



Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

*Audit Report*

Workers' Compensation  
Lump-sum Settlements

*012308 September 2023*



# Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

## MEMORANDUM

**Date:** September 21, 2023

**Refer to:** 012308

**To:** Kilolo Kijakazi  
Acting Commissioner

**From:** Gail S. Ennis *Gail S. Ennis*  
Inspector General

**Subject:** Workers' Compensation Lump-sum Settlements

The attached final report presents the results of the Office of Audit's review. The objective was to determine whether the Social Security Administration correctly processed workers' compensation lump-sum settlements when they determined workers' compensation offset of Disability Insurance benefits.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Michelle L. Anderson, Assistant Inspector General for Audit.

Attachment

# Workers' Compensation Lump-sum Settlements 012308



September 2023

Office of Audit Report Summary

## Objective

To determine whether the Social Security Administration (SSA) correctly processed workers' compensation (WC) lump-sum settlements when they determined workers' compensation offset of Disability Insurance benefits.

## Background

WC is a payment made under a Federal or state law to a worker because of a work-related injury, illness, or disease. When a WC law provides for periodic payments but permits a lump-sum settlement that discharges the liability of the insurer or employer, the settlement is subject to offset. In this case, the lump sum is prorated to reflect the periodic rate that would have been paid had the lump-sum award not been made. Medical and legal expenses the worker incurred in connection with WC may be excluded when the offset is computed.

Employees at SSA field offices and processing centers process WC cases. SSA's *WC Quality Today* application allows management to generate quality and error-profile reports.

In February 2022, we identified 193,962 beneficiaries with a WC lump-sum settlement present and a date of injury after January 1, 2010. We (a) randomly sampled and reviewed 100 of the 193,950 who had settlement amounts less than \$9 million and (b) reviewed all 12 who had settlement amounts in excess of \$9 million.

## Results

SSA did not always correctly process WC lump-sum settlements. Almost 80 percent of the settlements in our sample were not processed correctly because staff did not follow policy and procedures. This affected an estimated 151,000 beneficiaries. Additionally, SSA did not maximize the quality and error-profile management information (MI) reports in the *WC Quality Today* application to train staff on identified WC processing deficiencies.

We estimate SSA improperly paid approximately \$360 million to the beneficiaries with WC lump-sum settlements. Also, we project SSA will need an additional 278,000 work hours, costing SSA a minimum of \$7.9 million in salary costs, to correct the processing issues in the population. These hours could be used to process other workloads.

If SSA staff does not correct these cases and ensure future cases are processed with greater accuracy, beneficiaries could face financial hardships because they may be receiving an incorrect Disability Insurance benefit or they may have to repay an overpayment. In addition, if SSA uses its MI reports to address training needs in combination with specialized workgroups, it could allocate staff time to process WC cases correctly the first time—not using resources to correct them later—which would result in a more effective use of taxpayer dollars.

## Recommendations

We made nine recommendations to correct identified WC cases, re-evaluate the utility of life expectancy proration coding, address a system limitation, issue reminders to staff, provide training based on workload deficiencies identified in the *WC Quality Today* MI, and evaluate whether to establish workgroups in each processing center.

SSA agreed with Recommendations 1 through 7. However, it disagreed with Recommendations 8 stating it must weigh establishing strike teams in other processing centers against its other workload priorities. SSA also disagreed with Recommendation 9 noting it cannot justify expending resources to review the workers' compensation cases in our population without conclusive evidence the cases have errors. However, we believe the recommendations related to the strike team and working the cases in our population are worthwhile.

# TABLE OF CONTENTS

Objective.....	1
Background.....	1
Scope and Methodology .....	2
Results of Review .....	3
Workers' Compensation Lump-sum Settlements Under \$9 Million .....	3
Alleged Workers' Compensation Lump-sum Settlements over \$9 Million and Systems Limitations.....	6
Agency Training and Quality Review Efforts.....	8
System Limitation Related to Lump-sum Settlement Figure .....	10
Conclusions .....	11
Recommendations .....	11
Agency Comments.....	12
Office of the Inspector General Response.....	12
Appendix A – Scope and Methodology .....	A-1
Appendix B – Sample Case Breakout by Region and Processing Center .....	B-1
Appendix C – Sampling Methodology and Results.....	C-1
Appendix D – Policies Not Followed Resulting in Processing Issues in the Sample .....	D-1
Appendix E – Agency Comments.....	E-1

## **ABBREVIATIONS**

DI	Disability Insurance
MI	Management Information
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
PC	Processing Center
PDB	Public Disability Benefit
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code
WC	Workers' Compensation

## OBJECTIVE

To determine whether the Social Security Administration (SSA) correctly processed workers' compensation (WC) lump-sum settlements when they determined WC offset of Disability Insurance (DI) benefits.

## BACKGROUND

SSA administers the DI program under the *Social Security Act*.<sup>1</sup> However, when an injured worker qualifies for both Federal or state WC and Federal DI benefits, the combined benefits could result in workers receiving more in disability payments than they earned before they became disabled. To prevent this, Congress enacted the WC offset provision under section 224 of the *Social Security Act*.<sup>2</sup> This provision requires that SSA reduce DI benefits (and monthly payments to auxiliaries on the same earnings record) if the individual's combined amount of monthly benefits payable (DI and auxiliary benefits) and WC payments exceed a statutory limit. In this instance, SSA reduces the DI benefit based on an offset calculation set forth in its policy and procedures, unless the other disability payment originates from a state with a recognized "reverse offset" law. States with these "reverse offset" laws reduce the WC benefit, and the injured worker receives the full DI benefit from SSA.<sup>3</sup>

WC is a payment made under a Federal or state law to a worker because of a work-related injury, illness, or disease.<sup>4</sup> WC laws were passed to ensure a work-related accident victim receives a prompt and reasonable income and reduce litigation costs associated with assigning blame for the injury. All states have WC laws; however, state laws differ in coverage, benefit amounts, insurance requirements, and administrative procedures. Most laws place a top and bottom limit on the weekly amounts payable. Some also limit the number of weeks for which a benefit is paid. Therefore, when SSA employees adjudicate WC offset cases, it is important that they understand the basic principles of WC/Public Disability Benefit (PDB) offset and adhere to SSA's policies and procedure for laws governing WC/PDB offset.

