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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**TITLE II UNDERPAYMENTS  
FOR DECEASED  
BENEFICIARIES**

July 2004

A-03-03-13014

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***AUDIT REPORT***

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**We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.**

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- 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.**

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**By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.**



## SOCIAL SECURITY

### MEMORANDUM

Date: July 21, 2004

Refer To:

To: The Commissioner

From: Acting Inspector General

Subject: Title II Underpayments for Deceased Beneficiaries (A-03-03-13014)

### OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) was capturing the Social Security numbers (SSN) of individuals claiming Title II underpayments after a beneficiary had died to ensure (1) the payment was made to an appropriate party and (2) required information was shared with the Internal Revenue Service (IRS).

### BACKGROUND

Death underpayments occur when an accrued Title II<sup>1</sup> benefit amount has not been paid or a final benefit payment that was issued to a deceased beneficiary is returned. The death underpayment can be claimed by third parties such as auxiliary beneficiaries,<sup>2</sup> or individuals who are entitled to the underpayment.<sup>3</sup>

During Calendar Years (CY) 2001 and 2002, SSA processed 103,745 death underpayments outside of the Title II system and used the manual One-Check-Only

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<sup>1</sup> Title II is the Old-Age, Survivors and Disability Insurance (OASDI) program that provides retirement benefits to insured individuals who have reached the minimum retirement age, survivors' benefits to dependents of insured wage earners in the event the family wage earner dies, and disability benefits to disabled wage earners and their families.

<sup>2</sup> Auxiliary beneficiaries are children, widows, widowers, spouses, and parents who receive OASDI benefits based on another wage earner's Social Security record.

<sup>3</sup> These individuals include relatives or legal representatives who are not receiving benefits based on the deceased beneficiary's Social Security record.

(OCO) and Single Payment System (SPS) to make these payments.<sup>4</sup> Prior to May 2002, SSA processed death underpayments through the OCO payment system until it was replaced with SPS. The change to SPS occurred based in part on the results of a prior Office of the Inspector General audit,<sup>5</sup> which identified several vulnerabilities and internal control weaknesses with the OCO payment system. The SPS was designed to reduce the number of inputs required for payments made outside of the Title II system. Further, it was created to ensure the timeliness of payments, prevent duplicate and erroneous payments, and document management information.

## **SCOPE AND METHODOLOGY**

Our audit focused on death underpayments issued during CYs 2001 and 2002 and processed through the OCO and SPS payment systems. We tested the death underpayment data for accuracy and completeness and determined it to be sufficiently reliable to accomplish our objectives except as disclosed in the findings of this report. We provide a full description of our scope and methodology in Appendix D and our sampling methodology in Appendix E. The SSA entities reviewed were the Offices of the Deputy Commissioner for Systems and Operations. We conducted our audit from July 2003 to February 2004 in Philadelphia, Pennsylvania in accordance with generally accepted government auditing standards.

## **RESULTS OF REVIEW**

Our review of death underpayments processed outside of the Title II system during CYs 2001 and 2002 found that 51 percent were processed without capturing payees'<sup>6</sup> SSNs. This occurred because (1) SSA does not require the payee's SSN to issue death underpayments, and (2) when SSNs are known, SSA does not always enter them into its payment systems when processing the payments. Due to the omission of the payees' SSNs, approximately \$73 million in Social Security payments were reported to the IRS by SSA without the appropriate SSN. Although SSA processed a substantial number of death underpayments without the payees' SSNs, based on our review of 100 randomly sampled death underpayments, the payments were paid to the appropriate next of kin or legal representative. However, SSA could have located, in most cases, the payees' SSNs within the Agency's own records. Based on our sample

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<sup>4</sup> Death underpayments processed within the Title II system are done so through the Manual Adjustment Credit and Award Data Entry (MACADE) system and are paid to auxiliary beneficiaries. Our audit did not focus on payments processed through MACADE because we believe the risk is greater for payments processed outside of the Title II system.

<sup>5</sup> *Review of Internal Controls Over the Processing of One-Check-Only Payments*, (A-05-97-61001), November 1999. This report is discussed in detail in Appendix B.

<sup>6</sup> In this report, we define payees as relatives or legal representatives who are not receiving benefits on the deceased beneficiary's Social Security record.

results, we project that SSA could have located the SSNs for 97 percent of the death underpayments processed without the payees' SSNs. Finally, we found death underpayments were not always coded properly within SSA's systems and dates of death of primary beneficiaries were not recorded on their Numident records.

### **UNDERPAYMENTS PROCESSED WITHOUT THE SSNs**

During CYs 2001 and 2002, SSA processed 103,745 death underpayments totaling about \$135 million through the OCO and SPS payment systems, of which 51 percent (52,858) were issued to payees without capturing their SSNs. We determined this by reviewing the Payment History Update System (PHUS), which contains historical records of Title II payment-related actions. PHUS showed the data field used to capture the payee's SSN was left blank when the payments were processed.

Generally, we found that SSA does not require payees to provide their SSN when claiming a death underpayment. When SSA determines that a death underpayment is due and it is not evident in SSA's system who is entitled to receive the underpayment, a notice is sent to the family of the deceased to determine the appropriate next of kin. The notice requires that the next of kin provide proof of his/her relationship to the deceased beneficiary such as certified birth and marriage certificates.<sup>7</sup> However, the notice does not request the next of kin to provide their SSN. It only requests that the deceased beneficiary's claim number be placed on the back of documents submitted as proof of relationship.

Moreover, the *Claim for Amounts Due in the Case of a Deceased Beneficiary* (SSA-1724 form) that is frequently used by payees to claim the death underpayment includes a data field to capture their SSN, but the SSN is not mandatory for processing the claim.<sup>8</sup> The form allows them to either leave the field blank or write unknown. In Fiscal Year 1998, the Center for Security and Integrity (CSI) within the Mid-Atlantic Social Security Center (MATSSC) recognized this was a weakness and recommended the form be revised to make the SSN mandatory. This revision would reduce the risk of fraudulent payments and provide the IRS with a means to ensure that the payees report the income. The CSI based its recommendation on an investigation of a SSA employee

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<sup>7</sup> According to SSA's Program Operations Manual Systems (POMS) GN 02301.055 *Evidence – Underpaid Person Deceased*, claimants must provide proof of death, relationship (if exceeds \$750 or 1 month's benefits), or appointment of a legal representative in estate cases to receive a death underpayment.

