
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**EFFECTIVENESS OF THE YOUNG
CHILDREN'S EARNINGS RECORDS
REINSTATEMENT PROCESS**

October 2006

A-03-05-25009

AUDIT REPORT



Mission

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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.**
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SOCIAL SECURITY

MEMORANDUM

Date: October 20, 2006

Refer To:

To: The Commissioner

From: Inspector General

Subject: Effectiveness of the Young Children's Earnings Records Reinstatement Process
(A-03-05-25009)

OBJECTIVE

Our objective was to assess the effectiveness of the Young Children's Earnings Record (YCER) reinstatement process in resolving suspended earnings, reducing the size of the Earnings Suspense File (ESF), and detecting potential fraud.

BACKGROUND

As part of the Annual Wage Reporting process,¹ the Social Security Administration (SSA) validates the names and Social Security numbers (SSN) on wage reports submitted by employers² and self-employment income (SEI) reported by the Internal Revenue Service (IRS)³ against the Numident file.⁴ Earnings items that cannot be matched to SSA records are posted to the ESF—a file of unmatched items. SSA maintains two ESFs—one for wages reported by employers and one for SEI reported by the IRS. For example, as of October 2005, the wage ESF had accumulated about \$520 billion in wages and approximately 255 million wage items for Tax Years (TY) 1937 through 2003 that could not be posted to individuals' earnings records.

In 1992, SSA began checking the date of birth (DoB) on the Numident for the reported SSN to determine whether the earnings reported by employers and SEI belong to

¹ See 42 U.S.C. § 401(a)(3).

² Each year, employers must send *Wage and Tax Statements* (Form W-2) to SSA to report the wages and taxes of their employees for the previous calendar year. See 20 C.F.R. § 422.114.

³ The IRS transmits to SSA self-employment income reported by individuals on their *U.S. Individual Income Tax Return* (Form 1040) and an attached Schedule SE (*Self-Employment Tax*).

⁴ The Numident includes 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 a 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. The Numident official name is the *Master Files of Social Security Number (SSN) Holders and SSN Applications* (SSA/OSR, 60-0058).

children.⁵ If the DoB on the Numident indicates that numberholders are under age 7, their earnings are placed in the ESF and assigned a YCER indicator. The earnings are saved to an investigate file, which is transmitted to a contractor so notices can be printed and mailed to employers, employees, or self-employed individuals to assist SSA with reinstating the earnings.⁶

SCOPE AND METHODOLOGY

To meet our objective, we sampled YCER items from the TY 2002 investigate file, which contained 40,461 earnings items.⁷ We selected 300 sample items for review—250 earnings items where the SSNs appeared 1 to 4 times in the investigate file and 50 SSNs where the SSNs appeared 5 or more times in the investigate file.⁸ Below we focus on the 250 earnings items, ranging between \$22 and \$71,700, from the total population of 38,013 earnings items. See Appendix G for the results of our 50 sample items.⁹

RESULTS OF REVIEW

Our review of the TY 2002 YCER investigate file found that while the YCER reinstatement process was effective in suspending those earnings that appeared suspect, the process was not effective in resolving and reinstating suspended items to the correct earnings record. We found that of 250 sample YCER earnings items¹⁰ included in the investigate file, 72 percent were not reinstated to individuals' earnings records. The majority of these YCER items appeared to involve potential SSN misuse. In addition, while SSA reinstated the remaining 28 percent of the earnings items from the investigate file, our review determined that about one out of four reinstatements were questionable because they may have also involved potential SSN misuse. As a result, individuals may use these questionable reinstatements to qualify for future SSA benefits. We also found that 8 of the top 25 employers reporting YCER earnings items related to industries that do not normally hire children under age 7, such as agriculture and temporary employment. Furthermore, since SSA's employee verification services do not require employers to submit employees' DoB, employers may not be informed that the verified SSNs belong to children under age 7.

⁵ Program Operations Manual System, RM 03870.065 *Earnings Posted to Young Children - General*.

⁶ See Appendix B for a more detailed description of the YCER process and Appendix C for a copy of a YCER notice.

⁷ See Appendix D for the composition of the TY 2002 investigate file. The TY 2002 YCER investigate file does not include suspended earnings items associated with SSNs issued to children under age 7 where the reported name does not match the Numident. For example, we estimate that for TY 2002 the ESF contained approximately 606,000 children's SSNs with suspended wages where the reported names did not match SSA records (see Appendix F).

⁸ See Appendix F for more details about the sampling methodology.

⁹ We selected 50 of the 409 SSNs associated with 5 or more items. The 409 SSNs were associated with 2,448 items. Our findings related to the 50 sample items were similar to the 250 earnings items and are included in Appendix G.

¹⁰ Earnings items represent wages reported on W-2s and self-employment income.

Table 1: Status of the 250 Sample YCER Items

Status of YCER Items	YCER Items	Percent
Earnings Items Still in Suspense		
-- Items Related to Legitimate Work Activity	17	7%
-- Items Related to Potential SSN Misuse	163	65%
Subtotal	180	72%
Reinstated Earnings Items		
-- Valid Reinstatements	52	21%
-- Items Related to Potential SSN Misuse	18	7%
Subtotal	70	28%
Total Sample YCER Items	250	100%

UNRESOLVED EARNINGS ITEMS

Our review of 250 sample earnings items totaling approximately \$1.3 million in earnings revealed that 180 of the 250 sample earnings items, or 72 percent, were not reinstated to numberholders' earnings records. The suspended earnings items totaled approximately \$1.1 million in earnings.¹¹ Among the suspended earnings items, we believe that 9 out of 10 items represent SSN misuse, while the remaining items may represent legitimate work activity.