When a WC law provides for periodic payments but permits a lump-sum settlement that discharges the liability of the insurer or employer, the settlement is subject to offset. The *Social Security Act* requires that, with some exceptions, SSA reduce DI benefits (and monthly payments to auxiliaries on the same earnings record) when a worker is also receiving WC benefits so a combined WC and total monthly benefits payable (DI and auxiliary benefits) does not exceed 80 percent of the worker's average current earnings or the total family benefits payable.<sup>5</sup> The lump sum is prorated to reflect the periodic rate that would have been paid had the lump-sum award not been made. Medical and legal expenses the worker incurs in connection with WC may be excluded when the offset is computed.<sup>6</sup> SSA policy requires

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<sup>1</sup> 42 U.S.C. § 423.

<sup>2</sup> 42 U.S.C. § 424a.

<sup>3</sup> SSA, *Program Operations Manual System (POMS)*, DI 52101.001 (September 18, 2018). As of June 2023, we were conducting an audit on the impact of WC/PDB reverse offset plans.

<sup>4</sup> SSA, *POMS*, DI 52101.001, B.2 (September 18, 2018).

<sup>5</sup> 42 U.S.C. § 424a(a)(5).

<sup>6</sup> SSA, *POMS*, DI 52150.050 (August 22, 2016).

development of any contradictory language for clarification in a WC settlement.<sup>7</sup> However, SSA is not necessarily bound by the terms of a second or amended stipulation in determining whether, and by what rate, to offset a beneficiary's DI benefits because of a WC settlement.<sup>8</sup>

Employees at SSA field offices and processing centers (PC)<sup>9</sup> process WC cases. SSA staff makes an adjudicative determination on the Commissioner's behalf when they decide whether to impose, adjust, or terminate WC offset. According to SSA policy, the adjudicator must review the adjudicative screens and forms in relation to the evidence on file, identify discrepancies or omissions of a substantive nature that must be resolved, and resolve any pending issues.<sup>10</sup> To adjudicate a WC case, SSA uses WC/PDB programs to compute rates payable after offset and create a record of all input and output data from the computation. In addition, the programs produce a dated WC/PDB Datasheet, which is a printout of the WC/PDB record. To measure WC case accuracy, SSA developed the *WC Quality Today* application, which allows management to generate quality and error profile management information (MI) reports.

## SCOPE AND METHODOLOGY

In February 2022, we obtained from SSA's Master Beneficiary Record a file of 193,962 primary beneficiaries in current pay status with a WC lump-sum settlement present and a date of injury after January 1, 2010. Of the 193,962 beneficiaries:

- 193,950 had settlement amounts less than \$9 million (Group A), and
- 12 had settlement amounts in excess of \$9 million (Group B).

We determined whether SSA processed WC offset based on existing evidence and in accordance with SSA policies and procedures by reviewing a random sample of 100 beneficiaries from the population identified as Group A and recomputing the offset for all beneficiaries identified as Group B. We also analyzed the 193,950 records to identify those with WC listing code 557, which relates to WC lump-sum proration cases based on life expectancy. See Appendix A for additional information on the scope and methodology for this review.

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<sup>7</sup> SSA, *POMS*, DI 52150.065 (December 15, 2022).

<sup>8</sup> SSA, *POMS*, DI 52150.065 E (December 15, 2022).

<sup>9</sup> PCs are responsible for paying Old-Age, Survivors and Disability Insurance (OASDI) benefits, administering the Medicare program, and handling other functions essential to maintaining beneficiary records. PCs handle such tasks as awarding and adjusting benefits, issuing payments, updating records, and resolving complex issues. SSA maintains eight PCs nationwide: six process similar workloads and two handle specialized workloads.

<sup>10</sup> SSA, *POMS*, GN 01010.007 (November 10, 2011).

## RESULTS OF REVIEW

SSA did not always correctly process WC lump-sum settlements. Specifically:

- 78 of 100 sampled cases (from Group A), with settlement amounts less than \$9 million, were incorrectly processed. See Appendix B for a breakdown by SSA region and PC.
- 12 of 12 cases (from Group B), with settlement amounts in excess of \$9 million, were incorrectly processed.

These issues occurred because SSA staff did not follow policy and procedures, and SSA did not maximize the quality and error-profile MI reports in the *WC Quality Today* application to train staff on identified WC processing deficiencies. As a result, SSA paid approximately \$360 million in improper payments. Also, SSA will need an additional 278,000 work hours, at a minimum cost of \$7.9 million salaries, to correct the estimated errors in the population of 193,950 cases.<sup>11</sup> These hours could be used to process other workloads.

### Workers' Compensation Lump-sum Settlements Under \$9 Million

Of the 100 sample cases, 78 were not processed correctly because SSA staff did not follow the Agency's policy and procedures.<sup>12</sup> In 33 of 78 cases, incorrect processing resulted in improper payments totaling approximately \$186,000 (see examples below).

- A Florida man and his two children began receiving benefits based on his disability in November 2016. He also reported to SSA two settled WC claims. The first claim, based on an injury in November 2012, settled for \$40,000. The second claim, based on an injury in March 2015, settled for \$75,000. Both WC claims had associated excludable expenses, but there were no proration rates listed. SSA should have used the Florida state maximum benefit amount at the time of injury and prorated the lump-sums from the dates of the injuries. In addition, SSA should have determined dates from which the beneficiary would be subject to state rather than SSA benefit withholding, based on reverse jurisdiction provisions. However, SSA staff incorrectly determined the lump-sum proration start dates for both WC claims and miscoded the proration start date as the date the settlements were signed. As a result, the beneficiary and his children were underpaid by \$9,992.

SSA disagreed with our conclusions on this case and stated the first possible month of offset was November 2016. However, SSA policy<sup>13</sup> defines the start date of the lump-sum proration in the order of priority. Since the award did not specify lump-sum proration start dates, SSA should have followed its policy in *POMS*, DI 52150.060 D.2.c, which states, "If the [lump-sum] award does not specify a beginning date, and the worker did not receive

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<sup>11</sup> See Appendix C for how this was calculated.

<sup>12</sup> See Appendix D for a breakdown of the policies SSA staff did not follow that we identified in sample cases we reviewed as well as a summary of processing issues by case processing components. As we discuss in the Agency Training and Quality Review Efforts section of this report, SSA's WC quality review reports also identified that not following national policy and procedures was the top reason for case processing issues.

