



SOCIAL SECURITY

MEMORANDUM

Date: May 24, 2002

Refer To:

To: The Commissioner

From: Inspector General

Subject: Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's Earnings Suspense File (A-03-01-30035)

Attached is a copy of our final report. Our objective was to review the Social Security Administration's recent Earnings Suspense File (ESF) Contractor study to determine the likelihood of its recommendations reducing the size and growth of the ESF, while maintaining earnings integrity.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

A handwritten signature in blue ink, appearing to read 'James G. Huse, Jr.'.

James G. Huse, Jr.

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

RECENT EFFORTS TO REDUCE
THE SIZE AND GROWTH OF THE
SOCIAL SECURITY ADMINISTRATION'S
EARNINGS SUSPENSE FILE

May 2002

A-03-01-30035

*MANAGEMENT
ADVISORY REPORT*



Mission

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

Authority

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

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

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

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

Vision

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

Executive Summary

OBJECTIVE

Our objective was to review the Social Security Administration's (SSA) recent Earnings Suspense File (ESF) Contractor study to determine the likelihood of its recommendations reducing the size and growth of the ESF, while maintaining earnings integrity.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain the reported earnings records of individuals. SSA uses these reported earnings to determine insured status for entitlement to retirement, survivors, disability and health insurance benefits and to calculate benefit payment amounts. The earnings records show the amount of earnings reported by the worker's employer (or the self-employed person) and the periods for which the earnings were reported.

Reported earnings that match an individual's name and Social Security number (SSN) are posted to that individual's record on the Master Earnings File (MEF). When SSA receives a wage report, the data are matched against the Numident file, which is the repository for all issued SSNs. This Numident validation attempts to match the SSN and name information provided by employers against the name and SSN in SSA's Numident file. Wage items that are not posted to the MEF are placed in the ESF.

The ESF contains over 227 million *Wage and Tax Statements* (W-2) and \$327 billion in wages accrued between Tax Years (TY) 1937 and 1999 that could not be posted to individuals' earnings records. During TY 1999 alone, the ESF grew by 8.3 million W-2s and \$39.4 billion in wages. Approximately 96 percent of ESF wages related to TYs 1970 through 1999.

In 1999, SSA hired a Contractor to determine whether SSA should modify its existing practices in managing the ESF, to follow sound business and accounting practices, and more properly reflect the Agency's activities regarding unidentified earnings. Specifically, SSA's objectives for the Contractor's review were to:

- Assess current and identify alternative approaches for managing the ESF;
- Recommend record removal criteria that could be applied to the ESF;
- Recommend ways to improve the integrity of the data maintained in the ESF;
- Recommend approaches to administer the ESF in a more cost-effective way;

- Determine the appropriate presentation of the ESF in SSA's records and accounting systems; and
- Recommend how to treat ESF items in reports to the public.

The Contractor stated that it (1) analyzed processes for the receipt and matching of earnings items; (2) assessed alternatives for removing ESF data; and (3) reviewed ways for reporting ESF information to the public.

RESULTS OF REVIEW

Many of the alternatives and recommendations provided in the Contractor study can assist SSA in reducing the size and growth of the ESF, while maintaining earnings integrity. We concur with most of the Contractor's recommendations related to managing the ESF more effectively. Regarding the Contractor's alternatives for reducing the growth and size of the ESF, the data and associated analysis could have been expanded to provide SSA with a better understanding of the risks related to the more aggressive record removal alternatives. Finally, the Contractor's recommendation that SSA provide the public with more information on the ESF can assist both SSA and Congress in monitoring the status of suspended wages.

MANAGING THE ESF MORE EFFECTIVELY

We concur with 9 of the 11 Contractor recommendations related to managing the ESF more effectively. Some of these recommendations were consistent with previous Office of the Inspector General findings, such as improving educational correspondence to employers informing them of name/SSN mismatches and imposing penalties on chronic problem employers. Other contractor recommendations will require further analysis, such as changing SSA's matching routines and redesigning decentralized correspondence to employees.

REMOVAL CRITERIA THAT COULD BE APPLIED TO THE ESF

The Contractor provided SSA management with seven alternatives for reducing the growth and size of the ESF. These alternatives range from an aggressive approach that would eliminate all ESF items older than 3 years, 3 months and 15 days to a conservative approach that would basically leave the ESF untouched. These alternatives were ranked using four objectives set by the Contractor: (1) improved accuracy of earnings records; (2) minimize costs; (3) reduce suspense file size; and (4) reduce suspense file growth. The Contractor's study indicates that earnings accuracy will decline, and administrative/program costs will increase, as SSA moves from the conservative alternatives toward the more aggressive alternatives. However, the more aggressive alternatives will reduce the overall size of the ESF. The Contractor did not quantify the potential costs related to the alternatives. In addition, the data used in the study, as well as the associated analysis, could have been expanded to provide SSA with a better understanding of the risks related to record removal.

REPORTING ESF INFORMATION TO THE PUBLIC

We concur with the Contractor's recommendation that SSA provide the public with more information on the ESF. Specifically, the Contractor recommended that SSA present the ESF's total earnings record number and dollar value for the current and most recent earnings years, as well as the growth rate, in the Agency's Performance and Accountability Report. While SSA has little control over the factors that cause the volume of erroneous wage reports submitted each year, the Agency has some control over the process. SSA can improve wage reporting by (1) educating employers on reporting criteria; (2) identifying and resolving employer reporting problems; and (3) coordinating with the Internal Revenue Service (IRS) on employers who continually submit erroneous wage reports. A performance measure on the ESF may indicate to management over time whether the problem is alleviated by ongoing Agency efforts.

CONCLUSIONS AND RECOMMENDATIONS

We concur with most of the Contractor's recommendations related to managing the ESF. However, before implementing any of the more aggressive ESF record removal alternatives studied by the Contractor, SSA should conduct further analysis to ensure that any data maintained in the ESF will make a difference in earnings accuracy in terms of eligibility and/or benefit amount for the wage earner. Based on four primary objectives, we believe the most critical objective is "improved accuracy of earnings records." In addition, SSA needs to tie ongoing ESF efforts to a clear performance measure using data sources already available for other performance measures. A performance measure can assist both SSA and Congress in monitoring the status of suspended wages.

We recommend that SSA:

1. Implement the following Contractor recommendations for managing the ESF:
 - Evaluate and test all earnings testing routines to ensure they work as designed (MGT1).
 - Provide comprehensive electronic error reports to employers (MGT2).
 - Have the IRS penalize employers based on the number of errors submitted on their annual wage reports (MGT3).
 - Provide small employers with a user-friendly electronic filing method via the Internet for annual wage reporting (MGT5).
 - Capture the complete first and last names in the ESF and Reinstates Files (MGT7).

- Develop minimum matching requirements for matching and reinstating records in the ESF through item correction (MGT8).
 - Modify its ESF capabilities so staff have more flexible search options (MGT9).
 - Properly document the ESF file and Reinstates File field codes and system functionality (MGT10).
 - Record the reinstatement and the date a record was reinstated in the Reinstates File to help track reinstatement lag time and provide an audit trail (MGT11).
2. Conduct additional analysis before implementing the following Contractor recommendations:
 - Exclude the Employer Identification Number from matching routines when matching ESF records to the Reinstates File reporting field (MGT4).
 - Redesign the decentralized correspondence notice to employees and send the notice after employers are given an opportunity to fix errors (MGT6).
 3. Implement the Contractor recommendation for presenting ESF information in its performance reports, while also ensuring the measure provides a clear indication of real ESF growth.
 4. Limit its removal activities to the following conservative alternatives until more is known about the costs and impact of record removal. We believe SSA can safely implement the following options without hindering the Agency's programs and operations:
 - ESF6 - Remove W-2 records more than 43 years old;
 - ESF5 - Remove W-2 records more than 50 years old;
 - ESF3 - Remove suspense file records that have been held for 75 years; or
 - ESF4 - Hold all suspense file records.

AGENCY COMMENTS

In response to our draft report, SSA stated it has already implemented a number of the Contractor's recommendations. For the remaining Contractor recommendations, SSA is conducting a more in-depth analysis and will consider our opinions as the Agency makes final decisions. (See Appendix D for SSA's comments.)

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Acronyms

EIN	Employer Identification Number
ESF	Earnings Suspense File
GPRA	Government Performance and Results Act
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
MEF	Master Earnings File
OIG	Office of the Inspector General
SSA	Social Security Administration
SSN	Social Security number
TY	Tax Year
W-2	Wage and Tax Statement
W-3	Employer Wage Report

Introduction

OBJECTIVE

Our objective was to review the Social Security Administration's (SSA) recent Earnings Suspense File (ESF) Contractor study to determine the likelihood of its recommendations reducing the size and growth of the ESF, while maintaining earnings integrity.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain the reported earnings records of individuals.¹ SSA uses these reported earnings to determine insured status for entitlement to retirement, survivors, disability and health insurance benefits and to calculate cash benefit rates. The earnings records show the amount of earnings reported by the worker's employer or the self-employed person and the periods for which they were reported.

