusting beneficiaries records since misrepresentation by third parties and identity theft have become common in our society.

CASES NOT ALWAYS IDENTIFIED FOR REVIEW



We found that AERO did not always select cases for review when earnings were removed from an individual's record. Of the 34 sample cases that were paid improperly,

- AERO did not identify 22;
- AERO identified 8; and
- the AERO criteria did not apply in 4.¹¹

We spoke with staff in the program service centers (PSC) and in Systems, and no one was able to determine why AERO failed to identify the 22 cases for review. If we had not asked the

Agency to review these records, the 22 beneficiaries (and auxiliary beneficiaries on their records) would have continued to be paid improperly. Some examples are as follows.

- A man in Wisconsin—age 43—had been receiving Title II disability benefits and Supplemental Security Income (SSI) payments since January 2002 because of mental retardation. Another person worked in Minnesota—using the same name and SSN—in TYs 2003 through 2005, and those earnings were posted to the beneficiary's record. The TY 2003 earnings were removed from his record in March 2004; the TY 2004 earnings were removed in July 2005; and the TY 2005 earnings were removed in July 2006. AERO did not identify this case for review of the removed earnings, even though it had six opportunities between October 2004 and March 2007.¹² Upon our referral, SSA determined he had been overpaid \$4,324 since January 2004 because his benefits had not been adjusted when earnings were removed from his record. If SSA had not adjusted the benefits, he would have been overpaid an additional \$1,206 over the next 12 months.

Additionally, SSA discovered that at least three individuals were using the same name and SSN for work and benefit purposes and referred the case to our Office of Investigations for possible fraud. The beneficiary did not cooperate with the local SSA office, which requested that he come in for an interview and provide proper

¹¹ Benefits were suspended for one case, and benefits for the other three cases were adjusted manually before AERO could generate an alert.

¹² Since AERO is run twice for each earnings year—usually in October and in the following March, it failed to identify this case for review in October 2004, March 2005, October 2005, March 2006, October 2006, and March 2007.

identification and a birth certificate. In January 2008, SSA suspended his Title II benefits—and those for three auxiliary beneficiaries who began receiving benefits on his record in January 2007—and SSI payments while the case was being investigated.

- A man in Florida—age 52—had been receiving disability benefits since August 1983 because of schizophrenia. Earnings were posted to his record for 2004 and 2005. The 2004 earnings were removed in December 2005, and the 2005 earnings were removed in April 2006. AERO did not identify this case for review of the removed earnings, even though it had three opportunities to do so between March 2006 and March 2007. Upon our referral, SSA determined he had been overpaid \$6,407 since January 2005 because his benefits had not been adjusted when earnings were removed from his record. If SSA had not adjusted the benefits, he would have been overpaid an additional \$2,412 over the next 12 months.

PROCESSING AERO WORKLOADS

Before Fiscal Year (FY) 2007, SSA's workload goal for processing AERO workloads¹³ was expressed as a percentage of new alerts generated during a specified year. As shown in the following table, the Agency began adjusting the goal in FY 2007 to include alerts not completed in prior years.

Table 1: AERO National Workload Goals for FYs 2005 through 2008	
Year	Goal
2005	Complete 57 percent of new alerts generated in 2005
2006	Complete 58 percent of new alerts generated in 2006
2007	Complete 67 percent of the total of new alerts generated in 2007 and pre-2007 alerts not completed
2008	Complete 100 percent of any unduplicated pre-2008 alerts and at least 50 percent of the new alerts generated in 2008.

According to SSA's Systems staff, the Agency had over 593,000 pending items from Calendar Years 2004 through 2007 that had not been completed as of February 2008 (see table below). SSA had processed approximately 43 percent of 2007 alerts, even though alerts from prior years were still pending. Therefore, the Agency has not prioritized working the oldest alerts first. If the pending cases are not completed within

¹³ The AERO workload consists of documents to be filed, completely automated records, partially automated records that need manual intervention or review, and exceptions that cannot be processed by the system and have to be manually processed—for example, when the PIA should be lowered. Depending on the circumstances for each record identified, the AERO action may increase, decrease, or have no impact on benefits. (See Appendix B for more information on the AERO process.)

the timeframe of administrative finality, SSA will be unable to assess improper payments resulting from benefits not being adjusted in a timely manner.¹⁴

Table 2: AERO Alerts Pending from Prior Years (as of February 2008)

Calendar Year	Alerts pending from that year	Alerts generated in that year	Percent of alerts pending from that year
2004	299	1,002,701	.03
2005	4,848	822,664	.59
2006	56,535	798,460	7.08
2007	532,019	928,218	57.32
TOTAL	593,701¹⁵	3,552,043	

According to staff from SSA's PSCs, the Agency prioritizes AERO alerts for beneficiaries who must be notified—within a specified timeframe—of a change affecting their benefits. In addition, they prioritize alerts not processed from previous years.¹⁶ However, it does not appear that SSA prioritizes some alerts, such as cases most likely to be overpaid because of earnings being removed from beneficiaries' records.