<sup>8</sup> The SSA-1724 form is discussed in further detail in Appendix B and an example of the form is contained in Appendix H.

who fraudulently issued death underpayments to friends and family members using the SSA-1724 form.<sup>9</sup> We followed up with the Office of Income Security Programs,<sup>10</sup> which is responsible for implementing the recommendation, and were told that the SSA-1724 form had not been revised as of January 2004. The staff member stated that the form would be revised in the near future but could not tell us when this would occur although it has been over 5 years since CSI made its recommendation.

Furthermore, the OCO and SPS payment systems used to process the death underpayments include a field to capture the payee's SSN, but this field is optional. SSA staff can leave the field blank and continue to process and issue a payment although they received the payee's SSN. In fact, the instructions for the SPS payment system state that the payee's SSN is only mandatory if the payee is receiving Social Security Income payments.<sup>11</sup>

### **Tax Implications**

The *Social Security Benefit Statement* (SSA-1099 form) is used to notify payees and the IRS that SSA benefits received during the year may be taxable. The amount shown on the SSA-1099 form is derived from the payments that appear on the PHUS records. The payee's SSN is required on the SSA-1099 form to ensure that the income is properly reported to the IRS. For the 52,858 death underpayments, the SSA-1099 forms that were issued to payees did not include their SSNs. Consequently, approximately \$73 million in Social Security payments were reported to the IRS by SSA without the appropriate SSN.<sup>12</sup> We contacted IRS management to confirm the importance of the payee's SSN on the SSA-1099 form and they concurred that without the payee's SSN, the IRS has no knowledge that the individual should be reporting taxable income for a given tax year.

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<sup>9</sup> In FY 1996, the CSI initiated an investigation of fraudulent death underpayments made by a benefit authorizer at the MATSSC in Philadelphia, Pennsylvania. During the investigation, CSI discovered that an employee had fraudulently processed at least 10 death underpayments through the manual OCO payment system.

<sup>10</sup> This office was formerly known as the Office of Program Benefits.

<sup>11</sup> SSA's POMS, section SM 00834.435, *SPS Processing of the Miscellaneous Payment (MPAY) Screen*.

<sup>12</sup> While we do not know what portion of these payments would be considered taxable income by the IRS, a maximum of 85 percent of Social Security payments are subject to income tax.

## DEATH UNDERPAYMENT PAID TO THE APPROPRIATE PARTY

In our sample of 141 death underpayments<sup>13</sup> totaling about \$3 million that were processed without the payees' SSNs (see Table 1), we found that the payments were paid to the appropriate next of kin or legal representative. This was determined by reviewing evidence provided to SSA as proof of relationship to the deceased such as birth, marriage, and death certificates, and legal documents appointing an individual as the legal representative of the deceased beneficiary's estate. Further, we reviewed Numident<sup>14</sup> and the Master Beneficiary Records (MBR)<sup>15</sup> where the relationship between payee and the deceased beneficiary had previously been established. For example, in one case our review of the Numident and MBR records showed that a \$22,110 death underpayment was correctly paid to the mother of a minor child who was receiving benefits under her father's Social Security record. In addition, the MBR showed the mother had been the representative payee for the deceased father who had been receiving disability benefits.

**Table 1: Summary of Sampled Death Underpayments**

Payment Systems	100 Sampled Payments		41 Sampled Payments		Total Sampled Payments	
	Number of Payments	Amount of Payments	Number of Payments	Amount of Payments	Total Number of Payments	Total Amount of Payments
<b>SPS</b>	40	\$ 38,338	17	\$1,123,797	57	\$1,162,135
<b>OCO</b>	60	\$104,151	24	\$1,718,399	84	\$1,822,550
<b>Total</b>	<b>100</b>	<b>\$142,489</b>	<b>41</b>	<b>\$2,842,196</b>	<b>141</b>	<b>\$2,984,685</b>

Furthermore, we determined that most (70 percent) of the sampled death underpayments were issued because the deceased beneficiaries' final benefit payments were returned to the Agency the month of their death. For a complete list of the reasons the 100 sampled death underpayments were issued see Appendix G.

<sup>13</sup> We selected a random sample of 100 death underpayments ranging from \$1.00 to \$49,999.99 and all 41 death underpayments for \$50,000 and above. See Appendix E for more information about our sampling methodology.

<sup>14</sup> The Numident is a record of identifying information (such as name, date of birth, date of death, mother's maiden name, etc.) provided by the applicant on his or her *Application for Social Security Number* (Form SS-5) for an original SSN and subsequent applications for replacement SSN cards. Each record is housed in the Numident Master File in SSN order.

<sup>15</sup> A MBR consists of information related to a beneficiary's entitlement to OASDI benefits—SSA's POMS, section SM 00510.002.

## Locating Payees' SSNs

Despite the fact that it appears that the sampled death underpayments were paid to the appropriate parties, SSA could have located the payees' SSNs within its own records. Of our 100 randomly selected death underpayments, we were able to locate the payees' SSNs for 97 of these payments by reviewing completed SSA-1724 forms or querying SSA's Alpha-Index File.<sup>16</sup> For the remaining three payments, two payments related to the estate of the deceased beneficiary and we were not able to locate the SSN for the third payment. Based on our sample results, we project that SSA could have located the SSNs for 97 percent (approximately 51,232) of the death underpayments processed without the payees' SSNs.<sup>17</sup> The following is the results of our search.