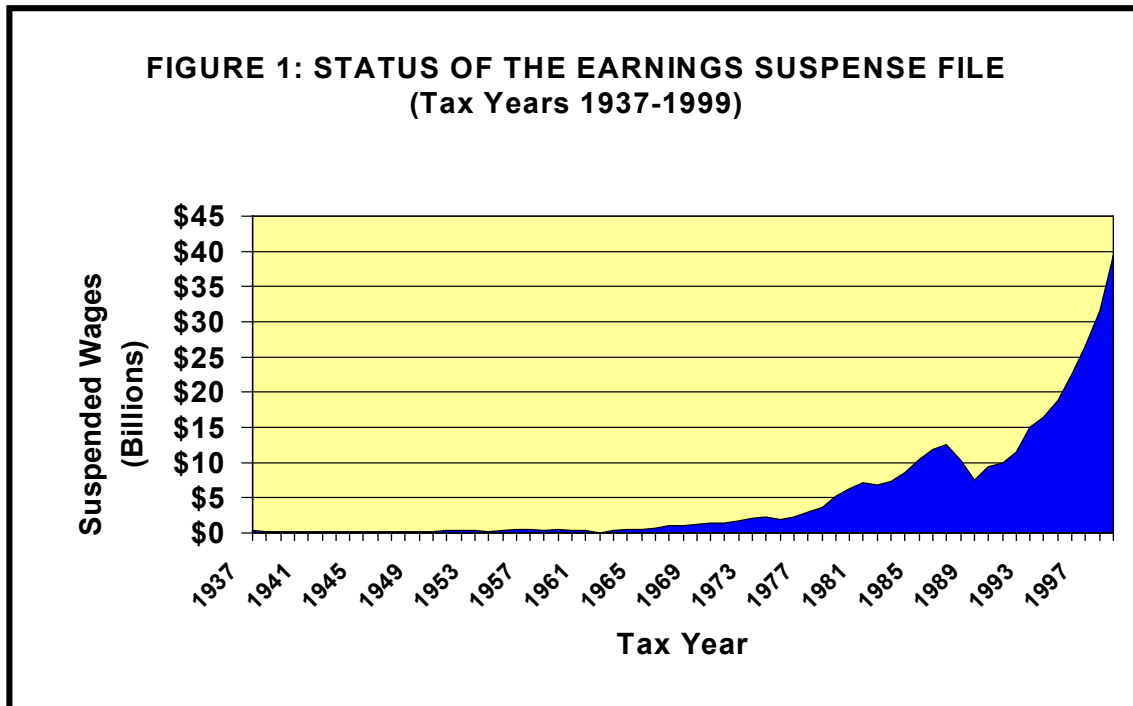
Reported earnings that match an individual's name and Social Security number (SSN) in SSA's Numident² file are posted to that individual's record on the Master Earnings File (MEF). Wage items that are not posted to the MEF are placed in the ESF. The ESF represents all earnings processed by SSA and certified to the trust funds, but which fail validation routines to match them to a specific individual's name and SSN. Approximately 10 percent of the annual wage reports SSA receives have invalid name/SSN combinations. To reduce the number of unmatched items, SSA uses over 20 separate computer routines and other manual processes.

When SSA locates a valid name and SSN for a suspended wage item, the item is moved from the ESF to the MEF, and a new record is established in SSA's Reinstates File. There are two Reinstates Files: one for wages and one for self-employment earnings. These Files can provide a limited audit trail for determining how earnings were originally reported and why they were reinstated from the ESF to the MEF.

¹ "On the basis of information obtained by or submitted to the Commissioner of Social Security, and after such verification thereof as the Commissioner deems necessary, the Commissioner of Social Security shall establish and maintain records of the amounts of wages paid to, and the amounts of self-employment income derived by, each individual and of the periods in which such wages were paid and such income was derived and, upon request, shall inform any individual or his survivor, or the legal representative of such individual or his estate, of the amounts of wages and self-employment income of such individual and the periods during which such wages were paid and such income was derived, as shown by such records at the time of such request." 42 U.S.C. § 405(c)(2)(A).

² When SSA receives a wage report, the data are matched against the Numident file, which is the repository for all issued SSNs. This Numident validation attempts to match the SSN and name information provided by employers against the name and SSN on SSA's Numident file.

The ESF contains over 227 million *Wage and Tax Statements* (W-2) and \$328 billion in wages accrued between Tax Years (TY) 1937 and 1999 that could not be matched to individuals' earnings records (see Figure 1). During TY 1999 alone, the ESF grew by 8.3 million W-2s and \$39.4 billion in wages. Approximately 96 percent of the ESF wages relate to TYs 1970 through 1999.



Each year—about 3 months before the wage earner’s birthday—SSA mails the wage earner a report entitled “Your Social Security Statement.”³ To receive this Statement, each wage earner must be age 25 or older and not already receiving Social Security benefits. Also, SSA must have a current address available for the individual. The statement provides personalized estimates of Social Security retirement, disability and survivors benefits the wage earner could be eligible to receive. It also provides the individual’s earnings history and an estimate of how much the individual and his or her employer paid in Social Security taxes. In 1999, SSA mailed approximately 134 million Statements to wage earners.

Contractor Study of the ESF

In 1999, SSA hired a Contractor to determine whether SSA should modify its existing practices in managing the ESF, to follow sound business and accounting practices, and more properly reflect the Agency’s activities regarding unidentified earnings. Specifically, SSA’s objectives for the review were to:

- Assess current and identify alternative approaches for managing the ESF;

³ 42 U.S.C. § 1320b-13.

- Recommend record removal criteria that could be applied to the ESF;
- Recommend ways to improve the integrity of the data maintained in the ESF;
- Recommend approaches to administer the ESF in a more cost-effective way;
- Determine the appropriate presentation of the ESF in SSA's records and accounting systems; and
- Recommend how to treat ESF items in reports to the public.

The Contractor stated that it (1) analyzed processes for the receipt and matching of earnings items; (2) assessed alternatives for removing ESF data; and (3) reviewed ways for reporting ESF information to the public. The Contractor's recommendations in these areas are shown in Appendices A and B.

Recommendations for Managing the ESF

The Contractor stated that it developed recommendations for managing the ESF more effectively based on analysis of the ESF and SSA's processes. The Contractor also stated that many of SSA's key initiatives⁴ have due dates several years out, such as the Internal Revenue Service (IRS) should penalize employers based on the number of errors submitted on their annual wage report, and SSA should provide comprehensive electronic error reports to employers. Both of these initiatives have completion dates of December 2003. The Contractor recommended that SSA add resources and reprioritize these projects so that they are completed sooner.

The Contractor also recommended that SSA make improvements in the matching routines and streamline ESF reduction activities. In addition, the Contractor stated SSA must ultimately change the behavior and practices of employers who currently submit large numbers of invalid SSN/name combinations. The Contractor estimated that SSA could save \$14.4 million per year if it can reduce the number of records sent to suspense by 50 percent.

Record Removal Alternatives

For the study, SSA provided the Contractor four alternatives for removing ESF items. The Contractor stated that it developed three additional alternatives based on SSA's

⁴ SSA has numerous key initiatives related to management priorities. For example, SSA has Key Initiative #46, *Reduce Earnings Suspense File*. This key initiative outlines the policy, operational, and systems improvements necessary for SSA to fulfill its commitment in this area.

data, process, and policy analysis. The four objectives used as criteria for record removal included: (1) improving earnings accuracy;⁵ (2) minimizing costs; (3) reducing ESF size; and (4) reducing ESF growth.

The Contractor stated that it would be difficult for SSA to meet all four objectives at once. For example, SSA could spend large sums of money to match a number of earnings items in suspense. The first objective, improve accuracy of earnings records, would be met while the second (minimize costs) would not. As with most decisions, there are trade-offs when selecting among alternatives. SSA must carefully weigh the alternatives and objectives so it can select the best overall solution.

Before removing records from the ESF, the Contractor recommended that SSA modify its matching routines so that additional records can be posted to the MEF. Once SSA selects the best alternative, the Contractor recommended that any records removed be offered to the National Archives for permanent storage or destruction. Since ESF records are considered Federal records, SSA cannot destroy them without the approval of the National Archives; and such records must be given to the National Archives for final disposition. This relieves SSA from maintaining the records and ensures that the archived ESF records cannot be accessed by operations. This also shifts the burden of proof for earnings evidence to the individual attempting to add wages for an archived year.