CONCLUSION AND RECOMMENDATIONS

Generally, SSA was effective in adjusting Title II payments when earnings were removed from beneficiaries' earnings records. However, the Agency did not identify and adjust benefits for all beneficiaries with removed earnings. As a result, SSA improperly paid about \$5 million in benefit payments to beneficiaries who had wages removed from the earnings record for TYs 2003 through 2005. If SSA does not take steps to identify all cases that require adjustments and prioritize its workload to ensure these cases are processed, the Agency will continue to overpay millions of dollars to beneficiaries.

¹⁴ In our September 2007 report, *Administrative Finality in the Old-Age, Survivors and Disability Insurance Program* (A-01-07-27029), we estimated that SSA identified about 44,230 beneficiaries whose benefits had been incorrectly calculated, but the Agency did not revise the amounts because of its administrative finality rules. As a result, we estimated these individuals were paid about \$140.5 million more in benefits than they otherwise would have been paid had the errors not occurred. We also estimated about 25,801 of these beneficiaries will be paid an additional \$49.8 million in the future because their ongoing benefits were not corrected when the Agency identified the calculation errors.

¹⁵ For comparison, SSA completed 637,740 AERO actions in 2007.

¹⁶ According to SSA staff, the Agency is prioritizing unprocessed alerts from prior years so they can be processed in the beginning of the next year.

As such, to improve SSA's effectiveness in this area, we recommend that SSA:

1. Review the remaining 944 cases (from the 1,077 we identified) to ensure benefits have been adjusted appropriately.
2. Ensure AERO identifies all cases that meet the criteria for manual review when earnings are removed from individuals' earnings records.
3. Develop a cost-effective method for prioritizing the review of AERO alerts, ensuring that alerts most likely to result in overpayments are worked first.

AGENCY COMMENTS AND OIG RESPONSE

SSA agreed with our recommendations. See Appendix E for the full text of SSA's comments.



Patrick P. O'Carroll, Jr.

Appendices

[**APPENDIX A**](#) – Acronyms

[**APPENDIX B**](#) – The Automatic Earnings Reappraisal Operation

[**APPENDIX C**](#) – Scope and Methodology

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

[**APPENDIX E**](#) – Agency Comments

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

Appendix A

Acronyms

AERO	Automatic Earnings Reappraisal Operation
FY	Fiscal Year
MEF	Master Earnings File
OIG	Office of the Inspector General
PIA	Primary Insurance Amount
PSC	Program Service Center
POMS	Program Operations Manual System
SSA	Social Security Administration
SSN	Social Security Number
TY	Tax Year
U.S.C.	United States Code

The Automatic Earnings Reappraisal Operation

The Automatic Earnings Reappraisal Operation (AERO) is a computer operation that reexamines an individual's earnings record each year to determine whether the beneficiary is due a recomputation to include earnings not previously considered in the Primary Insurance Amount (PIA).¹ If an increase is due, AERO processes a benefit change and notifies the beneficiary. If no increase is due, AERO does not send a notice. AERO is run twice for each earnings year, usually in late October and late March. The checks reflecting the increases are issued in December and May.²

When AERO processes cases,³ exceptions may occur (such as wages being deleted from the beneficiary's earnings account) that preclude automated handling of the recomputation. In those instances, staff in the program service centers processes the AERO exceptions.

AERO's principal objective is to ensure all creditable earnings are considered when developing PIAs. These can be earnings before initial entitlement, which would most likely apply to a recalculation of the initial PIA; earnings after initial entitlement, which would apply to a recomputation of the initial (or subsequent) PIA; or additional earnings reported for a year previously considered, which could apply either to a recalculation of an initial PIA or to a recalculation of a previously recomputed PIA.

Several operating principles have been developed to ensure the principal objective is attained.

1. Apply PIA increases and pay retroactive amounts as soon as possible after the qualifying earnings are posted.
2. Fully automate (no review required) as many of the PIA increases as possible.
3. Identify for review all records where the accuracy of the PIA computation or the payment record is questionable.