- For 55 underpayments, the payees' SSNs were located by querying the Alpha-Index File. The SSNs were missing because the payees did not include their SSNs on the SSA-1724 form or other documents submitted to SSA. These 55 payments project to approximately 29,049 payments that could have been identified by querying the Alpha-Index File.
- For 42 underpayments, the SSNs were included on the SSA-1724 form. For example, in one case the parent of the deceased completed a SSA-1724 form to claim a \$24,509 death underpayment. The parent included her SSN on the SSA-1724 form but when the payment was processed through the OCO payment system, SSA staff failed to enter the SSN in the field used to capture this data. These 42 payments project to approximately 22,183 payments where the payees included their SSNs on the SSA-1724 form.
- For two underpayments, SSA should have used the deceased beneficiaries' SSNs since the payees were the legal representatives of the deceased beneficiaries' estate. We did not project these payments to the population.
- For one underpayment, the SSN could not be located. However, we were able to determine based on the evidence provided to SSA that the underpayment was paid to the appropriate next of kin.

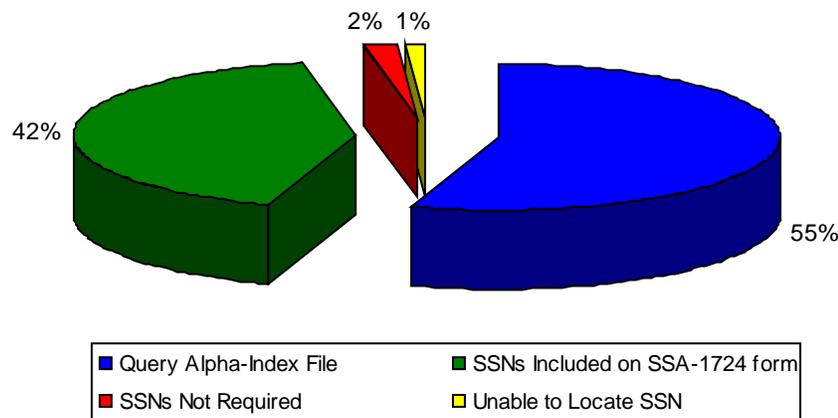
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<sup>16</sup> The Alpha-Index File maintains identifying information of each SSN numberholder. The system allows for the grouping together, in one code group, all surnames which have the same basic consonant sounds. The Alpha-Index File is a useful tool that is available to SSA personnel who process death underpayments.

<sup>17</sup> Our analysis of the 41 death underpayments produced similar results but we did not include the results in our projection because they represented all payments that were \$50,000 or more.

Figure 1 is a graphic representation of the results for the 100 sampled death underpayments.

**Figure 1: Payees' SSNs Located within SSA's Records  
(100 Sampled Death Underpayments)**



## OTHER DISCREPANCIES FOUND WITH DEATH UNDERPAYMENTS

While reviewing death underpayments processed without capturing payees' SSNs, we discovered (1) 986 payments that appeared to have been incorrectly coded as death underpayments and (2) 1,415 payments that were processed although the primary beneficiaries' dates of death were not recorded on SSA's Death Master File (DMF). To focus our analysis better, we reviewed these payments separately.

### Possible Lump Sum Death Payments

SSA processed 986 payments totaling \$251,430 that appear to have been incorrectly coded as death underpayments. Our review of the PHUS records for 50 sample payments found that all were actually lump sum death payments (LSDP). The LSDP is a non-taxable payment of \$255 payable to a surviving spouse or child who is eligible to receive benefits under the deceased beneficiary's Social Security record. The PHUS records showed that initially SSA staff tried to process these payments as LSDPs, but the payments were either returned because of incomplete addresses or cancelled.<sup>18</sup> When SSA staff processed these payments for the second time, they incorrectly entered the code used to process death underpayments. Furthermore, we found that 9 of the 50 sampled payments had been erroneously issued more than once. For three payments, the LSDP was issued twice to the same family member because SSA staff had overlooked the initial payment when processing the second payment. For six payments, the LSDP was issued twice to different family members. These payments

<sup>18</sup> We were not able to determine why the payments were cancelled.

were issued to both the spouse and child of the deceased and thus were not paid in accordance to POMS.<sup>19</sup> These erroneous payments may have been prevented if they were properly coded.

### **Payments Processed with No Date of Death**

SSA processed 1,415 death underpayments totaling about \$1.8 million where the dates of death of the primary beneficiaries were not included on the SSA's DMF.<sup>20</sup> When SSA receives notification of a death (for a beneficiary or auxiliary beneficiary), it should be recorded on the Agency's Numident record and become part of the DMF. Therefore, we reviewed the primary beneficiaries' MBR records to determine their status and found the following.

- For 734 death underpayments, the primary beneficiaries were deceased and their benefits had been terminated. However, the Numident records for 10 sample payments did not include their dates of death. Therefore, we referred the 734 payments to SSA so that the Numident records could be updated with the primary beneficiaries' death information.<sup>21</sup>
- For 521 death underpayments, the primary beneficiaries were currently receiving Title II benefits.<sup>22</sup> Our detailed review of the MBR and other pertinent documents for 10 sample payments found (1) 5 payments were issued correctly based on the deaths of the auxiliary beneficiaries, (2) 2 payments were incorrectly coded as death underpayments and were actually refunds paid to the primary beneficiaries, and (3) 3 payments were incorrectly issued under another person's Social Security record; however, when we reviewed the MBR and supporting documentation for the correct beneficiaries, we determined that the payments were valid and paid to the appropriate next of kin. We referred the five sample cases that were processed incorrectly to SSA for resolution.
- For 160 death underpayments, the payment status on the primary beneficiaries' MBR records showed they had not received any Social Security benefits. Our

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<sup>19</sup> According to SSA's POMS, section GN 02301.030, *Underpaid Person is Deceased*, payments should be made in the following order of priority, (1) surviving spouse, (2) child, (3) parent, and (4) legal representative. If there is more than one family member in the same priority, then the payment is divided equally among each person.

<sup>20</sup> The DMF is national file that contains millions of death records that are derived from SSA's Death, Alert Control and Update System, which receives death data from external and internal sources.

<sup>21</sup> SSA's POMS, section SM 00623.004, *How to Correct Death Data When Only the NUMIDENT and/or Death Alert is Incorrect*.