Presenting ESF Information to the Public

The Contractor reviewed SSA's past accountability reports, strategic plans, and relevant regulations for the Performance and Accountability Report to determine how SSA should present ESF information to the public. The Contractor does not believe that SSA's current Government Performance and Results Act (GPRA) measures and description of the earnings process present an adequate picture of SSA's performance goals for the ESF. The current presentation of the earnings process in SSA's accountability report does not describe the ESF processes, the number of items and associated earnings in the ESF, the growth rate of the ESF, or SSA's plans to manage the ESF to reach strategic plan goals.

The Contractor recommended that SSA present the total earnings record number and dollar value for the current and most recent earnings years, as well as the growth rate, in future accountability reports. The Contractor also recommended that SSA describe the ESF process, present the total record number and value of records added to suspense for the current and recent earnings years, and include the ESF growth rate in the programmatic information section of its accountability report.

⁵ The Contractor stated, "SSA should strive to improve the accuracy of earnings records so they can properly determine a number holder's eligibility and benefit amount for Old-Age, Survivors, and Disability Insurance programs...When SSA removes records from suspense that have historically been reinstated through item correction, their ability to improve earnings record accuracy is reduced since the records are no longer available for reinstatement."

SCOPE AND METHODOLOGY

To accomplish our objective, we:

- Reviewed relevant documents related to the Contractor's review of the ESF, including: SSA's Statement of Work, the Contractor's proposal to review the ESF, and the Contractor's final report *Earnings Suspense File Review*, issued July 17, 2001;
- Interviewed staff and obtained relevant documents from Office of Systems Requirements and Office of the Senior Financial Executive staff concerning the ESF;
- Reviewed pertinent laws and regulations related to the ESF;
- Obtained a copy of the ESF Reinstates File and compared summary statistics from the File to the Contractor's statistics; and
- Reviewed and compared the Contractor's findings and recommendations to findings and recommendations from prior Office of the Inspector General (OIG) reports.

Our review did not include a test of information systems to verify the completeness and accuracy of the ESF data provided by SSA. We conducted our review at SSA Headquarters in Baltimore, Maryland, and in Philadelphia, Pennsylvania, between September and November 2001. The SSA component responsible for the maintenance of the ESF is the Office of Central Operations within the Office of the Deputy Commissioner of Operations.

Results of Review

We concur with most of the Contractor's recommendations for managing the ESF more effectively. Some of these recommendations were consistent with previous OIG findings. Other recommendations will require further analysis. In regard to reducing the growth and size of the ESF, while the Contractor presented a number of record removal alternatives based on four primary objectives, each must be reviewed in the context of the Social Security Act requirement that the Commissioner maintain accurate records of the public's lifetime earnings. In addition, potential costs related to the removal alternatives were not quantified, and the data used in the study, as well as the associated analysis, could have been expanded to provide SSA with a better understanding of the risks related to record removal. Finally, we agree with the Contractor's observation that SSA needs to create an ESF performance measure to assist both SSA and Congress in monitoring the status of suspended wages.

RECOMMENDATIONS FOR MANAGING THE ESF MORE EFFECTIVELY

We concur with 9 of the 11 Contractor recommendations related to managing the ESF more effectively. However, the remaining two recommendations will require further analysis before we can properly assess their impact.

Recommendations We Support

- MGT1 - SSA should evaluate and test all earnings testing routines to ensure they work as designed: We concur with this recommendation. In the study, the Contractor stated that its findings "...raise concerns about the accuracy and consistency with which SSA's matching routines match and post records to the MEF." The Contractor noted some additional matching techniques that may resolve items still in the ESF. Furthermore, the Contractor found some problems where ESF records were not reinstated when they met SSA's reinstatement criteria.
- MGT2 - SSA needs to provide comprehensive electronic error reports to employers: We concur with this recommendation. In an earlier report, we recommended that SSA provide employers with educational correspondence that lists the problem W-2s and explains why accurate names and SSNs are important and possible penalties that may be imposed due to incorrect information.⁶

⁶ Force Processing of Magnetic Media Wage Report with Validation Problems, (A-03-99-31001), May 2001.

- MGT3 - The IRS should penalize employers based on the number of errors submitted on their annual wage reports⁷: We concur with this recommendation. This recommendation is consistent with a prior OIG recommendation that, with the IRS, SSA pursue penalties for chronic problem employers and seek its own sanctioning authority, if the IRS fails to impose penalties against chronic problem employers.⁸
- MGT5 - SSA should provide small employers with a user-friendly electronic filing method via the Internet for annual wage reporting: We concur with this recommendation. We also recognize that SSA already has an initiative to assist small employers with electronic reporting. SSA's employer Internet site states that starting January 7, 2002, small employers with 10 or fewer employees can file wage reports for TY 2001 using the new feature, W-2 Online. The W-2 Online process will format the wage report from W-2 data and prepare printable versions of the W-2 and *Employer Wage Report (W-3)*.
- MGT7 - SSA should capture the complete first and last names in the ESF and Reinstates Files: We concur with this recommendation. The Contractor stated "...incomplete names make it more difficult to match and locate records." Maintaining this information in SSA's Reinstates Files should assist staff with their ongoing earnings workload.
- MGT8 - SSA should develop minimum matching requirements for matching and reinstating records in the ESF through item correction⁹: We concur with this recommendation. The Contractor noted "SSA currently lacks standards for what constitutes a match when matching and reinstating records from the suspense [file] with no earnings evidence...Minimum requirements will help to ensure records reinstated belong to the number holder." We also believe that clear procedures applied consistently would help to ensure earnings accuracy.
- MGT9 - SSA should modify its suspense file capabilities so staff have more flexible search options: We concur with this recommendation. The Contractor stated "...the current search routine is inflexible and cumbersome." The Contractor also noted that a variety of search capabilities would assist staff, such as searching combinations of SSN, earnings year, Employer Identification Number (EIN),¹⁰ last

⁷ Section 302 of H.R. 2036, 107th Congress, 1st. Session (2001), currently pending before Congress, would extend SSA's civil monetary authority under 42 U.S.C. § 1320a-8 to cover employers who falsely represent a number to be the social security account number assigned by the Commissioner of Social Security, when such person knows or should know that such number is not the social security account number assigned by the Commissioner to such individual.

⁸ *The Social Security Administration's Earnings Suspense File Tactical Plan and Efforts to Reduce the File's Growth and Size*, (A-03-97-31003), February 2000.

⁹ Item Correction is defined as a manual correction of an earnings record utilizing SSA's Earnings Maintenance system.

¹⁰ EINs are unique identifiers issued to employers by the IRS.

name, first name, and wages. In SSA's response to this recommendation, the Office of Systems Analysis stated that "...providing SSN level access to the file would be less complex to implement and would provide the most feedback." Adding an SSN search capability would make the search routine more flexible and efficient.

- MGT10 - SSA should properly document the ESF file and Reinstates File field codes and system functionality: We concur with this recommendation. The Contractor noted that several matching routines were not properly documented, adding that, over time, knowledge of functionality and codes can be lost without proper documentation. We believe this will assist both SSA and others in understanding the reinstatement process.
- MGT11 - SSA should record the reinstatement and the date a record was reinstated in the Reinstates File to help track reinstatement lag time and provide an audit trail: We concur with this recommendation. The Contractor noted it was difficult to determine whether there was an increase in reinstatements through item correction after the first mailing of "Your Social Security Statement" notices because the Reinstates File does not include the date the reinstatement occurred, nor the extract reason. We believe these additional data will assist both SSA and others in monitoring reinstatement activity.

Recommendations Requiring Further Analysis

- MGT4 - SSA should exclude EINs from its matching routines when matching ESF records to the Reinstates File reporting field: The Contractor found that 4.1 million records worth approximately \$11.1 billion could be reinstated if the EIN was excluded from the matching routine. The Contractor noted that a total of \$16.7 million in cost reductions could be realized as a result of this new routine. We believe further analysis of this proposed change is necessary to ensure the process will not impact overall earnings accuracy.
- MGT6 - SSA should redesign its decentralized correspondence¹¹ notice to employees and send the notice after employers are given an opportunity to fix errors: We would prefer SSA defer taking action until our audit of SSA's decentralized correspondence process is completed.

RECOMMENDATIONS FOR REMOVAL CRITERIA THAT COULD BE APPLIED TO THE ESF

The Contractor provided SSA management with seven alternatives for reducing the growth and size of the ESF. These alternatives range from an aggressive approach that would eliminate all ESF items older than 3 years, 3 months, and 15 days to a

¹¹ Decentralized correspondence relates to SSA notices sent to either employees or employers in an attempt to clarify the name/SSN combination reported on the W-2.

conservative approach that would basically leave the ESF untouched. In Table 1, we have ranked these alternatives from the most conservative to the most aggressive based upon the four objectives set by the Contractor: (1) improved accuracy of earnings records; (2) minimize costs; (3) reduce suspense file size; and (4) reduce suspense file growth. (See Appendix B for the Contractor's ranking and full descriptions of each alternative.)