Potential SSN Misuse Among Suspended Items

Of the 250 sample earnings items, 180 items had not been resolved and were still in the ESF. Of these unresolved earnings items, 163 items appeared to involve others using the numberholders' SSNs for employment. The 163 items represented approximately \$1 million in earnings. If we project these 163 questionable items to our population of about 38,000 items, we estimate that approximately 25,000 YCER items related to about \$158 million in earnings involved potential SSN misuse.

The 163 sample items appeared suspect due to the age of the child at the time they supposedly worked for employers that do not normally hire children under age 7. The numberholders ranged in age from less than 1 year to 6 years old when they supposedly worked for employers in industries such as restaurant, construction, and agriculture.¹² For example, a 2-year old enumerated in 2000 had approximately \$72,000 in earnings reported for TY 2002 from a meat processing company located in Illinois. The meat processing company had other reporting problems during TY 2002. For example, the employer reported 89 wage items to SSA, of which 19 wage items, or 21 percent, were posted to the ESF.

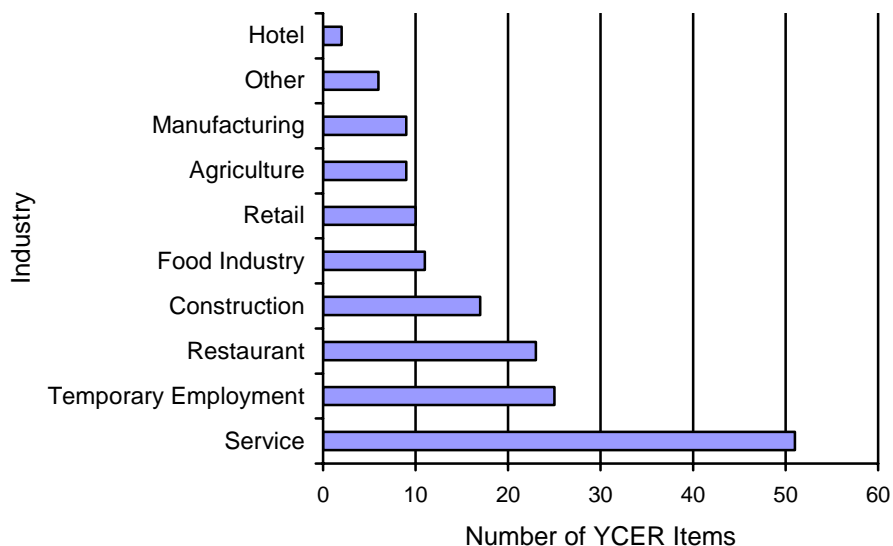
We found employers in the service, temporary employment, restaurant, and construction industries accounted for the highest number of questionable items as shown in Figure 1. These employers reported 116 of the 163 questionable items. We have noted in prior reports that SSN misuse is problematic in these types of industries.

¹¹ These 180 suspended sample items were reported by both employers and self-employed individuals.

¹² In one case, we could not determine the numberholder's age because the reported SSN was invalid.

For example in our April 2005 report, we noted SSN misuse was widespread among employers in the service, restaurant, and agriculture industries.¹³

Figure 1: Employers that Reported 163 Questionable Unresolved YCER Items by Industry



Moreover, we found that for 30 of the 163 suspended sample items, the reported names did not appear to be the same person in SSA's Numident file.¹⁴ We believe these name discrepancies could indicate that potential SSN misuse was involved. Although it is possible that someone accidentally used the numberholders' SSNs, it is more likely that someone deliberately misused the numberholders' identity. For the 30 items, we found the following name discrepancies:

- For 28 cases, the first name did not match the Numident records. In 10 of these cases, the reported names matched the names of the numberholders' parents shown on the Numident file. Therefore, it is possible that the parents misused their own children's SSNs for employment.¹⁵
- For 1 case, the first and last name did not match the Numident record.
- For 1 case, the last name did not match the Numident record.

¹³ SSA Office of the Inspector General, *Social Security Number Misuse in the Service, Restaurant, and Agriculture Industries* (A-08-05-25023), April 2005.

¹⁴ SSA's SSN/Name validation routines had determined that these 30 items matched the Numident file for posting to an earner's record. SSN/Name Validation performs a series of up to 22 routines, which manipulates the reported name in various ways. The rules attempt to match the data against the Numident. Examples of these rules include exchanging the first and last name, and rearranging letters within the first name and last name independently. The rules are performed on the reported name while the SSN remains unchanged. The reported name is not altered in any way when validated.

¹⁵ We provide two such examples in Appendix G.

Additional Questionable Earnings Reported by Employers

SSA's YCER reinstatement process prevented many questionable earnings that may have related to SSN misuse from being posted to children's earnings records. However, when these same children reached age 7 and older, questionable items were posted to their records. Our review of the SSA Numident showed that 69 of the 163 children with questionable earnings attained age 7 during TYs 2003 or 2004. Of these 69 numberholders, 19 had questionable earnings successfully posted to their earnings record by the same employers after they reached age 7.

For example, in TY 2002 a shipping container maintenance and repair company located in California reported \$30,500 for a 6-year old that was not reinstated to the child's earnings record. However, in TYs 2003 and 2004, when the child was age 7 and 8, the company reported \$41,000 and \$37,000 in earnings that were posted to the child's record.