<sup>13</sup> SSA, *POMS*, DI 52150.060 D.2 (September 14, 2022).



periodic payments, allocate the [lump-sum] to: the period beginning with the date of the illness/injury for WC . . .” instead of the date of the award as the proration start date, which is lower in priority. In this case, the first WC award proration should have started in November 2012 prorated at a \$771 weekly rate, the state maximum rate. After excludable expenses, the lump-sum proration would have ended before the disability date of entitlement. In the second WC award proration, the start date should have been March 2015 prorated at \$794 weekly, the state maximum rate. Similar to the earlier award, after excludable expenses were considered, this would have resulted in the lump-sum proration ending before the disability date of entitlement.

- A Florida beneficiary was awarded disability benefits starting in April 2013 and settled his WC in July 2013. SSA processed the WC in October 2013. When SSA processed the WC case, it did not recognize involvement of periodic payments and prorated the lump-sum settlement using Florida’s 2013 maximum WC benefit. As a result, the beneficiary was underpaid \$2,224 in retroactive past-due benefits. Also, the attorney who represented this beneficiary during the disability administrative proceedings was underpaid \$556.

SSA disagreed with our conclusions in this case and stated the lump-sum proration rate should have been the state maximum. However, SSA POMS, DI 52150.060 D.3.d, takes priority and states “If the award does not specify a rate and the [numberholder] receives periodic payments, use the latest periodic rate paid prior to the [lump-sum] award.” SSA evidence showed the beneficiary received a total of \$9,000 in periodic payments from July 4, 2012 through June 18, 2013, which prorated at \$180 weekly. As such, the lump-sum award should have been prorated using the weekly rate before the lump-sum award rather than the state maximum, which is lower in the priority order provided by policy.

In the remaining 45 cases, SSA incorrectly processed WC information because staff did not follow policy and procedures. However, there were no improper payments because of other factors<sup>14</sup> related to the WC reduction computation that prevented SSA from issuing improper payments to these beneficiaries. Without coding in accordance with policy, it is not possible to determine whether other factors prevent improper payments.<sup>15</sup> The following examples illustrate processing issues without improper payments:

- A Washington beneficiary received disability benefits starting in May 2011. The beneficiary settled her WC claim in March 2020, and SSA (PC 7) processed the case in October 2020. PC 7 coded the settlement amount of \$840,000 with WC settlement proration at \$1,523.69 weekly, which was the Washington July 2019 maximum WC benefit, and a \$19,400 attorney’s fee. Because SSA considered this WC settlement as part of reverse-jurisdiction provision, an instance where the WC benefits are reduced by the state rather than SSA reduction of disability benefits, the beneficiary’s disability payments were not affected. However, the actual settlement amount was \$84,000 (not \$840,000), the WC

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<sup>14</sup> Other factors included, but were not limited to, total family benefit amount (SSA, POMS, DI 52150.005 [September 25, 2008]), average current earnings (SSA, POMS, DI 52150.010 [November 9, 2009]), and lump-sum proration start and end dates (SSA, POMS, DI 52150.060 [September 14, 2022]).

<sup>15</sup> The reduction is determined the first month the individual receives both DI and WC benefits. The reduction amount is computed using the “applicable limit” – the higher of either 80 percent of “average current earnings” before disability began or the total amount of DI benefits the beneficiary and their family receive in the first month they also receive WC. The reduction is made only if the total benefits payable plus WC plus PDB (if applicable) exceed the “applicable limit.”

attorney’s fee was \$12,600, the state-regulated 15 percent of the award, with the proration rate based on life expectancy of \$216.05 per month. Even though there were no improper payments made, SSA staff did not follow policy on determining the lump-sum amount, lump-sum proration rate, lump-sum excludable expenses, and state-specific instructions as well as misinterpreted the evidence when they processed this case.

- In September 2017, a Georgia woman began receiving disability benefits. Based on her work-related injury, she received temporary total WC benefits from July 2016 through April 2017. After April 2017, she received a \$20,000 WC settlement, with \$5,224.44 in associated expenses (\$5,000 for attorney’s fee and \$224.44 for other expenses). The settlement award stipulated it should be prorated using life expectancy. When SSA processed the WC case, it used \$15,000 as the settlement amount (the actual amount less the attorney’s fee) and included the attorney’s fee as an excludable expense from the coded \$15,000 settlement amount. In addition, SSA incorrectly calculated the lump-sum proration rate. As such, SSA did not follow policy on determining the lump-sum amount and lump-sum proration rate, but, because of the other factors, this did not result in SSA benefits improperly paid.

Also, SSA reviewed 27 of the 78 incorrectly processed WC cases. Of the 27, SSA found 18 (67 percent) required further evidence development to resolve processing issues. For these 18 cases, SSA’s adjudication dates—which identified the dates SSA took last WC action—averaged 2 years and 10 months, measured from February 2022 when we obtained our data. This did not include the time SSA spent on reviewing the sample cases between February 2022 and June 2023 or will spend in the future to further develop these cases (see Table 1). The oldest case requiring further development had an adjudication date of June 20, 2013.

**Table 1: Age of 18 Sample Cases SSA Reviewed, As of February 14, 2022, that Required Further Development**

Less than 1-Year-Old	5
1- to 2-Years-Old	5
2- to 3-Years-Old	2
3- to 4-Years-Old	2
4- to 5-Years-Old	1
Over 5-Years-Old	3
<b>Total</b>	<b>18</b>

Furthermore, SSA staff did not follow policy to code life-expectancy proration. SSA policy directs SSA staff to “. . . list all life expectancy lump-sum proration cases under listing code 557” in SSA systems.<sup>16</sup> SSA stated that “. . . listing codes serve as a way for field office and [PC] technicians to identify and track certain cases and workloads.” During our review period, SSA technicians coded life-expectancy proration in only 12,177 cases—12.3 percent of the total population of 193,950 settled cases in our population.<sup>17</sup> When questioned, SSA did not provide details on whether it produced MI to monitor these cases or if it conducted any case study using this code. Therefore, staff time spent recording cases under listing code 557 could be used on other workloads. While the life-expectancy coding does not impact payment accuracy, we project SSA staff did not correctly process and mark 86,738 cases<sup>18</sup> in accordance with policy. As result, SSA systems undercount the occurrence of life-expectancy proration.