Table 1: ESF Record Removal Alternatives

Category	Description
Conservative	<u>ESF4 - Hold All:</u> Hold all suspense file records.
Conservative	<u>ESF3 - 75 Years:</u> Remove suspense file records that have been held for 75 years.
Conservative	<p><u>ESF5 - 50 Years:</u> Remove records from suspense if they <u>have little or no chance</u> for reinstatement through item correction based on past history. This includes:</p> <ul style="list-style-type: none"> ▪ W-2 records more than 50 years old. ▪ After completion of administrative purification operations, records that have an invalid SSN and invalid name. ▪ Processed "Recap" W-2s and W-3s.¹²
Conservative	<p><u>ESF6 - 43 Years:</u> Remove records from suspense if they have <u>limited</u> chance for reinstatement through item correction including:</p> <ul style="list-style-type: none"> ▪ W-2 and self-employment records more than 43 years old. ▪ After completion of administrative purification operations, remove records that have an invalid SSN and invalid name. ▪ Processed "Recap" W-2s and W-3s.
Moderate	<p><u>ESF2 - 4 or More Years:</u> Remove records based on their age and characteristics, including:</p> <ul style="list-style-type: none"> ▪ Records with no SSN and 4 or more years old. ▪ Records for earnings years 1937-1950. ▪ Records with no monetary amount. ▪ Records with no SSN and name. ▪ Processed "Recap" W-2s and W-3s.
Moderate	<u>ESF7 - 7 Years:</u> Remove records from suspense that are more than 7 years old.
Aggressive	<u>ESF1 - 3.25 Years:</u> Remove all items from suspense that have been processed through all currently available administrative purification operations and are older than the earnings statute of limitations (3 years, 3 months and 15 days).

¹² Processed Recap W-2s and W-3s represent sick pay paid by a third party—not wages.

Below, we present the seven Contractor alternatives in terms of their impact on earnings accuracy, costs, ESF size and ESF growth, as provided in its study. The following figures show that earnings accuracy declines and administrative/program costs increase as SSA moves from the conservative alternatives toward the more aggressive alternatives. However, at the same time, the size and growth of the ESF are reduced as SSA moves toward the more aggressive alternatives. See Appendix B for more detail on the Contractor's ranking of each alternative.

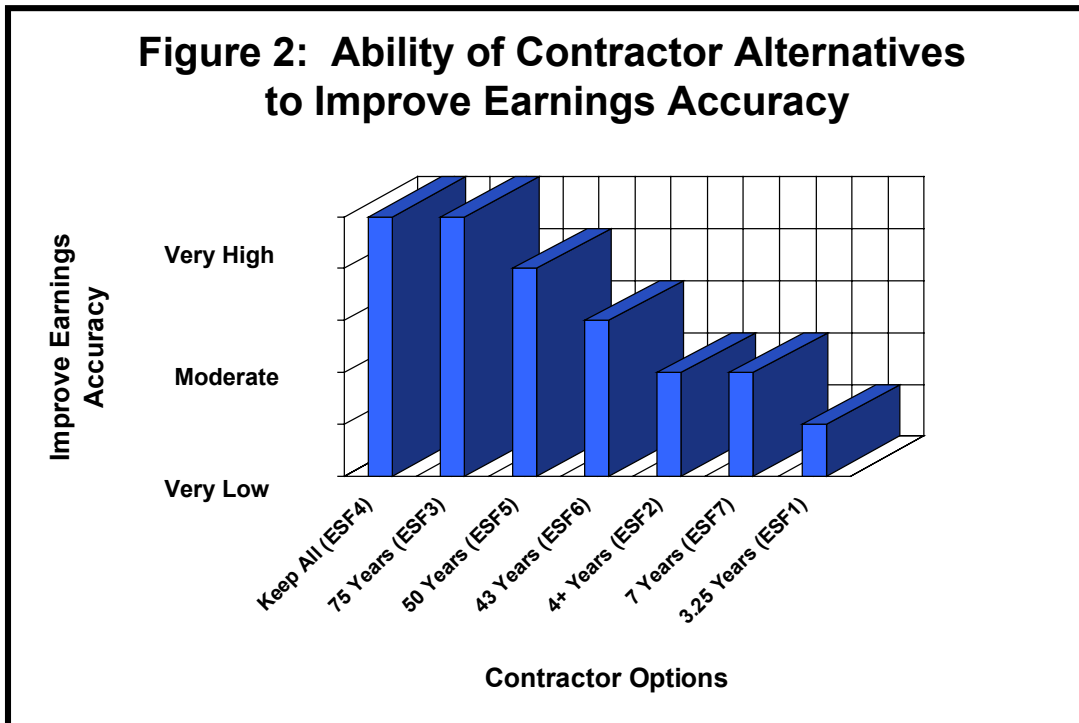
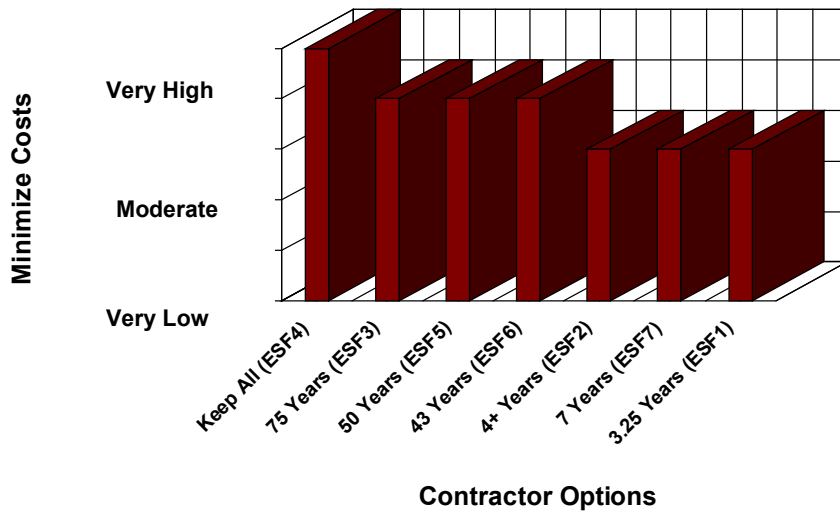


Figure 3: Ability of Contractor Alternatives to Minimize Costs



Note: Not all costs were quantified by the Contractor. See our discussion below.

Figure 4: Ability of Contractor Alternatives to Reduce Suspense File Size

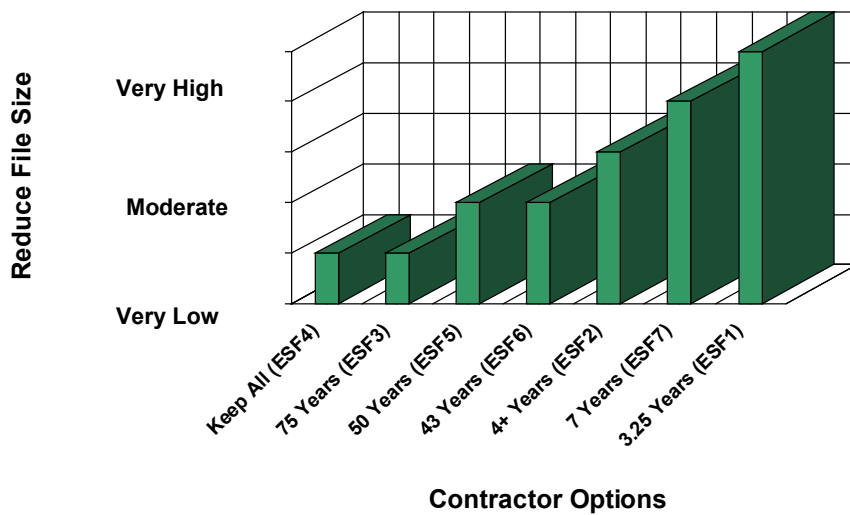
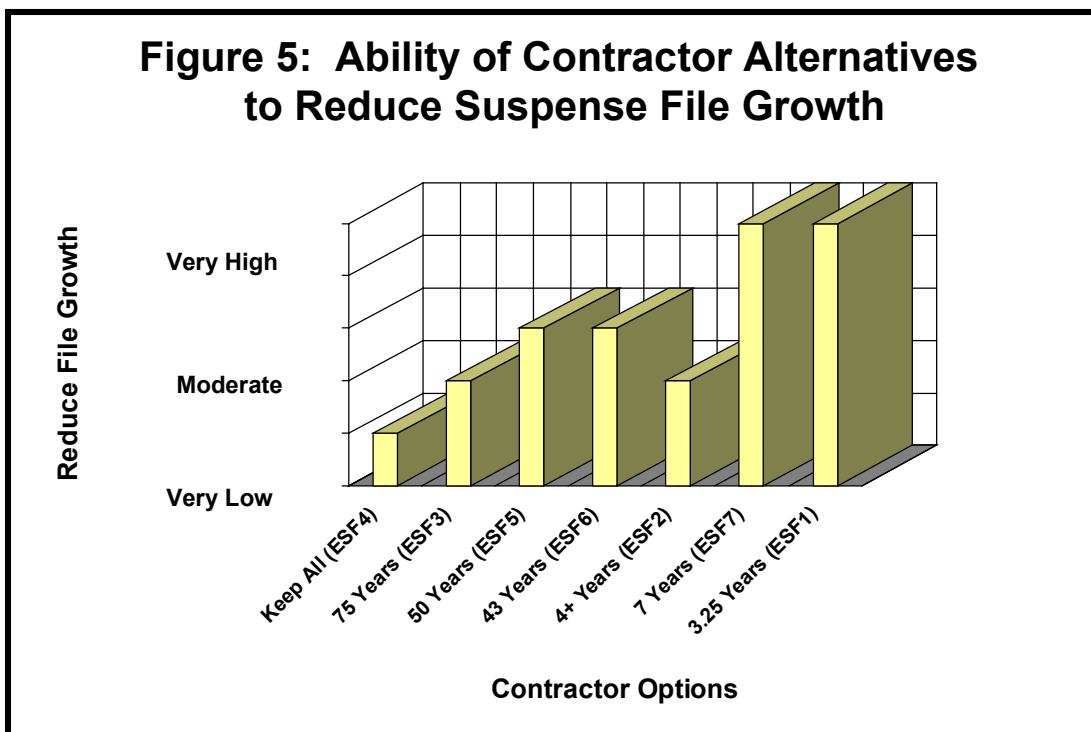