Items Related to Legitimate Work Activity

Of the 180 suspended earnings items, 17 items totaling approximately \$55,000 appeared to relate to legitimate work activity. However, it appears the items were not reinstated because employers and/or the parents of the numberholders did not respond to SSA's YCER notices. Specifically, we found the following:

- For 11 items, employers that appeared to be the parent of the numberholders reported the earnings. *The Fair Labor Standards Act* (FLSA) allows parents to hire their children for employment at any age.¹⁶
- For 4 items, SEI was reported for numberholders who had a history of working in the entertainment industry.
- For 1 item, a company in the entertainment industry reported the earnings item.
- For 1 item, the earnings item was reported by an Indian tribe that mistakenly reported non-employment income on a W-2. This employer realized the mistake and submitted a corrected W-2 to resolve the discrepancy.

RESOLVED EARNINGS ITEMS

Of the 250 sample items, SSA reinstated 70 earnings items, or 28 percent, totaling about \$202,000 in earnings and posted these earnings to numberholders' earnings records. SSA reinstated these items because the employers responded to the YCER notices, the workers (or their legal guardians) contacted SSA and requested that the earnings be reinstated, or the earnings were reinstated as part of a special workload project. Among the 70 reinstated earnings items, 18 items appeared questionable and

¹⁶ The FLSA sets the minimum age requirement for employment. Generally, 14 is the minimum age for most non-agricultural work. There are exceptions to the minimum age requirement such as if a parent employs his or her child or if the child is an actor or performer. See 29 C.F.R. § 570.2.

may have been related to SSN misuse, while the remaining 52 items appeared to be validly reinstated YCER items.

Questionable Reinstatements

Of the 70 reinstated items, we found that 18 earnings items totaling approximately \$105,000 in earnings appeared questionable because SSA did not follow appropriate procedures or the earnings were reported by employers that do not normally hire children under age 7. If we project the 18 questionable items to the population of about 38,000 items included in the investigate file, we estimate that about 2,700 YCER items related to approximately \$16 million in earnings were questionable reinstatements.

The questionable earnings may be used to determine whether the numberholders qualify for future Social Security benefits. Additionally, since the numberholders were children they may not learn about the questionable earnings until they receive their first annual Social Security Statement at age 25, approximately 19 years after the earnings are reported to SSA.¹⁷

We found that 15 of the 18 earnings items were reinstated by field offices (FO) and headquarters staff.¹⁸ We determined that 12 of the 15 questionable items were processed by 2 FOs in Region IX.¹⁹ According to the managers at these FOs, their staffs were working a special project to reinstate YCER items reported by employers in the entertainment industry. They agreed that the 12 sample items did not meet that criterion since the items were reported by employers in the agriculture and construction industries, or related to unsubstantiated self-employment. For example, SSA reinstated to a 5-year old's earnings record about \$19,100 in earnings reported in TY 2002 by a meat processing company located in North Carolina. The company reported 4,306 wage items, of which 1,173 wage items, or 27 percent, were posted to the ESF. Moreover, 144 of the suspended items for this company had YCER indicators.

Furthermore, the managers stated that their FOs may have mistakenly reinstated other YCER items for TY 2002 as part of the special workload project. For example, one manager stated that her office reinstated over 500 SEI items for TY 2002. For these items, the office verified that the reported names matched the Numident, but neither contacted the numberholders nor a third party to verify that the earnings were valid. Both managers agreed to locate the other reinstatements and take corrective action, where appropriate.

¹⁷ Annually SSA mails about 143 million statements to workers who are at least 25-years old and are not in benefit status. The statements provide workers the ability to determine whether their earnings are accurately posted to their records.

¹⁸ The remaining three items were reinstated based on employer responses to the YCER notices. All three employers were in the service industries--one sold seeds, fertilizers, and erosion products; one sold portable equipment to test water; and one sold and serviced air filters. These companies did not appear to employ children.

¹⁹ Region IX includes the States of California, Arizona, Nevada, Hawaii, as well as Guam, American Samoa and the Northern Mariana Islands.

Valid Reinstatements

Of the 70 reinstated sample items, 52 items representing \$97,000 in earnings appeared to be valid reinstatements. These items were reported by employers in the entertainment and retail industries as well as by employers that appeared to be the parent of the numberholders. For example, a payroll company located in California that specialized in the entertainment industry reported about \$1,000 in TY 2002 for a 6-year old. The child had an additional \$800 in earnings posted to his record for TY 2002 from three additional payroll companies that specialized in the entertainment industry. These reinstatements appeared valid because they were reported by employers that normally hire children under age 7.

TOP EMPLOYERS REPORTING YCER ITEMS

The top 25 employers in the YCER investigate file reported approximately 4,800 YCER items representing about \$12.3 million in earnings that were included in the TY 2002 investigate file. These 25 employers accounted for 12 percent of the YCER items and about 6 percent of the total earnings. Sixteen of the top employers were in the entertainment and retail industries and these employers generally hire children in occupations such as acting and modeling. As noted earlier, one of the employers was an Indian tribe that mistakenly reported non-employment earnings using Forms W-2 instead of the Form 1099 Miscellaneous (see Table 2).