In 22 of the 100 sampled cases, SSA followed policies and procedures when it processed WC cases. SSA staff correctly handled WC case processing, including identifying the first month of WC reduction, applicable limits, start and stop dates of periodic payments and rates, lump-sum amounts, and proration rates as well as proper consideration of life expectancy involvement and excludable expenses.<sup>19</sup>

## **Alleged Workers’ Compensation Lump-sum Settlements over \$9 Million and Systems Limitations**

SSA did not correctly process 12 claims involving large WC lump-sum settlements because staff did not follow policies and procedures, which resulted in over \$360,000 in improper payments (see Appendix C, Table C–5).

- In 11 cases, SSA staff input the maximum lump-sum settlement figure of \$9.9 million and varying proration rates<sup>20</sup> to compute WC reductions. According to SSA, staff made these inputs to force beneficiaries’ cooperation to provide the actual WC claim information or defer WC case development—which does not follow established processing guidelines.<sup>21</sup> When we reviewed these cases with SSA employees, they stated the main concern was to avoid an improper payment, which takes greater priority over clerical errors. Furthermore, in 1 of

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<sup>16</sup> SSA, *POMS*, DI 52150.065 A (December 15, 2022).

<sup>17</sup> We calculated the life expectancy coding percent by dividing 12,177 by 51 percent of 193,950 settled WC cases since our sample analysis of 100 cases from the 193,950 showed life expectancy was involved in 51 of the cases (51 percent).

<sup>18</sup> We calculated the total number of cases in which life expectancy proration occurred by multiplying 51 percent by 193,950 settled WC cases and subtracting 12,177 cases already marked using listing code 557.

<sup>19</sup> For example, an Arizona beneficiary settled multiple work injury cases in Massachusetts in one WC settlement agreement in March 2019. SSA staff properly recognized the state WC laws that affected WC claim processing, followed complex lump-sum settlements policy when coding this WC claim, and correctly determined the lump-sum proration rate, which was based on the beneficiary’s life expectancy. As a result, SSA properly reduced the beneficiary’s disability benefits for July 2018 through February 2019 and paid full disability benefits effective March 2019.

<sup>20</sup> The proration rates varied between \$1 and \$99,999.

<sup>21</sup> SSA, *POMS*, DI 52140.001 (June 3, 2010) discusses the initial claims processing steps; DI 52140.001 H (June 3, 2010) provides follow-up guidelines and timeframes; DI 52145.001 (December 20, 2017) instructs how to process claims with an allegation of WC/PDB rate from beneficiary; and DI 52145.001 B.2 (December 20, 2017) reflects rates to use in association with alleged or unknown WC rates.

the 11 cases, a system limitation also affected case processing. Overall, it had been an average 2 years and 8 months since SSA last finalized its processing of the 11 cases.<sup>22</sup> In four cases, we were unable to determine whether payments SSA made were correct, and SSA initiated development after we notified it. These cases were 1,147-days-old on average, with the oldest being 2,656-days-old. The remaining seven cases involved improper payments of approximately \$302,000.

- In one case that involved a \$9.7 million lump-sum settlement, SSA concurred that staff made clerical errors and did not follow policy, which resulted in over \$58,000 in overpayments. SSA marked this case as completed in September 2018.

After we shared these 12 cases, SSA took action to correct them. In 10 of the 12 cases, SSA initiated additional development efforts to establish correct inputs. The following examples illustrate incorrectly processed cases resulting from staff not following SSA policy:

- In November 2019, a North Carolina beneficiary filed for disability benefits. SSA's records showed the beneficiary "...filed for WC on or about 2004 and weekly benefits were received. The claim settled." PC 3 processed this case without additional development and awarded disability benefits 10 months later, in September 2020, using the maximum WC lump-sum settlement amount of \$9,999,999<sup>23</sup> and a \$10 weekly proration rate. SSA policy requires that staff (1) check for WC/PDB information; (2) verify that proofs are in file, if none; (3) obtain proofs by simultaneously contacting all sources for WC information; and (4) if unsuccessful, establish a follow-up diary.<sup>24</sup> In June 2022, we shared this case with SSA. In March 2023, SSA stated further development was required—30 months after SSA marked the case as completed. SSA partially agreed staff did not correctly process this case but stated there was no improper payment, and the lump-sum settlement amount reflected on the record was not a contributing factor on the offset amount. However, according to SSA policy, the driving factor on the offset amount would be the proration rate, which should have been \$992 a week, the 2018 North Carolina maximum WC benefit.<sup>25</sup> As posted, the \$10 proration rate SSA input did not incentivize the beneficiary to cooperate and provide documentation.

SSA disagreed with our analysis and stated the Agency would not have imposed a weekly rate higher than the beneficiary's part-time weekly wages. However, staff did not consider this information in September 2020 when PC 3 processed this case. In addition, SSA disagreed with the state maximum as the proration rate and suggested using \$250 a week, which would have taken over 750 years to prorate.

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<sup>22</sup> We calculated the average age through February 14, 2022, the date we retrieved the WC case data.

<sup>23</sup> As discussed in the System Limitation Related to Lump-sum Settlement Figure section, SSA's system limits the lump-sum settlement gross award to a field of 10 characters.

<sup>24</sup> SSA, *POMS*, DI 52140.010 (September 13, 2017).

<sup>25</sup> SSA, *POMS*, DI 52150.045 (March 27, 2023).

- An Ohio beneficiary started receiving disability benefits in January 2021. Before SSA awarded the benefits, SSA staff made several unsuccessful attempts to request the WC information from the beneficiary. According to SSA, the beneficiary did not respond and was placed in “full offset.”<sup>26</sup> SSA coded a settlement amount of \$9,999,999 with a monthly proration rate of \$99,999.99. In February 2021, the beneficiary reported to SSA they received a \$5,000 settlement for a work-related injury but failed to provide actual documents, and SSA did not follow up. The Ohio Bureau of Workers’ Compensation Website provides SSA access to state WC information. However, SSA staff did not document in SSA’s systems whether the necessary information was available online from the Ohio Bureau of Workers’ Compensation Website. SSA policy requires that, after sufficient development is exhausted and documented, SSA staff should have used the 2019 State of Ohio maximum WC benefit rate of \$950 a week.<sup>27</sup> Through February 2022, SSA actions resulted in approximately \$21,000 being withheld from the beneficiary’s disability benefits. Upon our reporting, SSA concluded further development was required.