Figure 5: Ability of Contractor Alternatives to Reduce Suspense File Growth



Improving Earnings Accuracy Objective: While the Contractor appears to treat these four objectives equally in its study, we believe the most critical objective is "improved accuracy of earnings records." Minimizing costs and reducing the ESF's size and growth are also important; however, the Social Security Act requires the Commissioner to maintain accurate records of the public's lifetime earnings.¹³ Reducing costs and the ESF are more related to management practices than to SSA's mission. As a result, each of the Contractor's alternatives should first be evaluated in terms of SSA's mission, and SSA should ensure it understands the impact on earnings accuracy before moving forward with any of the more aggressive alternatives.

A review of the alternatives shows that some of the Contractor's criteria for ESF record elimination may make sense, since they are unlikely to impact earnings accuracy. For example, if a wage item has no dollar value, then there would appear to be little reason to maintain that item in the ESF since it would not impact either benefit eligibility or the benefit amount. However, the Contractor did note a caveat on zero wages that may make it difficult to eliminate these items without further analysis. In the study, the Contractor stated, "...a review of microfilmed paper records indicates that some of these records have positive wage amounts...for Medicare wages [or] could be W-2C correction records indicating that the number holder had no wages when they previously had them." Unless these W-2C cases can be identified, the role of zero wages is unknown. (See Data Analysis by the Contractor section of this report.)

¹³ 42 U.S.C. § 405(c)(2)(A).

Minimizing Costs Objective: The Contractor's study was silent on the actual costs of moving toward the more aggressive alternatives. For example, the only cost cited in its report related to a public relations and awareness campaign, and no actual costs were provided. In addition, the study did not provide costs related to (1) archiving removed records; (2) potential systems enhancements to allow SSA staff to retrieve archived records;¹⁴ or (3) shifting workloads from the teleservice centers to the field offices.¹⁵ Since these costs may be incurred immediately with any of the record removal alternatives—with the exception of holding all ESF records—the magnitude needs to be quantified before any removal alternatives can be fully assessed. SSA also needs to factor these new costs against the costs of simply maintaining the ESF data. In earlier comments to the Contractor study, SSA staff noted "...the cost of keeping these items in the ESF is negligible."

Reducing Suspense File Size: In terms of reducing the ESF's overall size, SSA needs to consider how much earnings history it is willing or lawfully permitted to remove. The two most aggressive Contractor alternatives would remove a significant number of records relating to the recent earnings history for most retiring workers. One alternative would remove wage records older than 3 years, 3 months, and 15 days, while a second alternative would remove records older than 7 years. After these two options, the remaining alternatives have limited impact on a file that is growing at a rate of approximately 11 percent per year. See Table 2 for a description of each record removal alternative in terms reducing the ESF's overall size.

Table 2: Contractor Alternatives and ESF Size Reduction

Alternative	Size Description	Percentage of ESF Wages Eliminated
ESF4 - Hold All	No wages eliminated.	0%
ESF3 - 75 Years	No reduction in ESF until 2013.	0%
ESF5 - 50 Years	All wages older than 50 years.	1%
ESF6 - 43 Years	All wages older than 43 years.	2%
ESF2 - 4 or More Years	Wages older than 4 years if missing an SSN and the earnings are for 1937-1950.	11%
ESF7 - 7 Years	All wages older than 7 years.	60%
ESF1 - 3.25 Years	All wages older than 3 years, 3 months, and 15 days.	72%

¹⁴ Systems enhancements may not be required if SSA chooses to leave the earnings records in archived status with no further review.

¹⁵ SSA teleservice centers are currently able to reinstate wages from the ESF if the caller can provide an EIN and a valid name or SSN. If the caller cannot provide the teleservice center with this information, the caller is referred to an SSA field office where he or she may be required to visit the office. If wages are no longer available in the ESF, more callers may be referred to the field office for wage corrections.

The vast majority of ESF wages may relate to individuals who are still working and therefore could impact their eligibility and/or payment amount under SSA's programs. Approximately 96 percent of the wages in the ESF relate to earnings since TY 1970.¹⁶ Assuming an individual retired at age 62 in TY 2000, the TY 1970 wages in the ESF would relate to their earnings at age 32. Only the four most conservative removal alternatives maintain wages earned since TY 1970 and therefore leave the majority of this relevant earnings history available for reinstatement. As the Contractor noted in its study, removing wages that could relate to an individual's earnings history could be seen as shifting the earnings accuracy burden from the Federal Government to the individual.¹⁷

Reducing Suspense File Growth: The Contractor defined reducing ESF growth as minimizing future growth of the ESF in terms of record count and wages. A high score indicates that the suspense file growth is minimized. However, since none of the removal criteria would impact the number of items added annually, we do not believe ESF growth is relevant to the Contractor's analysis of ESF record removal options. Instead, growth is adequately handled by the Contractor in its recommendations for managing the ESF more effectively.

Data Analysis by the Contractor

The earnings data used in the Contractor study, as well as the associated analysis, could have been expanded to provide SSA with a better understanding of the risks related to record removal. The Contractor utilized data from SSA's Reinstates File to determine the reinstatement activity on older earnings. However, SSA has noted that the Reinstates File is an incomplete picture of reinstatement activity, since it shows only the last reinstatement in a series of reinstatements. For example, if an individual has 5 years of wages reinstated between TYs 1980 and 1984, only information from 1984 would appear in the Reinstates File. As a result, the Contractor relied on an incomplete file that was biased against the older reinstatement data—the very data necessary to analyze relevant trends.

The Contractor study also limited its review to item corrections in the Reinstates File rather than all reinstatement activity. Item corrections represent manual input by SSA earnings technicians. Our analysis of the Reinstates File since 1937 shows that this particular code represented approximately 1.3 million reinstated items, or only 1 percent of reinstatements that occurred over the past 70 years. However, the Contractor did not analyze other ESF edit programs, such as SWEEP,¹⁸ that are able to associate records

¹⁶ This period also encompasses 65 percent of the wage items in the ESF.

¹⁷ SSA's responsibilities related to the maintenance of earnings information is covered under 42 U.S.C. § 405(c)(2)(A).

¹⁸ SWEEP is an automated operation that periodically uses the latest system enhancements and validation rules to remove items from the ESF and reinstate them to wage earners' MEF records. According to SSA's Reinstates File, between TYs 1937 and 1999 at least 1.7 million items were reinstated under this process.

with potential earners. For instance, SWEEP may have reinstated wages that would not normally be reinstated under the item correction process. The Contractor's exclusion of these data limits SSA's ability to fully assess the risks involved in record removal.