Table 2: Top 25 Employers that Reported YCER Items in TY 2002

Employer Industry	YCER Items	Percent of YCER Items	Number of Employers	Suspended Wages
Entertainment	3,151	66%	13	\$4,353,893.89
Local Government ⁽¹⁾	474	10%	1	1,894,859.40
Agriculture	422	9%	4	4,106,104.84
Temporary employment	407	9%	4	1,304,094.76
Retail	328	7%	3	652,777.24
Total	4,782	100⁽²⁾	25	\$12,311,730.13

Note: (1) This employer was an Indian tribe that mistakenly reported non-employment income on a W-2. The employer submitted corrected W-2s to resolve the discrepancies.

(2) This figure does not total 100 percent due to rounding.

Employers in the agriculture and temporary employment industries would not normally hire children under age 7. We found that 8 of the 25 top employers were in these two industries. These eight employers reported 2 percent of the total YCER earnings items and about 3 percent of the associated earnings for TY 2002. We contacted the Employer Service Liaison Officers (ESLO) to confirm whether the eight employers regularly hire children under age 7.²⁰ Overall, the ESLOs stated it was unlikely that these employers were employing children. They believe the earnings were probably

²⁰ SSA provides assistance to employers through ESLOs located in 10 regions throughout the United States. The ESLOs (1) answer employers' questions on wage reporting submissions; (2) encourage employers to use SSA's verification programs; (3) conduct wage-reporting seminars, in partnership with the IRS; and (4) contact employers in their regions with significant suspended wage items.

reported by numberholders' family members. Furthermore, the ESLOs were well aware of the eight employers because these employers appear on the national listing of employers who submit 100 or more suspended wage items. The list is used by the ESLOs to contact the employers to assist them with wage reporting problems. The 8 employers would have been included on the listing for TY 2002 because they had reported 400 to 35,000 suspended items.

Moreover, for three of the eight employers, the YCER items represented at least 2 percent of their reported payroll. We contacted one of the three employers, a poultry processing company located in North Carolina, and the representative stated that her company did not employ children. Further, she acknowledged that the company had received YCER notices and their policy was to provide the requested information that was included in their payroll records. Lastly, she stated that her company did not routinely request to review the employee's Social Security card to verify the SSN actually belongs to the employee, as instructed in the YCER notice. Therefore, the company was not complying with SSA's instructions included in the YCER notices.

USE OF EMPLOYEE VERIFICATION SERVICES

SSA offers several verification services to employers to verify the identity and work authorization status of their employees. However, since SSA's employee verification services do not require employers to submit employees' dates of birth, employers may not be informed that the verified SSNs belong to children under age 7. SSA verification programs include:

- Employer Verification Service (EVS) for Registered Users—an electronic and paper-based program available to all employers to ensure their employees names and SSNs are valid “before” the employer submits their W-2s to SSA; and
- Social Security Number Verification Service (SSNVS)—an online program that enables employers and submitters to verify employees' names and SSNs with information in SSA's records.²¹

EVS for Registered Users and SSNVS do not require employers to enter an employee's DoB, as it is an optional field.²² Therefore, employers that only enter the required information, in this case the name and SSN, would not be timely informed that the verified SSNs belong to children under age 7.²³ If a YCER indicator was added to the

²¹ See Appendix H for more details about the employee verification programs.

²² The employee's gender is another optional field. For example, if an employer provides the DoB and gender under the SSNVS program, the Agency may inform the employer that (1) name and DoB match, gender does not match; (2) name and gender match, DoB does not match; or (3) name matches, DoB and gender do not match.

²³ As noted earlier, the employer will eventually receive a letter from SSA stating, “Our records show that the employee is a young child.” See Appendix C for a copy of this letter.

verification service, employers that used the service could be informed prior to submitting the earnings items to SSA that the verified SSNs belong to children under age 7 (whether or not the employer provides a DoB). Moreover, the indicator could be a useful tool to help reduce the size of the ESF as well as reduce the number of YCER notices that are generated.

SSA already provides such feedback through a separate verification service. SSA has a joint effort with the Department of Homeland Security (DHS) to assist employers with verifying newly-hired employees' authorization to work in the United States.²⁴ Employers using the Basic Pilot are more likely to detect that a child's SSN is being misused because the DoB is a required element for verification.²⁵

CONCLUSION AND RECOMMENDATIONS

Overall, while the YCER reinstatement process prevented many YCER items that appeared to involve SSN misuse from being posted to numberholders' earnings record, it was not always effective in reinstating YCER items to the correct earnings record. We also found that about one of four reinstatements appeared questionable. Furthermore, SSA could improve its employee verification services to notify employers of potential SSN misuse when they hire individuals using children's SSNs.

To improve the effectiveness of the YCER process, we recommend SSA:

1. Review and correct the reinstated earnings that we identified as questionable.
2. Ensure SSA staff receives additional guidance and training in the YCER reinstatement process to ensure that YCER earnings items are reinstated appropriately.
3. Consistent with the Agency's disclosure policies, modify EVS for Registered Users and SSNVS to detect SSNs for children under age 7 to provide appropriate notice to employers and potentially reduce the number of future YCER notices.

AGENCY COMMENTS

SSA concurred with our recommendations. The Agency's comments are included in Appendix I.



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²⁴ See Appendix H for more details about the employee verification programs.