## **Agency Training and Quality Review Efforts**

SSA did not use the results of quality review MI to provide staff more focused national training and ensure a uniform approach or timeframe for staff to correct processing issues timely. In September 2019, SSA provided PC staff nationwide with WC refresher training on developing and verifying WC information and coding WC cases.<sup>28</sup> In its training materials, SSA concluded “. . . it would be impossible to create refresher training on every aspect of WC.” As such, it did not cover field office WC processing responsibilities (training was administered only to PC staff) or how variations in state-specific laws affect WC processing. Since SSA’s main concern is to avoid an improper payment rather than avoid clerical errors and follow WC case processing policies, refresher training did not necessarily lead to improvement in WC case processing as shown in Figure 1.

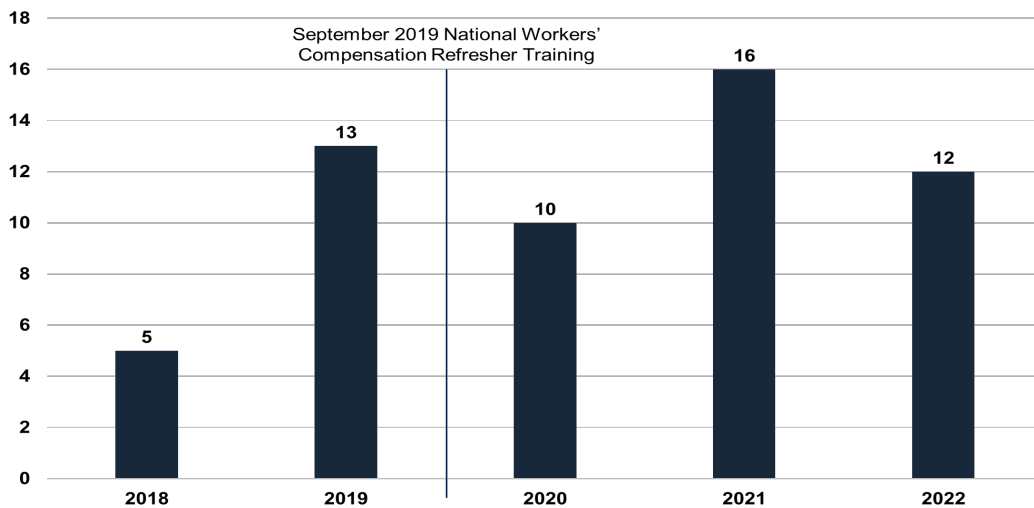
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<sup>26</sup> There are no instructions in POMS that support “full offset” to reduce SSA benefits to zero to force the beneficiary’s cooperation in WC cases. SSA, *POMS*, DI 52140.001 (June 3, 2010) and DI 52150.045 (March 27, 2023), provide other steps to address these types of situations.

<sup>27</sup> SSA, *POMS*, DI 52150.045 (March 27, 2023).

<sup>28</sup> We identified information on local training the SSA Denver Region provided field office staff in February 2020. Additionally, the Kentucky area provided training to field office staff in June 2012.

**Figure 1: Processing Issues for the 100 Sampled WC Cases by Fiscal Year<sup>29</sup>**



**Note:** We predicted 12 errors for Fiscal Year 2022 based on the sum of 3 actual errors from October 2021 to January 2022; and the average frequency of processing issues in February 2018 through September 2021.

While SSA's Office of Quality Review does not target WC cases specifically, it conducts stewardship reviews that measure the OASDI payment accuracy rate in the Agency Strategic Plan. The Plan states SSA is committed to being a good steward of taxpayer dollars to ensure the public is confident SSA manages their tax dollars wisely. Although present in only a small percent of OASDI cases, WC cases account for large deficiency dollars because, when the errors occur, the benefit amount is often incorrect. In its 2021 and 2022 payment accuracy reports, SSA projected errors of \$1.5<sup>30</sup> and \$1.1 billion<sup>31</sup> for WC cases over 5-year periods, respectively.

The *WC Quality Today* application allows team leaders to input results of WC case reviews and generate national MI reports for management. According to SSA, reviews from the participating PCs are tabulated into reports that measure overall quality and error-prone case characteristics that identify training needs and other procedural or workflow deficiencies. According to SSA, management and/or Operations Support Branch analysts have access to the reports, except for PC 7 where only module leads have access to MI reports. Based on our review of *WC Quality Today* MI reports, the top reasons for case processing deficiencies were (a) not following

<sup>29</sup> There were 78 errors in the sample of 100 WC cases. Figure 1 shows errors for Fiscal Years 2018 through 2022. For Fiscal Years 2012 through 2017, there were 31 errors (31+5+13+10+16+3 = 78).

<sup>30</sup> SSA, Office of Analytics, Review, and Oversight, *Fiscal Year 2020 Title II Payment Accuracy Report*, p. 12 (August 2021).

<sup>31</sup> SSA, Office of Analytics, Review, and Oversight, *Fiscal Year 2021 Title II Payment Accuracy Report*, p. 13 (August 2022).



national policy and procedures, (b) incorrect or inadequate analysis of evidence, and (c) dismissal of a case without required actions taken.<sup>32</sup>

Since the *WC Quality Today* application began in March 2006, PCs 1 through 7 have relied on it as the primary source for quality review of WC cases. Effective October 2020, the *Performance Quality Review for Payment Centers* application became the primary source to gather quality data for the PCs.<sup>33</sup> Based on information SSA provided, the PCs had not followed a uniform approach or timeframe to correct or train staff on *WC Quality Today*-identified cases. According to SSA, some PCs made efforts to provide local refresher training to staff or issue reminders. However, the September 2019 refresher training was the last time SSA attempted to address WC case processing issues nationwide.<sup>34</sup>

In addition, in October 2022, PC 5 created a strike team to address the growing volume of WC cases. According to SSA, this team was based on similar efforts PC 4 made in the past, but those efforts did not continue. The strike team was responsible for initially developing WC cases and working them to completion. The strike team's short-term goal was to reduce the WC pending workload. To initiate this workgroup, SSA provided refresher training on WC policy and instructions on how to complete WC cases specific to the area served by PC 5. Although our sample case review did not include cases the strike team processed (since our population was obtained in February 2022—before the strike team was formed)—the WC refresher training materials, the strike team's organizational structure, and workload statistics appear to address WC case processing issues we identified and improve the overall efficiency and payment accuracy.