Furthermore, the Contractor reviewed the potential impact on earners when wage data were reinstated 50 years later. Their analysis reviewed the role of these wages in terms of both eligibility and benefit amount. However, a similar analysis was not performed on more recent years, such as wage data reinstated 7 years later. As a result, SSA does not have an analysis of the risks of eliminating data that are fewer than 50 years old.

Finally, the Contractor recommended an improvement in the edit processes that would have identified as much as 7.5 million wage items worth \$7.1 billion going back many years. Such a finding appears to be inconsistent with other findings in the study related to record removal. This improved edit, as well as future edit improvements, may have the ability to reinstate the very wages that the more aggressive record removal alternatives would remove.¹⁹ However, this finding has not been verified by either SSA or the Contractor to determine whether these reinstatements are valid.

Other Factors for Consideration

In addition to the Agency-provided criteria used by the Contractor in naming these options, the Contractor also noted additional factors that SSA management would need to consider before archiving ESF records. The outlined factors include:

- Public advocacy groups and Congress might take exception to removing records from suspense claiming that wages earned by the public are being disregarded and will not be available for reinstatement.
- Potential changes in immigration laws may make older ESF information more important.²⁰
- About 15 percent of the individuals with earnings in the MEF do not receive a Social Security Statement²¹ and therefore are unable to notify SSA of incorrect earnings records.

¹⁹ We did not review this data to determine whether these reinstated wages were appropriate.

²⁰ The Contractor's study recognized that noncitizens in the country illegally might at some later point be entitled to Social Security benefits associated with their income. See 42 U.S.C. § 410. Consequently, the Contractor recognized that earnings in the ESF attributable to such noncitizen work activity could potentially be claimed and reinstated following changes in the current immigration laws. However, the Contractor recognized that the range of potential wage items and associated dollars attributable to such noncitizens would be difficult to verify.

²¹ SSA is unable to locate addresses for all wage earnings in the Master Earnings File. As a result, some individuals do not receive Social Security Statements.

- Itinerant workers who move frequently may not receive a Social Security Statement and might also lack W-2 documentation to support their earnings later.²²
- Since number holders under 25 year of age do not get Social Security Statements, the more aggressive alternatives could cause problems for individuals who work as teenagers. For example, under the 7-year alternative, a 15-year-old worker would not receive a statement until age 25 yet his or her suspended earnings would be archived when the individual was 22 years old.

RECOMMENDATION FOR REPORTING ESF INFORMATION TO THE PUBLIC

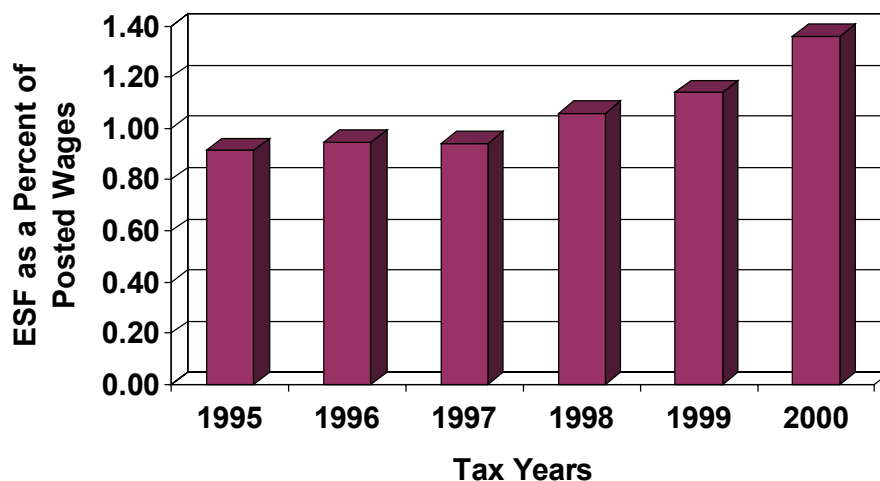
We concur with the Contractor's recommendation that SSA provide the public with more information on the ESF. Specifically, the Contractor recommended that SSA present the ESF's total earnings record number and dollar value for the current and most recent earnings years and the growth rate in its Performance and Accountability Report. In a prior OIG report,²³ we recommended that SSA establish performance goals and measures in accordance with GPRA that track SSA's success in reducing the growth and size of the ESF. Presenting ESF information among its performance measures will raise SSA management and Congress' awareness of the growth in the ESF and motivate SSA to reprioritize ESF projects so that they are completed sooner.

SSA has a number of ways to present information on the size and growth of the ESF. In Figure 6, we present the 6-year growth of ESF wages as a percentage of total reported wages. For example, in TY 2000, approximately \$4.3 trillion in wages was reported to SSA, and about \$58.5 billion (1.36 percent) of these wages went into the ESF. This approach provides a better measure of growth by placing the ESF in the context of overall reported wages. In addition, any inflation would equally affect both the suspended wages and the total wages. Furthermore, if SSA pursues one of the Contractor's record removal alternatives, this measure will not be affected since it is a snapshot of the ESF each TY and is not dependent on the overall size of the ESF.

²² This statement is consistent with OIG conclusions that a large part of the ESF appears to be related to transient workers.

²³ *Obstacles to Reducing Social Security Number Misuse in the Agricultural Industry*, (A-08-99-41004), January 2001.

Figure 6: Percent of Suspended Wages Compared to Total Reported Wages



Note: Total posted wages includes wages going into the Master Earnings Files as well as the ESF.

While SSA has limited control over the factors that cause the volume of erroneous wage reports submitted each year, the Agency still has some ability to improve the process. SSA can improve wage reporting by (1) educating employers on reporting criteria; (2) identifying and resolving employer reporting problems; and (3) coordinating with the IRS on employers who continually submit erroneous wage reports. For example, SSA can encourage greater use of its SSN verification programs to ensure employers submit wage reports with valid name and SSN combinations. In a recent OIG report,²⁴ we noted how one employer could have prevented \$10.2 million in wages from going into the ESF, if the employer had used SSA's Employee Verification Service. In addition, wage reporting accuracy thresholds can identify problems with wage reports and attempt corrections with the employer before the wages go into the ESF. A GPRA measure on the ESF may indicate to management over time whether the problem is alleviated by ongoing Agency efforts.

²⁴ *Review of Service Industry Employer with Wage Reporting Problems (A-03-00-10022)*, September 2001.

Conclusions and Recommendations

We concur with most of the Contractor's recommendations related to managing the ESF. However, before implementing any of the more aggressive ESF record removal alternatives studied by the Contractor, SSA should conduct further analysis to ensure that any data maintained in the ESF will make a difference in earnings accuracy in terms of eligibility and/or benefit amount for the wage earner. Based upon four primary objectives, we believe the most critical objective is "improved accuracy of earnings records." In addition, SSA needs to tie ongoing ESF efforts into a clear performance measure using data sources already available for other performance measures. A performance measure can assist both SSA and Congress in monitoring the status of suspended wages.

We recommend that SSA:

1. Implement the following Contractor recommendations for managing the ESF:
 - Evaluate and test all earnings testing routines to ensure they work as designed (MGT1).
 - Provide comprehensive electronic error reports to employers (MGT2).
 - Have the IRS penalize employers based on the number of errors submitted on their annual wage reports (MGT3).
 - Provide small employers with a user-friendly electronic filing method via the internet for annual wage reporting (MGT5).
 - Capture the complete first and last names in the ESF and Reinstates Files (MGT7).
 - Develop minimum matching requirements for matching and reinstating records in the ESF through item correction (MGT8).
 - Modify its ESF capabilities so staff have more flexible search options (MGT9).
 - Properly document the ESF file and Reinstates File field codes and system functionality (MGT10).
 - Record the reinstatement and the date a record was reinstated in the Reinstates File to help track reinstatement lag time and provide an audit trail (MGT11).

2. Conduct additional analysis before implementing the following Contractor recommendations:
 - Exclude the Employer Identification Number from matching routines when matching ESF records to the Reinstates File reporting field (MGT4).
 - Redesign the decentralized correspondence notice to employees and send the notice after employers are given an opportunity to fix errors (MGT6).
3. Implement the Contractor recommendation for presenting ESF information in its performance reports, while also ensuring the measure provides a clear indication of real ESF growth.
4. Limit its removal activities to the following conservative alternatives until more is known about the costs and impact of record removal. We believe SSA can safely implement the following options without hindering the Agency's programs and operations:
 - ESF6 - Remove W-2 records more than 43 years old;
 - ESF5 - Remove W-2 records more than 50 years old;
 - ESF3 - Remove suspense file records that have been held for 75 years; or
 - ESF4 - Hold all suspense file records.