²⁵ Employers enter their employees' information from the DHS-issued *Employment Eligibility Verification Form* (Form I-9), which captures the employees' DoBs.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Young Children’s Earnings Record Reinstatement Process

APPENDIX C – Young Children’s Earnings Record Notices Sent to Employers

APPENDIX D – Composition of the Tax Year 2002 Investigate File

APPENDIX E – Scope and Methodology

APPENDIX F – Sampling Methodology

APPENDIX G – Results of 50 Sample Social Security Numbers

APPENDIX H – Employee Verification Programs

APPENDIX I – Agency Comments

APPENDIX J – OIG Contacts and Staff Acknowledgments

Acronyms

DECOR	Decentralized Correspondence
DHS	Department of Homeland Security
DoB	Date of Birth
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
EVS	Employer Verification Service
FLSA	Fair Labor Standards Act
FO	Field Office
IRS	Internal Revenue Service
MEF	Master Earnings File
SSA	Social Security Administration
SSN	Social Security Number
SSNVS	SSN Verification Service
TY	Tax Year
WBDOC	Wilkes-Barre Data Operations Center
YCER	Young Children's Earnings Record

Forms/Numbers

Form 1040	<i>U.S. Individual Income Tax Return</i>
Form I-9	<i>Employment Eligibility Verification Form</i>
Form I-94	<i>Arrival/Departure Record</i>
Form SS-5	<i>Application for a Social Security Number</i>
Form W-2	<i>Wage and Tax Statement</i>
Form W-2c	<i>Corrected Wage and Tax Statement</i>
"A" Number	<i>Alien Registration Number</i>
I-94 Number	<i>Arrival/Departure Number</i>

Young Children's Earnings Record Reinstatement Process

Effective with the Tax Year (TY) 1991 Annual Wage Reporting process, the Social Security Administration (SSA) began checking the date of birth (DoB) on the Numident for the reported Social Security number (SSN).¹ If the DoB indicated that the numberholder is a child age 6 or younger during the year, the earnings are identified as a Young Children's Earnings Record (YCER) item and placed into the Earnings Suspense File (ESF)—a file of unmatched earnings items. The YCER items are saved to an investigate file used to verify whether the earnings actually belong to the child.

The investigate file is sent to the Wilkes-Barre Data Operation Center (WBDOC) to be converted to a mailer file and then transmitted to a vendor who generates notices that are sent to employers, employees, and self-employed individuals. The SSA-L3231 notice² is sent to employers requesting identifying information about their employees. The employer responses are mailed to the WBDOC for review. If the employer states that the employee's SSN, name, and DoB agree with SSA's records, the earnings are reinstated to the employee's earnings record. If the employer states the employee's name and SSN are the same as SSA's records, but the DoB is different, a notice (SSA-L3232) is sent to the employee advising him or her to contact a local SSA field office (FO) to correct the discrepancy. If the employer does not return the form or states that the individual was not an employee, a notice is sent to the purported employee with the earnings, asking him or her to contact a local FO. Unresolved items remain in the ESF.

If self-employment earnings are reported, a notice (SSA-L3241) is sent to the individual instructing him or her to contact a local FO. If the self-employed individual contacts an SSA FO and provides evidence to support that the earnings belong to him or her, the earnings are removed from the ESF and posted to the person's earnings record. Otherwise, the items remain in the ESF.

¹ The Numident includes 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 a 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. The Numident official name is the *Master Files of Social Security Number (SSN) Holders and SSN Applications* (SSA/OSR, 60-0058).

² See Appendix C for copies of the notices.

Young Children's Earnings Record Notices
Sent to Employers

**Social Security Administration
Retirement, Survivors, and Disability Insurance
Request for Employer Information**

Social Security Administration
Data Operations Center
P.O. Box 89
Wilkes Barre, PA 18767-0089

Date:

Sequence Number:

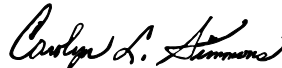
Employer Number:

We are writing to you about your Form W-2, Wage and Tax Statement for the employee shown below. Our records show that the employee is a young child. Therefore, we need your help to resolve some questions before we can add the wages to the employee's earnings record.

Employee's Name:
Social Security Number:
Reported Earnings:
Tax Year:

Please fill in the information on the back of this form and mail it to us in the enclosed envelope. If possible, verify the number on the employee's Social Security card and check your records to give us the information requested.

If you have any questions, you may call us toll-free at 1-800-772-6270 from 7:00 a.m. to 7:00 p.m. Eastern Standard Time.



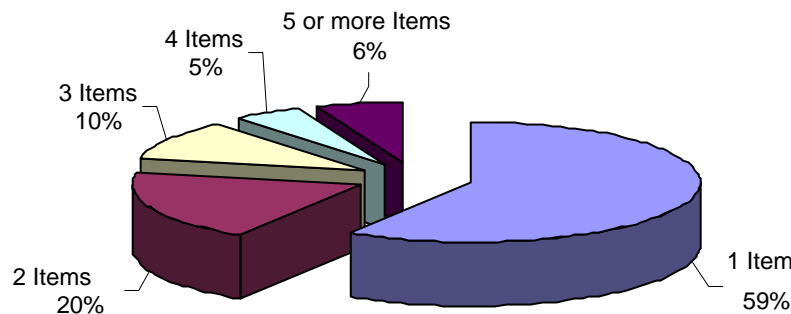
Carolyn L. Simmons
Associate Commissioner for
Central Operations

Enclosure:
Envelope

Composition of the Tax Year 2002 Investigate File

The Tax Year (TY) 2002 Young Children’s Earnings Record (YCER) investigate file included 40,461 earnings items representing approximately \$219 million in earnings.¹ The amount of earnings ranged from \$.60 to \$412,394.² Further, the 40,461 suspended earnings items related to 30,102 individuals. We found that 21,977 employers reported 38,615 YCER items and 1,846 items were reported for self-employed individuals. The number of earnings items reported for each individual ranged from 1 to 14 earnings items. Ninety-four percent of the individuals had 1 to 4 earnings items posted to the investigate file and 6 percent had 5 to 14 earnings items posted, as shown in Figure D-1.