<sup>22</sup> While we reviewed information related to these beneficiaries, we did not independently verify that they were alive.

sample of 10 payments found that the death underpayments were generated based on the death of the auxiliary beneficiaries and that the primary beneficiaries had been deceased since before 1967.<sup>23</sup>

## **CONCLUSION AND RECOMMENDATIONS**

Our review found that 51 percent of the death underpayments processed in CYs 2001 and 2002 did not include payees' SSNs. Since SSA did not obtain the payees' SSNs for the death underpayments, approximately \$73 million in Social Security payments were reported to the IRS by SSA without the appropriate SSN. Although we found that death underpayments were paid to the appropriate parties, SSA could have located majority of the payees' SSNs within its own records. Finally, we found SSA incorrectly coded LSDPs in our sample as death underpayments and failed to record the dates of the death of primary beneficiaries on their Numident records.

We recommend SSA:

1. Require the collection of the SSN from all claimants of death underpayments to ensure taxable income is reported to the IRS by SSA.
2. Ensure that the SSA-1724 form is revised to make the payee's SSN a mandatory field and develop completion instructions in POMS.
3. Ensure that the SPS payment system is revised to make the payee's SSN a mandatory field.
4. Educate benefit authorizers on the correct procedures for processing LSDPs and death underpayments.
5. Make the necessary corrections for the payments that were referred during the audit.

## **AGENCY COMMENTS AND OIG RESPONSE**

SSA concurred with all 5 recommendations, noting that the Agency is already revising the SSA-1724 form and correcting the underpayments we referred. The Agency noted that a maximum of 85 percent of Social Security payments not reported to the IRS would be subject to income tax. We have adjusted the report to address this comment. Furthermore, SSA noted its concern that we were suggesting that the Agency assign an SSN to an otherwise ineligible person for the purpose of receiving a death

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<sup>23</sup> Except in one case, the primary beneficiary died in September 2000 but the underpayment was generated based on the death of the spouse who died in December 2001.

Page 10 - The Commissioner

underpayment. We are not suggesting such a policy. While we anticipate most individuals applying for the death underpayment will have their own SSN, in those circumstances where an SSN was never assigned to an individual, we believe SSA should document the reason for the missing SSN in SPS.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

# Appendices

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**APPENDIX A** – Acronyms

**APPENDIX B** – Additional Background

**APPENDIX C** – Flowchart of Death Underpayment Process

**APPENDIX D** – Scope and Methodology

**APPENDIX E** – Sampling Methodology

**APPENDIX F** – Sampling Results and Projections

**APPENDIX G** – Reasons for Death Underpayments

**APPENDIX H** – Example of Form SSA-1724

**APPENDIX I** – Agency Comments

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

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## Acronyms

CSI	Center for Security and Integrity
CY	Calendar Year
DMF	Death Master File
IRS	Internal Revenue Service
LAF	Ledger Account File
LSDP	Lump Sum Death Payment
MACADE	Manual Adjustment Credit and Award Data Entry
MATSSC	Mid-Atlantic Social Security Center
MBR	Master Beneficiary Record
OASDI	Old-Age, Survivors and Disability Insurance
OCO	One-Check-Only
OIG	Office of the Inspector General
PHUS	Payment History Update System
POMS	Program Operations Manual System
SPS	Single Payment System
SSA	Social Security Administration
SSN	Social Security Number
<u>Forms</u>	
SSA-1724	<i>Claim for Amounts Due in the Case of a Deceased Beneficiary</i>
SSA-1099	<i>Social Security Benefit Statement</i>

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## Additional Background

### Form SSA-1724

Payees are required to submit a written request to claim a death underpayment along with evidence that proves they are entitled to receive the underpayment. At least one of the payees entitled to receive a portion of the underpayment must submit the written request. No particular form is required; however, the *Claim for Amounts Due in the Case of a Deceased Beneficiary* (SSA-1724 form) was designed for this purpose.<sup>1</sup> The SSA-1724 form requests information such as (1) the relationship of the applicant to the deceased; (2) whether the deceased had a surviving spouse living in the same household at the time of death; and (3) the number of persons in the highest class of priority.<sup>2</sup>

### Prior Audit

In a prior Office of the Inspector General (OIG) audit report<sup>3</sup> we found weaknesses with the manual One-Check-Only (OCO) system, which was the system used to process Title II payments that were not paid through the Manual Adjustment Credit and Award Data Entry system. The OIG audit report identified the following findings:

- SSA's controls for processing OCO payments do not meet the standards for management controls as established by the Federal Managers' Financial Integrity Act of 1982 and promulgated by the Office of Management and Budget Circular A-123, Management Accountability and Control.
- The duties of preparation and approval of OCO payment authorization forms among Program Service Center employees are not separated.
- Not all eight Program Service Centers require the position titles after a signature on a payment authorization form.

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<sup>1</sup> SSA's Program Operations Manual System (POMS), section GN 02301.050, *Applications – Underpaid Person Deceased*.