AGENCY COMMENTS

In response to our draft report, SSA stated it has already implemented a number of the Contractor's recommendations. (See Appendix D for SSA's comments.) For the remaining Contractor recommendations, SSA is conducting a more in-depth analysis and will consider the OIG's opinions as the Agency makes final decisions. In addition, SSA is considering adding a measure to track the reduction in growth of the ESF as part of developing its Fiscal Year 2004 performance goals and measures. Finally, SSA agreed with our recommendation to limit ESF removal activity until after evaluating alternatives for archiving ESF items in terms of SSA's mission of maintaining accurate earnings records.

Appendices

Contractor Recommendations for Managing the Earnings Suspense File and Presenting Information to the Public

Managing the Earnings Suspense File (ESF)

Recommendation MGT1: The Social Security Administration (SSA) should evaluate and test all earnings testing routines to ensure they work as designed.

Recommendation MGT2: SSA needs to provide comprehensive electronic error reports to employers.

Recommendation MGT3: The Internal Revenue Service should penalize employers based on the number of errors submitted on their annual wage reports.

Recommendation MGT4: SSA should exclude Employer Identification Numbers (EIN) from its matching routines when matching ESF records to the Reinstates File reporting field.

Recommendation MGT5: SSA should provide small employers with a user-friendly electronic filing method via the Internet for annual wage reporting.

Recommendation MGT6: SSA should redesign its decentralized correspondence notice to employees and send the notice after employers are given an opportunity to fix errors.

Recommendation MGT7: SSA should capture the complete first and last names in the ESF and Reinstates Files.

Recommendation MGT8: SSA should develop minimum matching requirements for matching and reinstating records in the ESF through item correction.

Recommendation MGT9: SSA should modify its suspense file capabilities so staff can search the suspense file using a variety of combinations of Social Security number, earnings year, EIN, last name, first name, and wages.

Recommendation MGT10: SSA should properly document the ESF file and Reinstates File field codes and system functionality.

Recommendation MGT11: SSA should record the reinstatement and the date a record was reinstated in the Reinstates File to help track reinstatement lag time and provide an audit trail of all changes.

Presenting ESF Information to the Public

Recommendation: SSA should present the total earnings record number and dollar value for current and most recent earnings years and growth rate in its performance reports.

Contractor Recommendations for Removing Records from the Earnings Suspense File¹

#	Description	Improve Accuracy	Minimize Costs	Reduce ESF Size	Reduce ESF Growth	Category
ESF1	Remove all items from suspense that have been processed through all currently available administrative purification operations and the earnings statute of limitations (3 years, 3 months and 15 days).	Very Low 1.4 million suspense file records more than 3 years old were reinstated during 1997 through 2000.	Moderate The Social Security Administration (SSA) would have to initiate a public relations and awareness campaign stressing the importance of carefully reviewing "Your Social Security Statement" to identify missing earnings since a large portion of the suspense file records are removed.	Very High W-2 suspense file earnings reduced by 72 percent and record count by 91 percent.	Very High Growth rate capped since records are removed every year and are only kept for 3 years	Aggressive
ESF2	Remove records based on their age and characteristics, including: <ul style="list-style-type: none"> ▪ records with no Social Security number (SSN) and 4 or more years old ▪ records for earnings years 1937 through 1950 ▪ records with no monetary amount ▪ records with no SSN and name ▪ processed "Recap" W-2s and W-3s. 	Low 90 million records would be removed from suspense with a name but no SSN; historically these records have been reinstated through item correction.	Moderate SSA would have to initiate a public relations and awareness campaign similar to alternative ESF1.	Moderate W-2 suspense file earnings reduced by 11 percent and record count by 46 percent.	Low Growth is not effectively capped since a limited number of records are removed based on their age.	Moderate

¹ The Earnings Suspense File (ESF) record removal alternatives ESF1 through ESF4 were provided by SSA in the Statement of Work, which sought recommendations on purge and archive criteria for the ESF. Three additional alternatives, ESF5 through ESF7, were developed by the Contractor based on its own analysis.

#	Description	Improve Accuracy	Minimize Costs	Reduce ESF Size	Reduce ESF Growth	Category
ESF7	Remove records from suspense that are more than 7 years old.	Low 500,000 suspense file records more than 7 years old were reinstated during 1997 through 2000.	Moderate SSA would have to initiate a public relations and awareness campaign similar to alternative ESF1.	High W-2 suspense file earnings reduced by 60% and record count by 86%.	Very High Growth rate capped since records are removed every year and are only kept for 7 years.	Moderate
ESF3	Remove suspense file records that have been held for 75 years.	Very High Records will be kept well beyond the average working life for number holders.	High Costs are minimal since records are not removed until 2013.	Very Low No reduction in suspense file records or wages until 2013.	Low Suspense file growth will not be capped until 2013.	Conservative
ESF4	Hold all suspense file records.	Very High All records kept for reinstatement through item correction.	Very High No costs since all records are kept – therefore very high score.	Very Low No reduction in suspense file records or wages.	Very Low Suspense file growth not affected since no records are removed.	Conservative
ESF5	Remove records from suspense if they <u>have little or no chance</u> for reinstatement through item correction based on past history. This includes: <ul style="list-style-type: none"> ▪ W-2 records more than 50 years old. ▪ After completion of administrative purification operations, records that have an invalid SSN and invalid name. ▪ Processed “Recap” W-2s and W-3s. 	High 2,062 of 1.3 million records reinstated through item correction had an invalid SSN and name; these records have been historically reinstated through item correction despite the fact that they had no name and an invalid SSN.	High SSA would have to notify the public that a small portion of the suspense file would be removed.	Low W-2 suspense file earnings reduced by 1 percent and record count by 13 percent.	Moderate Suspense file growth moderately affected since records more than 50 years old are removed each year.	Conservative

#	Description	Improve Accuracy	Minimize Costs	Reduce ESF Size	Reduce ESF Growth	Category
ESF6	Remove records from suspense if they have <u>limited</u> chance for reinstatement through item correction including: <ul style="list-style-type: none"> ▪ W-2 and self employment records more than 43 years old. ▪ After completion of administrative purification operations, records that have an invalid SSN and invalid name. ▪ Processed "Recap" W-2s and W-3s. 	Moderate SSA has reinstated 671 records from suspense through item correction prior to 1957. Score slightly lower than alternative ESF5 since records are not kept during the full working life of most number holders (50 years).	High SSA would have to notify the public that a small portion of the suspense file would be removed.	Low W-2 suspense file earnings reduced by 2 percent and record count by 18 percent.	Moderate Suspense file growth moderately affected since records more than 43 years old are removed each year.	Conservative

Previous Office of the Inspector General Recommendations for the Earnings Suspense File

The Social Security Administration's Earnings Suspense File Tactical Plan and Efforts to Reduce the File's Growth and Size (A-03-97-31003)

- Implement an Earnings Suspense File (ESF) Tactical Plan that places a high priority on key ESF reduction initiatives to include utilizing the Office of the Inspector General information to refine the Social Security Administration's (SSA) data base of chronic problem employers and to key in on those with a multi-year history of submitting large numbers of erroneous wage items.
- Assign a higher priority to work with the Internal Revenue Service (IRS) to prepare a legislative proposal to clarify employers' right to see the Social Security card before hiring.
- Pursue with the IRS penalties on chronic problem employers.
- Seek sanctioning (penalty) authority if the IRS fails to impose penalties against chronic problem employers.

Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry (A-08-99-41004)

- Expedite implementation of the initiative to improve communication of name/Social Security number (SSN) errors to employers and employees.
- Seek legislative authority to provide SSA with the tools to require chronic problem employers to use the Employee Verification Service.
- Collaborate with the Immigration and Naturalization Service (INS) to develop a better understanding of the extent that immigration issues contribute to SSN misuse and growth of the ESF. Additionally, reevaluate its application of existing disclosure laws or seek legislative authority to remove barriers that would allow the Agency to share information regarding chronic problem employers with the INS.
- Establish performance goals and measures in accordance with the Government Performance and Result Act of 1993 that track SSA's success in reducing the growth and size of the ESF.

Force Processing of Magnetic Media Wage Reports with Validation Problems (A-03-99-31001)

- Ensure Employee Liaison Service Officers contact the 285 employers whose wage reports SSA force processed during Tax Years 1996 through 1998 to educate them on wage reporting services available through SSA and encourage their participation at seminars and workshops.
- Provide information on chronic problem employers to the IRS to impose penalties. In the event the IRS fails to impose such penalties, SSA should consider a legislative proposal to establish its own sanctioning (penalty) authority.
- Provide employers with educational correspondence that lists the problem W-2s and explains why accurate names and SSNs are important and possible penalties that may be imposed due to incorrect information.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: May 3, 2002 **Refer To:** S1J-3

To: James G. Huse, Jr.
Inspector General

From: Larry Dye /s/
Chief of Staff

Subject: Office of Inspector General (OIG) Draft "Management Advisory Report: Recent Efforts to Reduce the Size and Growth of the Social Security Administration's (SSA) Earnings Suspense File" (A-03-01-30035)

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

Staff questions may be referred to Laura Bell on extension 52636.