Figure D-1: Number of YCER Items by Individuals in TY 2002



¹ Approximately 38,356 earnings items, or 95 percent, were related to TY 2002. The remaining items related to prior TYs, beginning with TY 1991.

² The \$412,394 earnings item was a reporting error. The employer submitted a corrected *Wage and Tax Statement* (Form W-2) that showed the earnings should have been \$4,123.

Scope and Methodology

To meet our objective, we performed the following steps:

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General reports related to the Earnings Suspense File (ESF) and inaccurate earnings reporting.
- Reviewed applicable Federal laws and regulations, as well as SSA policies and procedures for maintaining individual earnings records and contacting employers with suspended earnings.
- Visited the Wilkes-Barre Data Operations Center to perform a walk-through of the Young Children's Earnings Record (YCER) reinstatement process and reviewed available workload data to determine the overall effectiveness of the YCER process.
- Obtained and analyzed the Tax Year (TY) 2002 YCER investigate file. The file contained 40,461 earnings items totaling about \$219 million in earnings. Selected two samples from the TY 2002 investigate file for review (see Sampling Methodology in Appendix F).
- Reviewed SSA's Numident file,¹ Master Earnings File (MEF),² ESF, and Earnings Modernization 2.8 program to determine the following:
 - Age of the numberholder;
 - Earnings were reinstated; and
 - Reason for reinstatements.
- Selected a random sample of 1,100 items from SSA's TY 2002 Decentralized Correspondence Mailer File, which contained 9,529,889 wage items where the names/SSNs on the wage items did not match SSA's records. We determined whether the sample wage items were reported using SSNs assigned to children under age 7. Our sample methodology, and projections, can be found in Appendix F.

¹ The Numident includes 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 a 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. The Numident official name is the *Master Files of Social Security Number (SSN) Holders and SSN Applications* (SSA/OSR, 60-0058).

² The MEF contains all earnings data reported by employers and self-employed individuals. The data is used to calculate the Social Security benefits due an individual with an earnings record. The MEF official name is the *Earnings Recording and Self-Employment Income System* (SSA/OSR 60-0059).

- Contacted the regional Employer Service Liaison Officers for information about employers that contributed a significant number of items to the YCER investigate file. We also contacted a few employers that submitted a significant number of YCER items.
- Contacted two Field Office managers in Region IX³ that reinstated a significant number of questionable YCER items to determine how these items were processed.

We found that YCER data was sufficiently reliable to meet the objectives of our review. Our work was conducted at SSA's Data Operations Center in Wilkes-Barre, Pennsylvania, Mid-Atlantic Social Security Center in Philadelphia, Pennsylvania, and Headquarters in Baltimore, Maryland. We conducted our fieldwork between January 2005 and July 2006. The SSA entities responsible for the maintenance of the ESF are the Office of Central Operations within the Office of the Deputy Commissioner for Operations and the Office of Earnings, Enumeration and Administrative Systems within the Office of the Deputy Commissioner for Systems. Our review was conducted in accordance with generally accepted government auditing standards.

³ Region IX includes the States of California, Arizona, Nevada, Hawaii, as well as Guam, American Samoa and the Northern Mariana Islands.

Sampling Methodology

Below we provide our projections associated with the Social Security Administration's (SSA) Tax Year (TY) 2002 Young Children's Earnings Record (YCER) investigate file. We also projected the number of children's Social Security numbers (SSN) reported to SSA under a name that does not match SSA's records. These items were recorded in the Decentralized Correspondence (DECOR) Mailer File.

Young Children's Earnings Record

The TY 2002 YCER investigate file contained 40,461 earnings items representing approximately \$219 million in earnings. We divided the population into two groups for analysis since multiple earnings items were associated with the same SSN. The first subset represents 38,013 earnings items where the same SSN was associated with 4 or fewer earnings items. We selected for review 250 sample items totaling \$1.3 million in earnings.¹

YCER Projections	
Sample population—Number of YCER items	38,013
Sample population—Total YCER earnings	\$211,245,935
Sample size	250
Sample Results and Projections – Potential SSN Misuse	
Attribute Projection	
Sample cases—Suspended YCER items related to potential SSN misuse	163
Projection—Suspended YCER items related to potential SSN misuse in the population	24,784
Projection lower limit	22,786
Projection upper limit	26,680
Variable Projection	
Sample cases—Suspended YCER earnings related to potential SSN misuse	\$1,037,841
Projection—Suspended YCER earnings related to potential SSN misuse in the population	\$157,805,813
Projection lower limit	\$124,684,511
Projection upper limit	\$190,927,116

Note: The projections were made at a 90-percent confidence level.

¹ We did not project the results of the second subset representing the remaining 2,448 YCER items. See Appendix G for our findings.

Sample Results and Projections – Questionable Reinstatement	
Attribute Projection	
Sample cases—Questionable reinstated items	18
Projection—Questionable reinstated items in the population	2,737
Projection lower limit	1,791
Projection upper limit	3,984
Variable Projection	
Sample cases—Questionable reinstated YCER earnings	\$105,007
Projection—Questionable reinstated YCER earnings in the population	\$15,966,556
Projection lower limit	\$7,166,141
Projection upper limit	\$24,766,971

Note: The projections were made at a 90-percent confidence level.