¹ The PIA is the figure used to determine most cash benefit amounts—including monthly benefits as a worker and benefits for dependents and survivors. The PIA is based on taxable earnings averaged over the number of years worked.

² SSA, Teleservice Center Operating Guide, TC 11001.110.

³ The AERO workload consists of documents to be filed, completely automated records, partially automated records that need manual intervention or review, and exceptions that cannot be processed by the system and have to be manually processed—for example, when the PIA should be lowered. Depending on the circumstances for each record identified, the AERO action may increase, decrease, or have no impact on benefits.

4. Provide a means whereby those cases selected for review can be reentered into the "automated" process, provided certain criteria are met.
5. For those cases that cannot be processed automatically, provide as much computer-produced computation data as possible, thereby facilitating manual actions.
6. If full or partial automation is impossible, provide for clerical certification of an earnings record.⁴

⁴ SSA, Program Operations Manual System, OS 01201.490.

Scope and Methodology

To accomplish our objective, we:

- Reviewed related Social Security Administration (SSA) Office of the Inspector General reports and other related material to understand the issues and problems associated with over/underpayments and the recalculation of beneficiary amounts.
- Obtained and reviewed SSA policy and procedures for
 - removing earnings from an individual's Master Earnings File (MEF);
 - recalculating benefits;
 - processing Automatic Earnings Reappraisal Operation (AERO) and Earnings Alerts;
 - applying rules of administrative finality; and
 - the amount of earnings required to earn a quarter of coverage in Tax Years 2003 through 2005.
- Determined what offices were responsible for the AERO process and how often AERO is run during the year.
- Interviewed key AERO personnel to determine the procedures for processing AERO alerts and recalculating benefits and to obtain management information reports related to AERO alerts.
- Obtained a list of the AERO alerts generated for Tax Years 2003 through 2005 for each program service center and determined the status of each alert (that is, processed, backlogged, etc.).
- Obtained data extracts based on our criteria selection and selected sample cases (see Appendix D for our sample methodology).
- For each sampled case, we obtained data from SSA's systems to determine characteristics of entitlement and details about the items removed from the earnings records.
- Referred all sampled cases to SSA to determine whether
 - AERO alerts were generated;
 - beneficiaries were receiving the correct benefit amount;
 - administrative finality prevented benefits from being adjusted.

- Summarized sample results and made projections (see Appendix D for Sampling Results and Projections).

Our audit did not include an evaluation of SSA's internal controls over the AERO process. We determined the data used in our audit work were sufficiently reliable to meet the audit objectives. We conducted our audit work from April 2007 to February 2008 in Philadelphia, Pennsylvania. The SSA entities reviewed were the Deputy Commissioner for Systems, Office of Retirement and Survivors Insurance Systems and SSA's program service centers, under the Deputy Commissioner for Operations. 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 believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix D

Sampling Methodology and Results

To perform our review, we obtained a file of Title II beneficiaries from 1 of 20 Social Security number segments who were receiving benefits as of November 2006 and had wages removed from the earnings record for Tax Years 2003 through 2005. From this file, we identified 1,077 beneficiaries with removed earnings that

- ✓ resulted in zero total annual *Federal Insurance Contribution Act* earnings for that year and
- ✓ qualified the beneficiary with at least a quarter of coverage during the applicable tax years.¹

Of these 1,077 beneficiaries, we identified 3 populations:

- ✓ 33 beneficiaries had a total of 151 wage items removed in all 3 years;
- ✓ 187 beneficiaries had a total of 521 wage items removed in 2 years; and
- ✓ 857 beneficiaries had a total of 997 wage items removed in 1 year.

We reviewed all 33 records in the first population, with wage items removed in all 3 years. From the other 2 populations, we selected a random sample of 50 cases—for a total of 133 cases—and projected our sample results to each population. In addition, we provided estimates to all 20 Social Security number segments.

Our sample results and estimations are detailed in the following tables:²

¹ The required amount needed for a quarter of coverage in 2003 was \$890; the required amount in 2004 was \$900; and the required amount is 2005 was \$920.

² The amounts in the tables are rounded to the nearest whole dollar. Any differences are due to rounding.