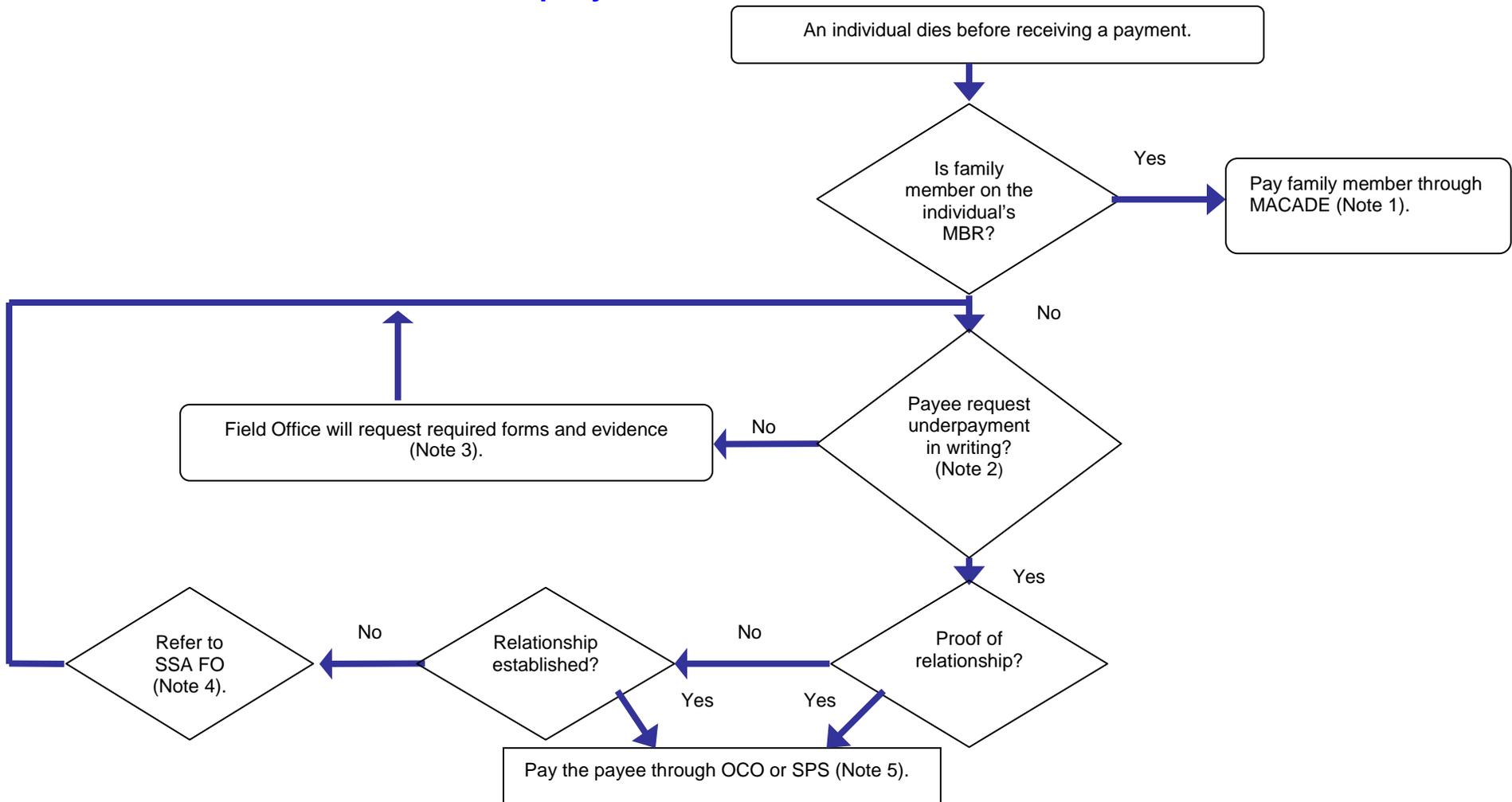
<sup>2</sup> According to SSA's POMS, section GN 02301.030, *Underpaid Person is Deceased*, death underpayments must be made in the following order of priority: (1) surviving spouse, (2) child, (3) parent, and (4) legal representative.

<sup>3</sup> *Review of Internal Controls Over the Processing of One-Check-Only Payments*, (A-05-97-61001), November 1999.

- The Falcon system, which is the automated system by which SSA records all OCO payments, does not provide an audit trail to identify the individual who initiates the OCO payment.
- Access controls over the Falcon system at six Program Service Centers do not minimize the risk of unauthorized access.

SSA concurred with majority of the recommendations, but decided in May 2002 to replace the manual OCO system with the automated Single Payment System (SPS). According to SSA, the SPS was designed to ensure proper payment reviews and incorporate a database for all OCO payments. Further, it was created to reduce the number of inputs required for payments made outside of the Title II system, ensure the timeliness of payments, prevent duplicate and erroneous payments, and document management information

## Flowchart of Death Underpayment Process



1. No written request is required. The underpayment will be paid when the death input is processed. The payment is paid through Manual Adjustment Credit and Award Data Entry (MACADE) because the family member is on the Master Beneficiary Record (MBR).
2. No particular form is required for requesting payment of an underpayment; however, the SSA-1724 form is designed for this purpose. (See Appendix B)
3. Mail an SSA-1724 Form to the caller with a courtesy envelope to return to the Field Office (FO). Advise the caller to submit: Proof of death, relationship (if exceeds \$750 or 1 month's benefits) or appointment of a legal representative in estate cases.
4. Claims Authorizer can request the FO to develop a payee and the process will from start the beginning.
5. If a payment was paid before May 2002, it was processed through the One-Check-Only (OCO) System and after May 2002, it was processed through the Single Payment System (SPS).

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## Scope and Methodology

To meet our objective we:

- Reviewed Social Security Administration (SSA) policies and procedures for processing death underpayments through the following payments systems: (1) One-Check-Only (OCO) and (2) Single Payment System (SPS).
- Reviewed a July 1996 Center for Security and Integrity investigation report of a SSA employee who fraudulently issued death underpayments to field and family members.
- Reviewed prior SSA Office of the Inspector General reports related to death underpayments and the OCO system.
- Obtained a data extract of 103,745 Title II death underpayments issued in CYs 2001 and 2002 from SSA's Payment History Update System (PHUS)<sup>1</sup> and divided the population of 55,310 payments issued without the payees' SSNs into the 4 groups. (see Appendix E for more information on the sampling methodology)
- Sampled 100 death underpayments issued for \$1 - \$49,999 that were randomly selected and all 41 death underpayments issued for \$50,000 or more and for these payments we:
  - Reviewed SSA records to include the Numident, Master Beneficiary Record (MBR), Alpha-Index File,<sup>2</sup> PHUS, and various documents scanned into the Paperless system<sup>3</sup> to determine (1) if the correct payee received the payment, (2) if the payments were coded correctly, (3) the death status of the beneficiary, and (4) the valid SSN for the payee;
  - Reviewed SSA-1099 forms issued for all sampled death underpayments to determine if the required information shared with the IRS; and

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<sup>1</sup> The PHUS database is the main source used for the annual benefit statement. It contains a historical record of Title II payment related actions starting with the year 1984.

<sup>2</sup> The Alpha-Index File maintains identifying information of each SSN numberholder. The system allows for the grouping together, in one code group, all surnames which have the same basic consonant sounds.

<sup>3</sup> Paperless is a document imaging and management system that SSA uses in the payment centers to manage the work.