## System Limitation Related to Lump-sum Settlement Figure

SSA uses its Interactive Computational Facility system to compute WC offset for a wide range of WC cases. The system limits the lump-sum settlement gross award to a field of 10 characters.<sup>35</sup> As such, SSA cannot use the system when the gross lump-sum amount exceeds \$9,999,999.99. In these cases, SSA staff is required to use an error-prone and lengthy manual process to compute WC offset. The following example illustrates processing issues involving a large gross lump-sum award and SSA's system limitation:

- A California beneficiary began receiving disability benefits in August 2018. In November 2020, the beneficiary reported to SSA they received an \$11.3 million WC lump-sum settlement with a structured \$14,635 monthly payment for life.<sup>36</sup> In April 2021, to

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<sup>32</sup> SSA case-selection methodology: The number of cases selected was the same for each PC except for PCs 7 and 8. Based on the nature of their work, PC 1 asked for more selected triannual redetermination cases. The maximum WC cases selected per PC is 28 and 20 triannual redetermination cases weekly, except for PCs 7 and 8.

<sup>33</sup> Effective October 2020, PC 7 only uses the *Performance Quality Review for the Payment Centers*, which is a national application used to monitor quality and conduct reviews for multiple workloads in all PCs, including WC. PCs 1 through 6 continue to use *WC Quality Today* as an additional quality control review.

<sup>34</sup> According to SSA, in 2021, PC 2 provided refresher training to all claims staff. In February 2023, PC 3 conducted refresher training based on *WC Quality Today* findings. Also, in 2023, PC 4 created a decision tree for post-entitlement WC case development to supplement SSA policies.

<sup>35</sup> The gross lump-sum settlement award field is limited to nine digits for dollars and cents and one decimal character.

<sup>36</sup> A trust was set up for the WC settlement. The trust fund was structured to issue payments to the beneficiary from January 2021 through December 2060.

process the WC case, SSA staff input \$9,999,999 as the lump-sum amount likely because of a system limitation with the lump-sum settlement figure that limits the amount to \$9,999,999. However, SSA staff used \$9,999 as the proration rate and did not correctly reflect excludable expenses in its computations, which resulted in an approximate \$25,500 overpayment. SSA agreed staff did not correctly process this case. While SSA also agreed the overpayment was an improper payment, SSA stated it did not plan to address the system limitation to accommodate lump-sum settlements above \$10 million.

## CONCLUSIONS

SSA incorrectly processed almost 80 percent of the WC lump-sum settlements we reviewed, which affected an estimated 151,000 beneficiaries. If SSA staff does not correct these cases and ensure future cases are processed with greater accuracy, beneficiaries could face financial hardships because they may be receiving an incorrect DI benefit, or they may have to repay an overpayment. In addition, if SSA uses its MI reports to address training needs in combination with specialized workgroups, it could allocate staff time to process WC cases correctly the first time, not needing to use resources to correct them later, resulting in a more effective use of taxpayer dollars.

## RECOMMENDATIONS

We recommend SSA:

1. Correct the 33 cases with improper payments in accordance with SSA policy.
2. Correct the 45 cases without improper payments per SSA policy.
3. Determine whether the life-expectancy proration coding is needed for future processing and revise policy accordingly.
4. Correct the 12 cases with large alleged lump-sum settlements in line with SSA policy.
5. Address the system limitation by expanding the field to allow settlements of or over \$10 million.
6. Issue reminders to staff on SSA policies for handling allegations of WC lump-sum settlements, case development, and beneficiary cooperation.
7. Provide training based on workload deficiencies identified in *WC Quality Today* MI.
8. Evaluate the effectiveness of the strike team in PC 5 and whether strike teams should be established in other PCs.
9. Review the 193,950 WC cases in our population to identify and correct the estimated 151,281 cases with errors.



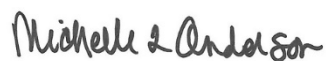
## AGENCY COMMENTS

SSA agreed with Recommendations 1 through 7 but disagreed with Recommendations 8 and 9; see Appendix E for the Agency's full response. Regarding Recommendation 8, SSA stated that it must weigh establishing strike teams in other PCs against its many other workload priorities given its tight resources. SSA also noted with regard to Recommendation 9 that WC offset is a labor-intensive workload that routinely requires contact with beneficiaries to obtain evidence and requires many employees to process corrective actions. Therefore, SSA cannot justify expending resources to undertake the review of the 193,950 cases without conclusive evidence the cases have errors.

## OFFICE OF THE INSPECTOR GENERAL RESPONSE

Regarding SSA's disagreement with Recommendation 8, we still believe SSA should evaluate the effectiveness of the PC 5 strike team and whether strike teams should be established in other PCs. Although SSA created the PC 5 strike team to address the increasing volume of WC cases (and not to address the quality issues highlighted in this audit), we believe it also helps with accurate processing of WC cases because the strike team received refresher training. If strike teams are formed in other PCs and the team members also receive refresher training on workers' compensation cases similar to what was provided at PC 5, this could help improve with accurately processing workers' compensation cases nationwide.

We believe SSA should review the population of cases we identified in Recommendation 9 despite its disagreement with the recommendation. Almost 80 percent of the lump-sum settlements in our sample were not processed correctly because staff did not follow policy and procedures. This affected an estimated 151,000 beneficiaries. We estimate SSA improperly paid approximately \$360 million to these beneficiaries, and we project SSA will need an additional 278,000 work hours, costing SSA a minimum of \$7.9 million in salary costs, to correct the processing issues in the population. Since the costs are less than the estimated improper payments in our review and SSA's 2021 and 2022 payment accuracy reports projected errors of \$1.5<sup>37</sup> and \$1.1 billion,<sup>38</sup> respectively, for WC cases over 5-year periods, we believe reviewing the cases would be a good use of SSA's resources leading to more accurate payments. However, we acknowledge it is SSA's decision as to how it uses its resources.



Michelle L. Anderson  
Assistant Inspector General for Audit

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<sup>37</sup> SSA, Office of Analytics, Review, and Oversight, *Fiscal Year 2020 Title II Payment Accuracy Report*, p. 12 (August 2021).

<sup>38</sup> SSA, Office of Analytics, Review, and Oversight, *Fiscal Year 2021 Title II Payment Accuracy Report*, p. 13 (August 2022).