SAMPLE RESULTS AND PROJECTIONS—IMPROPER PAYMENTS

Table 1: Sample Results and Projections—Improper Payments for 33 Beneficiaries with Wages Removed in 3 Tax Years		
	Results in 1 Segment	Estimate to 20 Segments
Population size	33	660
Attribute Estimate		
Sample cases with improper payment not previously identified	8	160
Dollar Estimate		
Improper Payments not previously identified	\$72,913	\$1,458,260

Table 2: Sample Results and Projections—Improper Payments for 187 Beneficiaries with Wages Removed in 2 Tax Years		
	Results in 1 Segment	Estimate to 20 Segments
Population size	187	3740
Sample size	50	
Attribute Estimates		
Sample cases with improper payment not previously identified	11	220
Point estimate	41	820
Estimate lower limit	27	
Estimate upper limit	60	
Dollar Estimates		
Improper payments not previously identified	\$29,872	\$597,440
Point estimate	\$111,721	\$2,234,420
Estimate lower limit	\$47,718	
Estimate upper limit	\$175,725	

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

Table 3: Sample Results and Projections—Improper Payments for 857 Beneficiaries with Wages Removed in 1 Tax Year

	Results in 1 Segment	Estimate to 20 Segments
Population size	857	17,140
Sample size	50	
Attribute Estimates		
Sample cases with improper payment not previously identified	13	260
Point estimate	223	4,460
Estimate lower limit	141	
Estimate upper limit	323	
Dollar Estimates		
Improper payments not previously identified	\$3,680	\$73,600
Point estimate	\$63,075	\$1,261,500
Estimate lower limit	\$23,720	
Estimate upper limit	\$102,431	

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

Table 4: Summary of Improper Payments for Beneficiaries with Wages Removed

	Results in 1 Segment	Estimate to 20 Segments
Population size	1,077	21,540
Attribute Estimate		
Sample cases with improper payment not previously identified (from Table 1)	8	160
Point estimate—cases with improper payment not previously identified (from Table 2)	41	820
Point estimate—cases with improper payment not previously identified (from Table 3)	223	4,460
TOTAL	272	5,440
Dollar Estimate		
Improper Payments not previously identified (from Table 1)	\$72,913	\$1,458,260
Point estimate—improper payments not previously identified (from Table 2)	\$111,721	\$2,234,420
Point estimate—improper payments not previously identified (from Table 3)	\$63,075	\$1,261,500
TOTAL	\$247,709	\$4,954,180

SAMPLE RESULTS AND PROJECTIONS—SAVINGS

Table 5: Sample Results and Projections—Savings for 33 Beneficiaries with Wages Removed in 3 Tax Years		
	Results in 1 Segment	Estimate to 20 Segments
Population size	33	660
Attribute Estimate		
Sample cases with savings	7	140
Dollar Estimate		
Savings	\$12,966	\$259,320

Table 6: Sample Results and Projections—Savings for 187 Beneficiaries with Wages Removed in 2 Tax Years		
	Results in 1 Segment	Estimate to 20 Segments
Population size	187	3740
Sample size	50	
Attribute Estimates		
Sample cases with savings	10	200
Point estimate	37	740
Estimate lower limit	24	
Estimate upper limit	56	
Dollar Estimates		
Savings	\$6,912	\$138,240
Point estimate	\$25,851	\$517,020
Estimate lower limit	\$9,597	
Estimate upper limit	\$42,105	

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

Table 7: Sample Results and Projections—Savings for 857 Beneficiaries with Wages Removed in 1 Tax Year

	Results in 1 Segment	Estimate to 20 Segments
Population size	857	17,140
Sample size	50	
Attribute Estimates		
Sample cases with savings	11	220
Point estimate	189	3,780
Estimate lower limit	113	
Estimate upper limit	286	
Dollar Estimates		
Savings	\$1,344	\$26,880
Point estimate	\$23,036	\$460,720
Estimate lower limit	\$6,383	
Estimate upper limit	\$39,689	

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

Table 8: Summary of Savings for Beneficiaries with Wages Removed

	Results in 1 Segment	Estimate to 20 Segments
Population size	1,077	21,540
Attribute Estimate		
Sample cases with savings (from Table 5)	7	140
Point estimate—cases with savings (from Table 6)	37	740
Point estimate—cases with savings (from Table 7)	189	3,780
TOTAL	233	4,660
Dollar Estimate		
Savings (from Table 5)	\$12,966	\$259,320
Point estimate—savings (from Table 6)	\$25,851	\$517,020
Point estimate—savings (from Table 7)	\$23,036	\$460,720
TOTAL	\$61,853	\$1,237,060

SAMPLE RESULTS AND PROJECTIONS—AERO DID NOT GENERATE ALERTS

Table 9: Sample Results and Projections—AERO Did Not Generate Alerts for 33 Beneficiaries with Wages Removed in 3 Tax Years and Were Paid Improperly