- Projected the results of our 100 randomly sampled death underpayments (see Appendix F for the projected results).
- Sampled 95 death underpayments<sup>4</sup> that were randomly selected and for these payments we reviewed SSA records to include the Numident, MBR, PHUS, and various documents scanned into the Paperless system to determine (1) if the payments were properly coded and (2) whether the beneficiaries were actually deceased.
- Reviewed beneficiary case files for sample death underpayments as appropriate.

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<sup>4</sup> The 95 payments include (1) 50 possible lump sum death payments, (2) 30 payments that were processed with no date of death on the Death Master File, and (3) 15 payments that did not contain a name and address (see Appendix E).

## Sampling Methodology

For Calendar Years 2001 and 2002, we obtained a data extract of 103,745 Title II death underpayments totaling about \$135 million from the Social Security Administration's (SSA) Payment History Update System, where 55,310 were processed without the payees' SSNs. To focus our analysis better, we divided the population into four groupings. The sample underpayments reviewed in all 4 groupings were randomly selected except in Grouping 1, where we conducted an exhaustive review of the 41 underpayments that were \$50,000 and above. We projected our results for the underpayments ranging from \$1 - \$49,999 in Grouping 1.

<b>Grouping 1: Death Underpayments</b>				
<b>Strata</b>	<b>Number of Occurrences</b>	<b>Dollar Value</b>	<b>Sample Size</b>	<b>Type of Sample</b>
\$1 - \$49,999	52,817	\$70,049,990	100	Random
\$50,000 & Above	41	\$2,842,197	41	Exhaustive
Total	52,858	\$72,892,187	141	

<b>Grouping 2: Possible Lump Sum Death Payments</b>				
<b>Amount</b>	<b>Number of Occurrences</b>	<b>Dollar Value</b>	<b>Sample Size</b>	<b>Type of Sample</b>
\$255.00	986	\$251,430	50	Random

**Grouping 3: Payments Processed with  
No Date of Death on Death Master File**

<b>Deceased Status</b>	<b>Number of Occurrences</b>	<b>Dollar Value</b>	<b>Sample Size</b>	<b>Type of Sample</b>
Living <sup>1</sup>	521	\$561,449	10	Random
No LAF Code	160	\$125,889	10	Random
Deceased <sup>2</sup>	734	\$1,093,006	10	Random
Total	1,415	\$1,780,344	30	

**Grouping 4: Payments without Names and Addresses**

<b>Number of Occurrences</b>	<b>Dollar Value</b>	<b>Sample Size</b>	<b>Type of Sample</b>
51	\$93,155	15	Random

Note: We did not conduct any further analysis of grouping four because we found SSA made manual corrections to prevent the payments from being issued.

<sup>1</sup> The Ledger Account File (LAF) on the MBR record indicates the payment status of the beneficiary and auxiliary beneficiary. The LAF codes for these payments showed that beneficiaries were alive and currently receiving benefits.

<sup>2</sup> The LAF codes for these payments showed that the beneficiaries' benefits had been terminated due to the death.

## Sampling Results and Projections

For the 52,817 Title II death underpayments contained in our sample population, we randomly selected a sample size of 100 payments from the Social Security Administration’s (SSA) Payment History Update System (PHUS). Based on our sample results, we project that SSA could have located the Social Security numbers (SSN) for 97 percent (approximately 51,232) of the death underpayments processed without the payees’ SSNs by reviewing the completed SSA-1724 forms or querying SSA’s Alpha-Index File. For the remaining three payments, two payments related to the estate of the deceased beneficiary and we were not able to locate the SSN for the third payment. We did not project these three payments. The chart below provides a detailed breakdown of the results of our sample along with the attribute projections.

<b>Sample Results and Projections</b>	
Population size in items - PHUS	52,817
Sample size in items	100
<b>Attribute Projections</b>	
Sample cases – Number of SSNs identified through SSA records	97
Projection – Number of SSNs identified through SSA records	51,232
Projection lower limit	48,821
Projection upper limit	52,381
<b>Attribute Projections</b>	
Sample cases – Number of SSNs Located by Querying the Alpha-Index File	55
Projection – Number of SSNs Located by Querying the Alpha-Index File	29,049
Projection lower limit	24,453
Projection upper limit	33,526

<b>Attribute Projections</b>	
Sample cases – Number of SSNs Included on the SSA-1724 form	42
Projection – Number of SSNs Included on the SSA-1724 form	22,183
Projection lower limit	17,776
Projection upper limit	26,782

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

## Reasons for Death Underpayments

Most of the sampled Title II death underpayments were issued because the deceased beneficiaries' final benefit payments were returned to the Agency the month of their death. Specifically, 70 of the 100 sampled death underpayments were issued because of returned payments as shown in the table below. The remaining 30 death underpayments were issued because of (1) unpaid benefits prior to death, (2) reconsideration of benefits, and (3) refund of the Supplementary Medical Insurance.

**Reasons for Death Underpayments**

Reasons	Number of Death Underpayments
Returned Payments	70
Unpaid Benefits <sup>(1)</sup>	25
Reconsideration of Benefits <sup>(2)</sup>	3
Refund of Supplementary Medical Insurance <sup>(3)</sup>	2
Total	100

Note:(1) The types of unpaid benefits included disability payments and Automatic Earnings Reappraisal Operation adjustments, which are benefit increases that are computed automatically within SSA's systems.

(2) For these payments, the deceased beneficiary's benefits were initially denied, terminated, or incorrectly computed.

(3) The Supplementary Medical Insurance is known as Part B of Medicare and is a voluntary insurance provided under Title XVIII of the Social Security Act.