Decentralized Correspondence

The purpose of the DECOR process is to contact employees and employers to resolve SSN and/or name discrepancies on wage items stored in the Earnings Suspense File (ESF). Details related to the suspended wage items are placed within the DECOR Mailer File, which is sent to a contractor who prints the DECOR letters and mails them to the appropriate parties. For TY 2002, SSA mailed approximately 9.5 million DECOR letters, relating to about \$60.4 billion in wages, to employees and employers. Approximately 7.6 million DECOR letters were sent to employees and another 1.9 million letters were sent to employers.

We selected for review 1,100 sample wage items from the TY 2002 DECOR mailer file. Based on our sample results, we estimate that for TY 2002, the ESF included approximately 606,000 children's SSNs with suspended wages where the reported names did not match SSA's records.²

² The SSNs were assigned to children under age 7.

DECOR Projections	
Sample population—Number of DECOR wage items	9,529,889
Sample population—Total DECOR wage amount	\$60.4 billion
Sample size	1,100
Attribute Projection	
Sample cases—Wage items reported with SSNs assigned to children under age 7	70
Projection—Wage items reported with SSNs assigned to children under age 7 in the population	606,448
Projection lower limit	495,132
Projection upper limit	734,662

Note: The projections were made at a 90-percent confidence level.

Results for 50 Sample Social Security Numbers

We selected for review 50 Social Security numbers (SSN) included in the Tax Year (TY) 2002 Young Children's Earnings Record (YCER) investigate file that were used to report 5 to 11 earnings items. The 50 sample SSNs were associated with 308 earnings items totaling about \$928,000. We reviewed these items separately because of the increased risk of SSN misuse for multiple earnings items reported for children in the same TY. Of the 50 sample SSNs, we found the following:

Unresolved Items: We found that 38 of the 50 SSNs, or 76 percent, related to earnings that were not reinstated to the numberholders' earnings records. These 38 SSNs were associated with 227 earnings items totaling approximately \$713,000 in earnings. We also determined that earnings associated with all 38 SSNs appeared suspect because of the age of the numberholders at the time they worked for employers that do not normally hire children under age 7 and the number of earnings items reported for the same SSN. Although it is possible someone accidentally used the numberholders' SSNs for employment, it is more likely that someone deliberately used the numberholder's identity for employment.

Resolved Items: The remaining 12 of the 50 SSNs, or 24 percent, related to earnings reinstated to the earners' records. The 12 SSNs were associated with 81 earnings items that had at least 1 item that was reinstated to the numberholder's earnings record. In total, there were 32 earnings items reinstated to the numberholders' earnings record representing about \$100,000 in earnings. The remaining 49 items, totaling \$115,000, were not reinstated. Of the 12 SSNs with 32 reinstated earnings, we found the following:

- For 9 SSNs associated with 10 earnings items totaling about \$28,000, the reinstatements appeared questionable based on the age of the numberholders at the time they worked for employers that do not normally hire children under age 7. These employers were in industries such as the agriculture, temporary employment, restaurant, and food industries.
- For 2 numberholders with 15 items totaling about \$61,000 in earnings, the numberholders' parents used their SSNs for employment and then had the earnings reinstated to their own earnings account. The 15 earnings items were reported for TYs 1991 to 2002. In the first case, both the father and numberholder shared the same first and last name. In the second case, the father, who was a noncitizen, had earnings reported for TYs 1991 to 1998 reinstated to his own earnings record after being enumerated in 2002.¹

¹ We reported this issue in a prior audit, *Reported Earnings Prior to the Issuance of a Social Security Number* (A-03-04-14037) issued in August 2005.

- For 1 numberholder with 7 earnings items totaling about \$11,000 it appeared that SSA's SWEEP edit routine erroneously reinstated the earnings to a 3-year old's earnings record. SWEEP is an electronic matching routine that uses name changes from the Numident file and additional reinstatements to reinstate items from the ESF. In this case, the numberholder's name did not appear to have changed nor were there any items reinstated to the numberholder's record.

Employee Verification Programs

The Social Security Administration (SSA) has a number of programs to assist employers with the wage reporting process. Below we discuss some of the various programs, such as (1) Employee Verification Service (EVS) for Registered Users, (2) Social Security Number Verification Service (SSNVS), and (3) the Basic Pilot.

Employee Verification Service and Social Security Number Verification Service

EVS for Registered Users and SSNVS are SSA's two primary verification programs made available to employers to verify employees' names and Social Security numbers (SSN). EVS and SSNVS are available to employers to ensure their employees' names and SSNs are valid before the employer submits their *Wage and Tax Statements* (Form W-2) to SSA.¹ Employers must register to gain access to these programs.

Under EVS for Registered Users, requests can be submitted on magnetic media (tape, cartridge, or diskette) or paper.² For each employee record to be verified through the registered user process, employers must submit three required elements: employee's SSN, last name, and first name. Employers can also provide optional data as well, such as date of birth (DoB) and gender. Through EVS, SSA confirms whether the name, SSN, DoB, and gender of an employee matches SSA's records. Further, SSA discloses death responses to employers when the wage earner's record indicates that they are deceased.³

SSNVS, which was implemented nationwide in June 2005, is an online service that enables employers and submitters to verify whether employees' names and SSNs matches the information in SSA's records. Employers can either verify up to 10 names and SSNs (per screen) online and receive immediate results or upload batch files of up to 250,000 names and SSNs and usually receive results the next Government business day.