	Results in 1 Segment	Estimate to 20 Segments
Population size	33	660
Attribute Estimate		
Sample cases where improper payment not previously identified	2	40

Table 10: Sample Results and Projections—AERO Did Not Generate Alerts for 187 Beneficiaries with Wages Removed in 2 Tax Years and Were Paid Improperly

	Results in 1 Segment	Estimate to 20 Segments
Population size	187	3740
Sample size	50	
Attribute Estimates		
Sample cases where AERO did not generate an alert for an improperly paid beneficiary	7	140
Point estimate	26	520
Estimate lower limit	15	
Estimate upper limit	43	

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

Table 11: Sample Results and Projections—AERO Did Not Generate Alerts for 857 Beneficiaries with Wages Removed in 1 Tax Year and Were Paid Improperly

	Results in 1 Segment	Estimate to 20 Segments
Population size	857	17,140
Sample size	50	
Attribute Estimates		
Sample cases where AERO did not generate an alert for an improperly paid beneficiary	13	260
Point estimate	223	4,460
Estimate lower limit	141	
Estimate upper limit	323	

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

Table 12: Summary of Cases—AERO Did Not Generate Alerts

	Results in 1 Segment	Estimate to 20 Segments
Population size	1,077	21,540
Attribute Estimate		
Sample cases with no alert generated (from Table 9)	2	40
Point estimate—cases with no alert generated (from Table 10)	26	520
Point estimate—cases with no alert generated (from Table 11)	223	4,460
TOTAL	251	5,020

Appendix E

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 28, 2008 **Refer To:** S1J-3

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

From: David V. Foster /s/
Executive Counselor to the Commissioner

Subject: Office of the Inspector General (OIG) Draft Report, "Unprocessed Manual Recalculations for Title II Payments" (A-03-07-17090)--INFORMATION

We appreciate OIG's efforts in conducting this review. Attached is our response to the recommendations.

Please let me know if we can be of further assistance. Your staff may direct inquiries to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S DRAFT REPORT,
"UNPROCESSED MANUAL RECALCULATIONS FOR TITLE II PAYMENTS"**
(A-03-07-17090)

Thank you for the opportunity to review and provide comments on this draft report. It is important to note that the Automatic Earnings Reappraisal Operation (AERO) selects cases for processing based upon the date earnings changes post to the Master Earnings File, not the year for which earnings changes take effect. Each cyclical AERO run looks at postings within a given range of posting dates to determine if a recalculation or recomputation is necessary. It is possible that AERO did not select some of the identified cases, because AERO did not yet look for changes in the posting ranges involved.

Recommendation 1

Review the remaining 944 cases (from the 1,077 we identified) to ensure benefits have been adjusted appropriately.

Comment

We agree. By January 1, 2009, we will complete our review of the remaining 944 cases to ensure the adjustment to benefits was appropriately completed.

Recommendation 2

Ensure AERO identifies all cases that meet the criteria for manual review when earnings are removed from individuals' earnings records.

Comment

We agree. We utilized the records from the audit to try to duplicate the cited problems. Our investigation included interaction with personnel from the General Utility Earnings Summarization Tool area, which provides the earnings to the AERO process. We were unable to identify any software errors in the AERO process. However, we will attempt to replicate the problem scenario during the AERO validation cycle for the 2007 E AERO in October 2008. If any software errors occur, we will evaluate the proper solution and make the necessary changes/enhancements depending on available resources.

Recommendation 3

Develop a cost-effective method for prioritizing the review of AERO alerts, ensuring that alerts most likely to result in overpayments are worked first.

Comment

We agree. However, we will pursue this recommendation in accordance with, but not at the expense of, working the oldest pending cases first. AERO alerts that result in overpayments are in the backlog, because they do not meet the criteria for quick completion during the screening operation. The payment centers already have many priority workloads that include critical cases, administrative law judge cases, and award cases in which beneficiaries are waiting for benefits. Other workloads, such as substantial gainful activity, workers' compensation, government pension offset, and enforcement work or reports of earnings that are removed from the automated process have delays in processing that result in higher overpayments. We believe that prioritizing the review of AERO alerts will likely create delays in other priority workloads. Therefore, we will evaluate our policy, resources, and systems capabilities to determine the feasibility of implementing a cost-effective method of ensuring that we process the AERO alerts most likely to result in overpayments before other similarly aged AERO alerts that are not likely to result in overpayments.

Appendix F

OIG Contacts and Staff Acknowledgments

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