# Example of Form SSA-1724 (Claims for Amounts Due in the Case of a Deceased Beneficiary)

SOCIAL SECURITY ADMINISTRATION		TOE 210	Form Approved OMB NO. 0960-0101
PRINT NAME OF DECEASED BENEFICIARY		SOCIAL SECURITY CLAIM NUMBER OF DECEASED BENEFICIARY	
If above-named beneficiary received benefits on another person's record, print name of the insured person →		NAME OF INSURED	
<p>The deceased beneficiary may have been due a Social Security payment at the time of death. The Social Security Act provides that amounts due a deceased beneficiary may be paid to the next of kin or the legal representative of the estate under priorities established in the law. To help us decide who should receive any payment due, please COMPLETE this form and RETURN it to us in the enclosed envelope.</p>			
PRINT NAME OF CLAIMANT		PRINT ADDRESS OF CLAIMANT (Include house number, street, apt. number, P.O. Box, rural route, city, state, and ZIP code.)	
<b>CLAIM FOR AMOUNTS DUE IN THE CASE OF A DECEASED BENEFICIARY</b>			
<b>PAPERWORK/PRIVACY ACT STATEMENT</b>			
The Social Security Administration (SSA) is authorized to collect the information on this form under section 204(d) of the Social Security Act, as amended (42 U.S.C. 404(d)) and section 413(b) of the Federal Mine Safety and Health Act of 1977 (30 U.S.C. 923). While it is voluntary for you to furnish the information on this form to SSA, failure to provide the information may result in nonpayment of the unpaid benefits. The information on this form is needed to determine if any individual meets the specified qualifications to obtain benefits in the case of a deceased beneficiary as well as the priority order for payment. Although the information you furnish on this form is almost never used for any other purpose than stated in the foregoing, there is a possibility that for the		administration of the Social Security program or for the administration of programs requiring coordination with SSA, information may be disclosed to another governmental agency as follows: (1) to assist SSA in deciding who should receive any payments due the deceased beneficiary; (2) to comply with Federal laws requiring the release of information from Social Security records (e.g., to the General Accounting Office and the Veterans Administration); or (3) to facilitate statistical research and audit activities necessary to assure the integrity and improvement of the Social Security programs (e.g., to the Bureau of the Census and private concerns under contract to Social Security).	
I am claiming amounts due from the Social Security Administration as the _____ (Indicate your relationship to the deceased (e.g., widow, son, etc. or legal representative))			
of _____ (Name of decedent) who died on the _____ day of _____ 19____, and whose (Month)			
fixed permanent home was in the state of _____.			
<b>THE FOLLOWING ARE THE NEXT OF KIN OR LEGAL REPRESENTATIVES OF THE DECEASED PERSON NAMED ABOVE:</b>			
<b>1</b>	NAME OF SURVIVING WIDOW(ER) (Please print. If none, state "NONE".)	ADDRESS OF SURVIVING WIDOW(ER) (Please print house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code)	
	ENTER SOCIAL SECURITY NUMBER(S) OF WIDOW(ER) NAMED ABOVE. (If unknown, indicate "UNKNOWN".) →	_____ / _____ / _____	
	WAS THE WIDOW(ER) NAMED ABOVE, LIVING IN THE SAME HOUSEHOLD WITH THE DECEASED AT THE TIME OF DEATH? →	<input type="checkbox"/> YES (If "YES", OMIT Items 2, 3, 4, and 5 and SIGN at bottom of page 2.) <input type="checkbox"/> NO	
	WAS HE OR SHE ENTITLED TO A MONTHLY BENEFIT ON THE SAME EARNINGS RECORD AS THE DECEASED AT THE TIME OF DEATH? →	<input type="checkbox"/> YES (If "YES", OMIT Items 2, 3, 4, and 5 and SIGN at bottom of page 2.) <input type="checkbox"/> NO (Go on to item 2.)	
<b>2</b>	ENTER NUMBER OF LIVING CHILDREN OF THE DECEASED. INCLUDE ADOPTED CHILDREN AND STEPCHILDREN; INCLUDE GRANDCHILDREN AND STEPGRANDCHILDREN IF THEIR PARENTS ARE DISABLED OR DECEASED; OR IF THEY HAVE BEEN ADOPTED BY THE SURVIVING SPOUSE OF THE DECEASED BENEFICIARY. IF NONE OF THE ABOVE, SHOW "NONE" AND GO ON TO ITEM 4. →		NUMBER
<b>PRINT NAME AND COMPLETE ADDRESS OF EACH CHILD</b>			
NAME OF CHILD		ADDRESS OF CHILD (Include house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code)	
RELATIONSHIP TO DECEASED (Grandchild, stepchild, etc.)		SOCIAL SECURITY NUMBER(S) OF CHILD (If unknown, indicate "UNKNOWN".) _____ / _____ / _____	
NAME OF CHILD		ADDRESS OF CHILD (Include house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code)	
RELATIONSHIP TO DECEASED (Grandchild, stepchild, etc.)		SOCIAL SECURITY NUMBER(S) OF CHILD (If unknown, indicate "UNKNOWN".) _____ / _____ / _____	

<b>3</b>	IF ANY CHILD LISTED IN ITEM 2 NOW HAS A NAME DIFFERENT FROM THAT GIVEN AT BIRTH, PRINT BELOW THAT CHILD'S NAME, THE NAME GIVEN AT BIRTH, AND A BRIEF EXPLANATION FOR THE DIFFERENCE.		
	CHILD'S PRESENT NAME	CHILD'S NAME AT BIRTH	
EXPLANATION ( <i>Marriage, court order, adoption</i> )			
<b>4</b>	ENTER NUMBER OF LIVING PARENTS OF THE DECEASED ( <i>Include adopting parents and stepparents. If none, show "None".</i> )		NUMBER
	IF THERE ARE NO LIVING PARENTS, GO ON TO ITEM 5. <span style="float: right;">—————→</span>		
	<b>PRINT NAME AND COMPLETE ADDRESS OF EACH PARENT</b>		
	NAME OF LIVING PARENT	ADDRESS OF LIVING PARENT ( <i>Include house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code</i> )	
	ENTER SOCIAL SECURITY NUMBER(S) OF PARENT NAMED. ( <i>If unknown, indicate "UNKNOWN".</i> ) <span style="float: right;">—————→</span>	_____ / _____ / _____	
NAME OF LIVING PARENT	ADDRESS OF LIVING PARENT ( <i>Include house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code</i> )		
ENTER SOCIAL SECURITY NUMBER(S) OF PARENT NAMED. ( <i>If unknown, indicate "UNKNOWN".</i> ) <span style="float: right;">—————→</span>	_____ / _____ / _____		
<b>5</b>	LEGAL REPRESENTATIVE OF THE DECEASED'S ESTATE ( <i>Omit this item if relatives are listed in 1, 2, or 4.</i> )		
	NAME OF LEGAL REPRESENTATIVE ( <i>Please print</i> )	ADDRESS OF LEGAL REPRESENTATIVE ( <i>Please print house number, street, apt. number, P.O. box, rural route, city, state, and ZIP code.</i> )	

Note: If you are applying as legal representative, please submit a certified copy of your letters of appointment.