¹ The use of these systems is voluntary and can assist employers in eliminating common SSN reporting errors.

² In addition, employers can also verify (1) up to 5 names/SSNs by calling SSA's toll-free number for employers and/or (2) up to 50 names/SSNs by sending a fax to an SSA field office.

³ Section 7213(a)(2) of the *Intelligence Reform and Terrorism Prevention Act of 2004*, Public Law 108-458 (codified at 42 U.S.C. § 405 note) authorized SSA to add death indicators to all verification routines determined appropriate, regardless of the prohibition of 42 U.S.C. § 405(r) and effective as of the date of enactment, December 2004, with certain indicators required within stated time limits.

Basic Pilot

The Basic Pilot is an SSA and Department of Homeland Security (DHS) joint program whereby employers verify the employment eligibility of newly-hired employees.⁴ This voluntary program helps employers determine whether an individual is eligible to work in the United States. The President signed the *Basic Pilot Program Extension and Expansion Act of 2003* (Public Law Number 108-156) on December 3, 2003. This law extended the operation of the Basic Pilot for an additional 5 years (to a total of 11 years) and expanded the operation to all 50 States no later than December 1, 2004.

As discussed with SSA staff, the Basic Pilot involves using the information in Government databases (SSA databases and, if needed, DHS databases) to determine the employment eligibility of new hires. The SSN and Alien Registration Number ("A" Number)⁵ or I-94 Arrival/Departure Number (I-94 Number)⁶ are used for these checks. The employer must complete the DHS-issued *Employment Eligibility Verification Form* (Form I-9) for each employee and then enter elements of this data into the Basic Pilot system within 3 days of hiring, including the employee's SSN, name, DoB, and whether the new hire indicated he/she was a U.S. citizen and, if not, enter the "A" Number or I-94 Number.

The system first checks the information entered against SSA's database to verify the name, SSN, and DoB of all newly-hired employees, regardless of citizenship. When the Numident shows the U.S. as the place of birth for the newly-hired employee or a code indicating the number holder is a U.S. citizen, the Basic Pilot automated system confirms employment eligibility. If the Basic Pilot system cannot confirm employment eligibility based on the information in SSA's database or an "A" Number or I-94 Number was entered, the Basic Pilot system automatically checks the data against DHS' database.

The employer will receive notification of "SSA tentative non-confirmation" of employment eligibility when the SSN, name, or DoB does not match the information in SSA's database. In addition, employers will receive an "SSA tentative non-confirmation" if the new hire indicated he/she was a U.S. citizen and SSA's records did not show that the person was a U.S. citizen. The employer will receive notification of "DHS tentative non-confirmation" of employment eligibility when DHS' database does not show the new hire as authorized for employment. In these cases, the employer asks the employee whether he/she wishes to contest the tentative non-confirmation. If

⁴ Section 401 of the *Illegal Immigration Reform and Immigrant Responsibility Act of 1996*, Pub. L. No. 104-208, as amended, 8 U.S.C. § 1324a note.

⁵ The "A" number is the 9-digit number following "A" which is shown on the "green card" or *Permanent Resident Card* (formerly the I-551 *Alien Registration Receipt Card*), the *Employment Authorization Document* (I-766 and I-688B), and on certain other immigration documents and notices. For newly admitted immigrants, the "A" number is shown on the machine-readable immigrant visa affixed to the foreign passport.

⁶ The I-94 Number is the 11-digit number located on the *Arrival-Departure Record* (Form I-94). The Form I-94 shows the date the individual arrived in the United States, the "Admitted Until" date, and the date when his/her authorized period of stay expires.

contested, the employee must contact SSA or DHS within 8 Government working days of the notification. After the employee contacts SSA or DHS to correct the record, the employer resubmits the query through the Basic Pilot system. If the system does not confirm employment eligibility after the employer resubmits the query, the employer may terminate the new hire.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 26, 2006 **Refer To:** S1J-3

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

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

Subject: Office of the Inspector General (OIG) Draft Report, "Effectiveness of the Young Children's Earnings Records Reinstatement Process" (A-03-05-25009)--INFORMATION

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

Please let me know if you have any questions. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) DRAFT REPORT, “EFFECTIVENESS OF THE YOUNG CHILDREN’S EARNINGS RECORDS REINSTATEMENT PROCESS” (A-03-05-25009)

Thank you for the opportunity to review and provide comments on this draft report.

Recommendation 1

Review and correct the reinstated earnings that OIG identified as questionable.

Comment

We agree. We will review the cases identified and take the necessary corrective actions within 6 months of receipt of the records.

Recommendation 2

Ensure SSA staff receives additional guidance and training in the Young Children’s Earnings Record (YCER) reinstatement process to ensure that YCER earnings items are reinstated appropriately.

Comment

We agree. We will issue a reminder to staff responsible for reinstating YCER items. The reminder will include the proper procedures to be followed when processing a YCER case and should be released by the end of calendar year 2006.

Recommendation 3

Consistent with the Agency’s disclosure policies, modify the Employer Verification Service for Registered Users and the Social Security Number (SSN) Verification Service to detect SSNs for children under age 7 to provide appropriate notice to employers and potentially reduce the number of future YCER notices.

Comment

We agree. The Agency’s current disclosure policy would allow for the date of birth information to be shared with employers consistent with their wage reporting responsibilities. We will consider the cost effectiveness of systematic changes based on other pending stewardship-related activities.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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For additional copies of this report, please visit our web site at www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-03-05-25009.

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Social Security Advisory Board

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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.

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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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