# ***APPENDICES***

## Appendix A – SCOPE AND METHODOLOGY

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To accomplish our objective, we:

1. Reviewed applicable sections of the *Social Security Act* as well as the Social Security Administration's (SSA) regulations, rules, policies, and procedures.
2. Obtained a data extract from the Master Beneficiary Record of 193,962 primary beneficiaries (BIC A) in current pay status (LAF C) with a workers' compensation (WC) lump-sum settlement (LS START field) present and a date of injury (DATE) in the INJURY data line after January 1, 2010. Of the 193,962 beneficiaries:
  - a. 193,950 had settlement amounts less than \$9 million, and
  - b. 12 had settlement amounts in excess of \$9 million.
3. Determined whether SSA processed WC offset based on existing evidence and in accordance with SSA policies and procedures by reviewing (a) a random sample of 100 beneficiaries from the population identified in Group 2a and (b) recomputing offset for all beneficiaries identified in group 2b. Additionally, we:
  - a. Calculated improper payments from erroneous WC offset that resulted from employees not following policy and project those payments to the population.
  - b. Calculated authorized Disability Insurance attorney's fee adjustments (for beneficiaries who had attorney representation and attorney fees paid) because of erroneous WC offset.
  - c. Reviewed notices regarding the WC offset determination sent to beneficiaries.
  - d. Reviewed actions SSA had taken to process the WC lump sum to determine whether issues we identified were prevalent in a specific office or region.
  - e. Reviewed documentation from the beneficiary electronic folders that supported staff WC inputs.
4. Obtained from SSA management information (MI) on:
  - a. All cases with Processing Center Action Control System WC/Public Disability Benefit Lump-Sum Prorated Based on Life Expectancy listing code 557.<sup>1</sup> Obtained information about the purpose of this code and when SSA used it to affect workload processing decisions.
  - b. All WC technical staff training between October 2017 and December 2022.
  - c. Office of Quality Review's WC offset accuracy reports.
  - d. *Workers' Compensation Quality Today* reports and MI access.
  - e. Specialized workgroups handling WC, if any.

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<sup>1</sup> Listing code 557 is described in SSA, *POMS*, DI 52101.001 (September 18, 2018) and DI 52150.065 (December 15, 2022).

5. Followed up to ensure SSA took corrective action on two sample cases from our recommendation in the October 2019 report on the *Appropriateness of Actions Taken on Pending Workers' Compensation Cases (A-05-18-50627)*.

We conducted our review in Chicago, Illinois, and Boston, Massachusetts, between January and May 2023. The principal entity reviewed was SSA's Office of the Deputy Commissioner for Operations.

We assessed the significance of internal controls necessary to satisfy the audit objective. This included an assessment of the five internal control components, including control environment, risk assessment, control activities, information and communication, and monitoring. In addition, we reviewed the principles of internal controls associated with the audit objective. We identified the following four components and six principles as significant to the audit objective.

- Component 1: Control Environment
  - Principle 5: Enforce Accountability
- Component 3: Control Activities
  - Principle 11: Design Activities for the Information System
  - Principle 12: Implement Control Activities
- Component 4: Information and Communication
  - Principle 13: Use Quality Information
  - Principle 15: Communication Externally
- Component 5: Monitoring
  - Principle 16: Perform monitoring activities

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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix B – SAMPLE CASE BREAKOUT BY REGION AND PROCESSING CENTER

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Social Security Administration (SSA) staff in field offices and processing centers did not always follow policies and procedures for processing workers' compensation cases; see Table B-1 and Table B-2.

**Table B-1: Sample Case Processing Issues by Region**

Region	Total Sample Cases Processed by Field Offices in the Region	Sample Cases with One or More Processing Issues	Error Rate
Atlanta	10	10	100%
Boston	6	5	83%
Chicago	12	10	83%
Dallas	1	1	100%
Denver	1	1	100%
Kansas City	4	2	50%
New York	5	4	80%
Philadelphia	4	3	75%
San Francisco	6	6	100%
Seattle	3	3	100%
<b>Total</b>	<b>52</b>	<b>45</b>	<b>87%</b>

**Table B-2: Sample Case Processing Issues by Processing Center**

Processing Center	Total Sample Cases Processed by Processing Centers	Sample Cases with One or More Processing Issues	Error Rate
1	7	3	43%
2	4	4	100%
3	4	4	100%
4	3	2	67%
5	6	6	100%
6	5	3	60%
7	19	11	58%
<b>Total</b>	<b>48</b>	<b>33</b>	<b>69%</b>

**Note:** While most of the processing issues occurred at PC 7, it is unique in that it handles only disability cases for beneficiaries up to age 55. The other PCs handle a full range of Old-Age, Survivors and Disability Insurance cases.

## Appendix C – SAMPLING METHODOLOGY AND RESULTS

### Workers Compensation Lump-sum Settlement Cases Under \$9 Million

We reviewed a random sample of 100 from the 193,950 primary beneficiaries (BIC A) in current pay status with a workers' compensation (WC) lump-sum settlement present and a date of injury in the INJURY data line after January 1, 2010, who had settlement amounts less than \$9 million (see Table C-1).

**Table C-1: Population and Sample Size**

Description	Number of Settled Workers' Compensation Cases
Population	193,950
Sample Size	100

Of the 100 sampled cases, 33 resulted in \$185,532 in improper payments (Table C-2). Based on these results, we project the Social Security Administration (SSA) did not follow procedures when it processed WC cases, which resulted in approximately \$360 million in improper payments (Table C-2).

**Table C-2: Improper Payments in Sample**

Description	Number of Cases with Improper Payments	Improper Payment Amounts
Sample Results	33	\$185,532
Projected Quantity/Point Estimate	64,004	\$359,839,314
Projection Lower Limit	48,938	\$202,291,578
Projection Upper Limit	80,573	\$517,387,050

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

**Table C-3: Processing Issues Without Improper Payments in Sample**

Description	Number of Cases with WC Processing Issues That Did Not Result in Improper Payments
Sample Results	45
Projected Quantity/Point Estimate	87,278
Projection Lower Limit	70,828
Projection Upper Limit	104,168

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

**Table C–4: Total Cases with Processing Issues**

Description	Number of Cases with Processing Issues
Sample Results	78
Projected Quantity/Point Estimate	151,281
Projection Lower Limit	135,961
Projection Upper Limit	164,100

**Note 1:** All projections are at the 90-percent confidence level.

**Note 2:** Table C–4 combines the 33 cases from Table C–2 and the 45 cases from Table C–3, for the 78 case total.

## Cost to Correct the Error Cases in the Population

We project SSA would need an additional 278,000 work hours, that could have otherwise been used to process other workloads, to correct processing issues in the population, costing SSA a minimum of \$7.9 million in salary costs. This was calculated as follows:

- SSA spent 35 hours to review 19 of the 100 sample cases we provided.<sup>1</sup>
- To project to the population, we calculated the time for 1 case (35 hours divided by 20 cases equals 1.84 hours per case).
- Since our estimated total errors in the population was 151,281 cases (see Table C–4), we multiplied the 1.84 hours by 151,281 for a total of 278,676 hours.
- We considered the SSA employee’s salary at the grade schedule 11 level step 1 which, in Fiscal Year 2023, was \$28.42 per hour without including locality pay increases to be conservative (\$28.42 multiplied by 278,676 hours equals \$7.9 million).