REMARKS: (*If you need more space for explaining any answers to the questions, attach a separate sheet.*)

We may also use the information you give us when we match records by computer. Matching programs compare our records with those of other Federal, State, or local government agencies. Many agencies may use matching programs to find or prove that a person qualifies for benefits paid by the Federal government. The law allows us to do this even if you do not agree to it.

Explanations about these and other reasons why information you provide us may be used or given out are available in Social Security Offices. If you want to learn more about this, contact any Social Security Office.

PAPERWORK REDUCTION ACT STATEMENT: The Paperwork Reduction Act of 1995 requires us to notify you that this information collection is in accordance with the clearance requirements of section 3507 of the Paperwork Reduction Act of 1995. We may not conduct or sponsor, and you are not required to respond to, a collection of information unless it displays a valid OMB control number. We estimate that it will take you about 10 minutes to complete this form. This includes the time it will take to read the instructions, gather the necessary facts and fill out the form.

I know that anyone who makes or causes to be made a false statement or representation of material fact in an application or for use in determining a right to payment under the Social Security Act commits a crime punishable under Federal law by fine, imprisonment or both. I affirm that all information I have given in this document is true.

### SIGNATURE OF APPLICANT

SIGNATURE ( <i>First name, middle initial, last name</i> )	DATE ( <i>Month, day, year</i> )	TELEPHONE NUMBER ( <i>Include area code</i> )
SIGN HERE 		

MAILING ADDRESS (*House number and street, apt. number, P.O. box, or rural route*)

CITY	STATE	NAME OF COUNTY	ZIP CODE

WITNESSES ARE REQUIRED ONLY IF THIS APPLICATION HAS BEEN SIGNED BY MARK (X) ABOVE. IF SIGNED BY MARK (X), TWO WITNESSES TO THE SIGNING WHO KNOW THE APPLICANT MUST SIGN BELOW GIVING THEIR FULL ADDRESSES.

SIGNATURE OF WITNESS	SIGNATURE OF WITNESS
ADDRESS ( <i>House number and street, city, state, and ZIP code</i> )	ADDRESS ( <i>House number and street, city, state, and ZIP code</i> )

## Agency Comments



## SOCIAL SECURITY

MEMORANDUM

33178-24-1104

Date: July 2, 2004

Refer To: S1J-3

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

From: Larry W. Dye /s/  
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Evaluation Report "Title II Underpayments for Deceased Beneficiaries" (A-03-03-13014) – INFORMATION

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

Please let me know if we can be of further assistance. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT  
EVALUATION REPORT “TITLE II UNDERPAYMENTS FOR DECEASED  
BENEFICIARIES” (A-03-03-13014)**

Thank you for the opportunity to review and comment on the draft report. We appreciate the thorough analysis and acknowledge that we can strengthen the payment reporting and accounting process for Title II deceased beneficiaries. We have already begun to address a number of the issues contained in the report and a description of those efforts is provided in our comments to the recommendations below.

While we agree with the analysis and conclusions presented in the report, we believe that the dollar amount of the problem is exaggerated. On Page 4 of the report, under the section “Tax Implications,” the fifth sentence of the paragraph says that “...almost \$73 million of potentially taxable income was not reported to IRS by SSA.” According to the first table on page E-1, this figure represents the total dollar value of death underpayments in the sample. Death underpayments are still Social Security benefits, and only a maximum of 85 percent of Social Security benefits may be subject to income tax. It appears that a figure of no greater than \$62 million of potentially taxable income would be appropriate. Of course, 85 percent is a maximum and, for most people, the tax liability will be even less. Therefore, we suggest that OIG estimate the actual amount of taxable income.

**Recommendation 1**

Require collection of the Social Security number (SSN) from all claimants of death underpayments to ensure taxable income is reported to the Internal Revenue Service (IRS) by SSA.

**Response**

We agree with this recommendation to the extent that we should collect SSNs for all payees who have SSNs. However, as worded, the recommendation raises a key concern for us as it implies that we would assign an SSN to an otherwise ineligible person for the purpose of receiving a one-time underpayment. We do not consider a one-time only payment a valid reason for assigning an SSN. Therefore, we will collect SSNs of individuals who are receiving one-time payments if they have an SSN; however, we will not assign an SSN for the sole purpose of receiving a payment.

## **Recommendation 2**

Ensure that the SSA-1724 form is revised to make the payee's SSN a mandatory field and develop completion instructions in POMS.

### **Response**

We agree that a payee's SSN must be provided if the payee has an SSN. Form SSA-1724 is being revised to make the collection of the SSN mandatory for payees who have SSNs. We expect that the form revision will be completed by the first quarter of fiscal year 2005.

## **Recommendation 3**

Ensure that the SPS payment system is revised to make the payee's SSN a mandatory field.

### **Response**

We agree. This recommendation supports the policy change for requiring the SSN from all payees who have SSNs. However, as noted in our response to Recommendation 1, override capability will be needed for those instances where the person receiving the underpayment does not have an SSN and is deemed ineligible to obtain one.

## **Recommendation 4**

Educate benefit authorizers on the correct procedures for processing Lump Sum Death Payments and death underpayments.

### **Response**

We agree. We will issue instructions and reminders once the new procedures discussed in Recommendations 1 and 2 are ready for release.

## **Recommendation 5**

Make the necessary corrections for the payments that were referred during the audit.

### **Response**

We agree. We have already referred these accounts to the jurisdictional processing center for correction.

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Walter Bayer, Director

Cylinda McCloud-Keal, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Frank Trzaska, Auditor-in-Charge

Virginia Montelpare, Auditor

Charles Zaepfel, Computer Specialist

Annette DeRito, Writer-Editor

# **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

## **Office of Audit**

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

## **Office of Investigations**

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

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