Attachment:
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT
“MANAGEMENT ADVISORY REPORT: RECENT EFFORTS TO REDUCE THE SIZE
AND GROWTH OF THE SOCIAL SECURITY ADMINISTRATION’S (SSA)
EARNINGS SUSPENSE FILE” A-03-01-30035**

We appreciate the opportunity to comment on the draft report. It should be noted that the report reflects OIG’s opinions/comments on the recommendations contained in the July 18, 2001 Pricewaterhouse Cooper’s (PwC) report “SSA Earnings Suspense File Review.” The Agency has already implemented a number of the PwC recommendations. For the remaining recommendations, we are conducting a more in-depth analysis and will consider OIG's opinions as we make final decisions. We are also providing technical comments that should be included in the final report.

Recommendation 1

SSA should implement the following Contractor recommendations for managing the ESF:

- Evaluate and test all earnings testing routines to ensure they work as designed (MGT1).

SSA Comment

We agree. The Agency annually conducts regression testing of the name validation routines to ensure they work, and we constantly look for new name matching routines and evaluate new software that has the potential to match incorrectly reported wages to the appropriate wage earner.

- Provide comprehensive electronic error reports to employers (MGT2).

SSA Comment

We agree. In tax year (TY) 2001, we implemented a process to provide employers with an electronic suspense file of data to update. This file is provided on request to the employers. The Electronic Wage Reporting (EWR) plans for TY 2002 make more comprehensive error information available electronically.

- Have the Internal Revenue Service (IRS) penalize employers based on the number of errors submitted on their annual wage reports (MGT3).

SSA Comment

SSA has previously written IRS Commissioner Charles O. Rossotti on two occasions (November 9, 1998 and May 4, 2000) requesting that IRS give consideration to developing initiatives to improve name/SSN accuracy on Forms W2 (Annual Wage and Tax Statement). SSA offered a number of suggestions that would provide additional incentives for the employer community to improve the accuracy of name/SSN reporting including the possible implementation of penalties.

- Provide small employers with a user-friendly electronic filing method via the Internet for annual wage reporting (MGT5).

SSA Comment

We agree. We made this filing method available with the TY 2001 release by introducing the "Online W2" that allows small employers (10 employees or less) to file their W2s electronically.

- Capture the complete first and last names in the ESF and Reinstates Files (RF) (MGT7).

SSA Comment

We are conducting a more in-depth analysis on this recommendation and will consider OIG's opinion when we make final decisions.

- Develop minimum matching requirements for matching and reinstating records in the ESF through item correction (MGT8).

SSA Comment

See response to MGT7.

- Modify ESF capabilities so staff have more flexible search options (MGT9).

SSA Comment

See response to MGT7.

- Properly document the ESF file and RF field codes and system functionality (MGT10).

We are developing baseline documentation of both the ESF and RF. It is scheduled for completion in July 2002.

- Record the reinstatement and the date a record was reinstated in the RF to help track reinstatement lag time and provide an audit trail (MGT11).

SSA Comment

See response to MGT7.

Recommendation 2

SSA should conduct additional analysis before implementing the following PwC recommendations:

- Exclude the Employer Identification Number (EIN) from matching routines when matching ESF records to the Reinstates File reporting field (MGT4).

SSA Comment

We agree that further analysis is required before implementing the Contractor's Recommendations.

We are analyzing the exclusion of the EIN from matching routines when matching ESF items to the RF. The target date for developing thresholds for matching is September 1, 2002. We are also conducting research to establish an appropriate method (thresholds for "scores") of using the Intelligent Search Technology (IST) software when neither the name nor Social Security number (SSN) on the ESF item matches the name/SSN on the Numident. This is a new use of the IST software, and a status report is expected in October 2002. Finally, we are developing prototype software that expands the matching beyond the ESF and Numident to include data housed on the earnings record and master beneficiary record. PwC acknowledged that the use of employment and earnings history combined with SSN/name matching will lead to more matches and should increase SSA's confidence in what constitutes a match.

- Redesign the decentralized correspondence notice to employees and send the notice after employers are given an opportunity to fix errors (MGT6).

SSA Comment

We agree that further analysis is required before implementing the Contractor's recommendations.

OIG is currently conducting an audit on the decentralized correspondence process and has requested that the decision on this recommendation be deferred until the review is complete. Also, beginning TY 2002, notices were sent to all employers that reported at least one failed SSN.

Recommendation 3

SSA should implement the PwC recommendation for presenting ESF information in its performance reports, while also ensuring the measure provides a clear indication of real ESF growth.

SSA Comment

As part of the development of SSA's Fiscal Year 2004 Performance Goals and Measures we are considering adding a measure to track reduction in growth of the ESF.

Recommendation 4

SSA should limit removal activities to the following conservative alternatives until more is known about the costs and impact of record removal. We believe SSA can safely implement the following options without hindering the Agency's programs and operations: ESF6 - remove W-2 records more than 43 years old; ESF5 - remove W-2 records more than 50 years old; ESF3 - remove suspense file records that have been held for 75 years; and ESF4 - hold all suspense file records.

SSA Comment

We agree with OIG's opinion that SSA should first evaluate alternatives for archiving ESF items in terms of SSA's mission of maintaining accurate earnings records. We have completed a preliminary analysis of the method and risks of archiving, as follows:

Developing a profile of the earnings records that will include the relationship between the earnings records and the ESF and when/how earnings are posted to the earnings records.

Developing a profile of the ESF to identify items that have/do not have an impact on benefits payable.

An analysis of the options, with recommendations, will be presented to the Commissioner concerning what future actions should be undertaken by the Agency.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Rona Rustigian, Director, Northern Audit Division, (617) 565-1819

Walter Bayer, Deputy Director, (215) 597-4080

Acknowledgments

In addition to those named above:

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For additional copies of this report, please visit our web site at www.ssa.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-1375. Refer to Common Identification Number A-03-01-30035.

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Deputy Assistant Inspector General for Audit	1
Director, Data Analysis and Technology Audit Division	1
Director, Financial Audit Division	1
Director, Western Audit Division	1
Director, Southern Audit Division	1
Director, Northern Audit Division	1
Director, General Management Audit Division	1
Issue Area Team Leaders	25
Income Maintenance Branch, Office of Management and Budget	1
Chairman, Committee on Ways and Means	1
Ranking Minority Member, Committee on Ways and Means	1
Chief of Staff, Committee on Ways and Means	1
Chairman, Subcommittee on Social Security	2
Ranking Minority Member, Subcommittee on Social Security	1
Majority Staff Director, Subcommittee on Social Security	2
Minority Staff Director, Subcommittee on Social Security	2
Chairman, Subcommittee on Human Resources	1
Ranking Minority Member, Subcommittee on Human Resources	1
Chairman, Committee on Budget, House of Representatives	1
Ranking Minority Member, Committee on Budget, House of Representatives	1
Chairman, Committee on Government Reform and Oversight	1
Ranking Minority Member, Committee on Government Reform and Oversight	1
Chairman, Committee on Governmental Affairs	1
Ranking Minority Member, Committee on Governmental Affairs	1

Chairman, Committee on Appropriations, House of Representatives	1
Ranking Minority Member, Committee on Appropriations, House of Representatives	1
Chairman, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives	1
Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives	1
Chairman, Committee on Appropriations, U.S. Senate	1
Ranking Minority Member, Committee on Appropriations, U.S. Senate	1
Chairman, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate	1
Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate	1
Chairman, Committee on Finance	1
Ranking Minority Member, Committee on Finance	1
Chairman, Subcommittee on Social Security and Family Policy	1
Ranking Minority Member, Subcommittee on Social Security and Family Policy	1
Chairman, Senate Special Committee on Aging	1
Ranking Minority Member, Senate Special Committee on Aging	1
Vice Chairman, Subcommittee on Government Management Information and Technology	1
President, National Council of Social Security Management Associations, Incorporated	1
Treasurer, National Council of Social Security Management Associations, Incorporated	1
Social Security Advisory Board	1
AFGE General Committee	9
President, Federal Managers Association	1
Regional Public Affairs Officer	1
Total	97

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress, and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency.

Office of Executive Operations

The Office of Executive Operations (OEO) provides four functions for the Office of the Inspector General (OIG) – administrative support, strategic planning, quality assurance, and public affairs. OEO supports the OIG components by providing information resources management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this Office coordinates and is responsible for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. The quality assurance division performs internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency. This division also conducts employee investigations within OIG. The public affairs team communicates OIG's planned and current activities and the results to the Commissioner and Congress, as well as other entities.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.