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<sup>1</sup> SSA provided time spent for 20 out the 27 cases reviewed.

## Large Workers' Compensation Cases Reviewed

SSA did not follow Social Security policies and procedures related to processing of claims involving large WC lump-sum settlements (see Table C-5). Specifically, we identified 12 Disability Insurance cases where SSA staff input more than \$9.7 million as the alleged lump-sum settlement figure and varying proration rates to compute WC reductions.

**Table C-5: Alleged Large Workers' Compensation Lump-sum Settlements**

Case	SSA Coded WC Lump-Sum Amount	SSA Coded WC Proration Rate	Adjudication Date	OIG Estimated Improper Payments	SSA Response
1	\$9,999,999.99	\$10.00	9/09/2020	Unable to determine	Further development required.
2	\$9,900,066.04	\$1.00	11/07/2014	Unable to determine	Further development required.
3	\$9,999,999.00	\$99,999.99	12/17/2020	\$21,154.00	Disagreed but stated further development was required.
4	\$9,999,999.99	\$290.00	10/16/2019	Unable to determine	Further development required.
5	\$9,999,999.99	\$99,999.99	10/27/2021	\$12,581.80	Disagreed but stated further development was required.
6	\$9,999,999.99	\$787.00	5/17/2013	\$137,126.10	Disagreed. Upon OIG notification, SSA determined WC not applicable.
7	\$9,999,999.00	\$9,999.00	8/04/2020	Unable to determine	Further development required.
8	\$9,999,999.00	\$500.00	6/10/2018	\$78,876.00	Disagreed but stated further development was required.
9	\$9,700,000.00	\$812.16	9/21/2018	\$58,443.00	Agreed with OIG.
10	\$9,999,999.99	\$1,128.43	12/20/2021	\$14,883.50	Further development required.
11	\$9,999,999.00	\$375.00	1/10/2020	\$11,546.00	Partially agreed. Underpayment to beneficiary pending.
12	\$9,999,999.00	\$9,999.00	4/06/2021	\$25,462.70	Agreed with OIG.
<b>Total</b>				<b>\$189,211.20</b>	



## Appendix D – POLICIES NOT FOLLOWED RESULTING IN PROCESSING ISSUES IN THE SAMPLE

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Table D–1 lists the policies the Social Security Administration (SSA) staff did not follow that resulted in incorrectly processed workers’ compensation cases in our sample.

**Table D–1: Policies Not Followed by SSA in the Sample Cases**

Processing Issues	Count	Error Rate
Prorating a Workers’ Compensation Lump-Sum Settlement ( <i>POMS</i> , DI 52150.060)	61	46.6%
Determining the Workers’ Compensation Amount Used to Compute Offset ( <i>POMS</i> , DI 52150.035)	34	26.0%
Field Office Responsibilities for Workers’ Compensation Offset ( <i>POMS</i> , DI 52140.001)	17	13.0%
State Specific Workers’ Compensation Procedures ( <i>POMS</i> , DI 52120.000)	8	6.1%
Other	11	8.3%
<b>Total</b>	<b>131</b>	<b>100.0%</b>

**Note:** The total does not total 100 because, in some cases, staff did not follow multiple policies. The “Other” category includes policies related to PC processing responsibilities (*POMS*, DI 52140.010), total family computations (*POMS*, DI 52150.005), excludable expenses (*POMS*, DI 52150.050), reverse offset plans (*POMS*, DI 52105.001), and complex lump-sum settlements (*POMS*, DI 52150.065).

## Appendix E – AGENCY COMMENTS

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## SOCIAL SECURITY

### MEMORANDUM

Date: September 11, 2023

Refer To: TQA-1

To: Gail S. Ennis  
Inspector General

From: Scott Frey   
Chief of Staff

Subject: Office of the Inspector General Draft Report, "Workers' Compensation Lump-sum Settlements" (012308) — INFORMATION

Thank you for the opportunity to review the draft report. Please see our detailed comments in the attached document.

Please let me know if I can be of further assistance. You may direct staff inquiries to Trae Sommer at (410) 965-9102.

Attachment

**SSA COMMENTS ON THE OFFICE OF INSPECTOR GENERAL DRAFT REPORT  
“WORKERS' COMPENSATION LUMP-SUM SETTLEMENTS” (012308)**

**Recommendation 1**

Correct the 33 cases with improper payments in accordance with SSA policy.

**Response**

We agree.

**Recommendation 2**

Correct the 45 cases without improper payments per SSA policy.

**Response**

We agree.

**Recommendation 3**

Determine whether the life-expectancy proration coding is needed for future processing and revise policy accordingly.

**Response**

We agree.

**Recommendation 4**

Correct the 12 cases with large, alleged lump-sum settlements in line with SSA policy.

**Response**

We agree.

**Recommendation 5**

Address the system limitation by expanding the field to allow settlements of or over \$10 million.

**Response**

We agree.

### **Recommendation 6**

Issue reminders to staff on SSA policies for handling allegations of worker's compensation (WC) lump-sum settlements, case development, and beneficiary cooperation.

### **Response**

We agree.

### **Recommendation 7**

Provide training based on workload deficiencies identified in WC Quality Today management information.

### **Response**

We agree.

### **Recommendation 8**

Evaluate the effectiveness of the strike team in PC 5 and whether strike teams should be established in other PCs.

### **Response**

We disagree. The PC 5 strike team was created to target the large volume and age of their WC offset workload, not specifically to address the quality issues highlighted in this audit. We must weigh establishing strike teams in other PCs against our many other workload priorities given our tight resources.

### **Recommendation 9**

Review the 193,950 WC cases in our population to identify and correct the estimated 151,281 cases with errors.

### **Response**

We disagree. WC offset is a labor-intensive workload that routinely requires contact with beneficiaries to obtain evidence and requires actions by many employees to process corrective actions. We cannot justify expending resources to undertake review of such a large volume of cases without conclusive evidence that the cases have errors.



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