



SOCIAL SECURITY

MEMORANDUM

Date: August 19, 2002

Refer

To:

To: The Commissioner

From: Inspector General

Subject: Effectiveness of the Social Security Administration's Earnings After Death Process
(A-03-01-11035)

Attached is a copy of our final report. Our objective was to determine the effectiveness of the Social Security Administration's procedures for resolving earnings suspended due to the earnings after death process.

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.", written in a cursive style.

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**EFFECTIVENESS OF THE SOCIAL
SECURITY ADMINISTRATION'S
EARNINGS AFTER DEATH PROCESS**

August 2002

A-03-01-11035

AUDIT 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 determine the effectiveness of the Social Security Administration's (SSA) procedures for resolving earnings suspended due to the earnings after death (EAD) process.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain the reported earnings records of individuals. To accomplish this, SSA uses the name and Social Security number (SSN) on the reported earnings and compares this information to the Numident, SSA's database containing all issued SSNs. If the name/SSN combination is determined to be valid, SSA records the individual's earnings in his or her Master Earnings File (MEF) account. Reported earnings that cannot be associated with a specific individual's name and/or SSN are placed in the Earnings Suspense File (ESF).

As part of the annual earnings reporting process, SSA also reviews the Numident to determine whether the individual is deceased. When a date of death is present on the Numident, all earnings items reported after the year of death are placed in the ESF. The earnings are also transmitted to an EAD investigate file so notices can be printed and mailed to employers and/or earners.

SSA sends EAD notices to employers, employees, and self-employed individuals. Employer responses are returned to SSA for processing. If the employer states the individual was working for them, SSA sends a notice to the employee requesting that he or she visit a field office to correct the earnings information. At the field office, staff interview the individual and verify his or her identification. If the evidence appears valid, SSA personnel reinstate the wages to the proper MEF account. If the employer states the wage earner is deceased, SSA informs the employer to refund the employee's share of the Social Security taxes to the employee's estate or next of kin, and the relevant wages will remain in the ESF. Notices sent to employees and self-employed earners request that the individuals call SSA or visit a field office to resolve the earnings problem.

RESULTS OF REVIEW

SSA's EAD process was not effective in resolving Tax Year (TY) 1998 suspended earnings items. While SSA reinstated approximately 6 percent of the suspended items in our sample, another 22 percent of the suspended items could also have been reinstated. Half of these potential reinstatements related to suspended items that SSA could have reinstated since the individuals were shown as alive on SSA's records. In the remaining cases, SSA's records indicated the individuals may be incorrectly listed as deceased or other parties earned the funds in the ESF.

Another 33 percent of the sample items contained instances where it appears someone else was using the deceased individual's name and/or SSN. The remaining 39 percent of the sample items related to deceased individuals with legitimate earnings that should not have been reported to SSA as wages. About one-third of these legitimate earnings related to entertainment industry employers. Our review of the EAD investigate file for TY 1998 also indicated that 7 of the top 10 contributors to the file were from the entertainment industry.

Also, SSA did not utilize employer responses on returned EAD notices to permanently remove wage items from the ESF. In addition, SSA's EAD notice could do more to assist employers in understanding SSA and IRS reporting responsibilities for wages paid after an employee's death.

CONCLUSIONS AND RECOMMENDATIONS

We identified several areas where the effectiveness of SSA's EAD process could be improved. While SSA has been able to reinstate some suspended earnings through the EAD process, we identified a significant number of items where earners are alive on SSA's records, but the earnings have not been reinstated. In these cases, a periodic comparison of earlier EAD suspended items to the most recent Numident could have led to the reinstatement of these suspended items. In addition, SSA could implement procedures to remove suspended wages from the ESF when the employer confirms the employee's death. SSA could also reduce the number of items entering the ESF by educating employers—particularly entertainment industry employers—on the process for reporting earnings when the earner is deceased.

To improve the Agency's ability to reinstate wages suspended under the EAD process, we recommend that SSA:

- Resolve remaining cases in our sample where the individuals were determined to be alive, incorrectly listed as deceased, or where another party earned the funds in the ESF.
- Periodically match prior year EAD suspended items to the Numident to determine whether the individuals are still listed as deceased. If they are not deceased, reinstate their earnings as appropriate.
- Remind staff reinstating earnings suspended under the EAD process to (1) remove the date of death on the Numident and (2) determine whether additional items suspended for the same individual can be reinstated.
- Maintain the annual EAD investigate files with unresolved suspended items for later review of potential SSN misuse by SSA and the Office of the Inspector General (OIG). The OIG will use this information to conduct trend analysis, investigations or seek other remedies.

- As EAD notices are returned, remove from the ESF those wage items specifically identified in the notice related to employees whose deaths are confirmed by employers.
- Educate the top 10 contributors to the EAD investigate file—especially entertainment industry employers—that earnings reported after the year of death should be reported as miscellaneous income, not as wages.
- Add language to the EAD notice to educate employers on the proper reporting procedures for wages after employees have died.

AGENCY COMMENTS

SSA agreed with five of our seven recommendations, provided a qualified concurrence with Recommendation 5 and disagreed with Recommendation 6. SSA agreed with the intent of Recommendation 5. However, SSA noted there is no mechanism for simply deleting items from the ESF. Regarding Recommendation 6, SSA stated that the dollar amount of items placed into suspense is extremely low from these employers. As a result, SSA does not believe that implementing this recommendation would be cost-effective.

OIG RESPONSE

We believe Recommendation 5, regarding the removal of wage items related to employees whose deaths are confirmed by employers, is consistent with SSA's efforts to reduce the size and growth of the ESF. As a result, SSA may need to revisit its policy regarding wage removal and ensure that such changes are part of future enhancements to the ESF.

We also believe SSA should act on Recommendation 6 to reduce the number of wage items going into the ESF. In TY 1998, SSA incurred administrative costs notifying these employers of approximately 9,500 instances where wages were reported after an employee's death. Hence, SSA is already spending time and resources on these employers. By contacting these employers, SSA could reduce a similar workload in future years. Also, since most of the entertainment employers cited in our report appear to be located in California, SSA may expend fewer resources educating these employers than expected.

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Acronyms

DMF	Death Master File
EAD	Earnings After Death
ESF	Earnings Suspense File
FOIA	Freedom of Information Act
FY	Fiscal Year
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
WBDOC	Wilkes-Barre Data Operations Center
1099-MISC	Miscellaneous Income Form

Introduction

OBJECTIVE

Our objective was to determine the effectiveness of the Social Security Administration's (SSA) procedures for resolving earnings suspended due to the earnings after death (EAD) process.

BACKGROUND

Title II of the Social Security Act requires SSA to maintain records of wage amounts that employers pay to individuals as well as self-employment earnings.¹ To accomplish this, SSA uses the name and Social Security number (SSN) on the earnings record and compares this information to the Numident.² If the name and SSN are determined to be valid, SSA records the individual's earnings in his or her Master Earnings File (MEF) account. Reported earnings that cannot be associated with an individual's name and/or SSN are placed in the Earnings Suspense File (ESF). Suspended earnings may alter an individual's eligibility for retirement and disability benefits and/or the amount of these benefits.

As of October 2001, the ESF contained 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 matched 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 the ESF wages relate to TYs 1970 through 1999.

EAD Process

In addition to verifying an individual's name and SSN, SSA also reviews the Numident to determine whether the individual is deceased. When a date of death is present on the Numident—and the year of death is before the year of reported earnings—both wages and self-employment earnings are placed in the ESF as EAD records.³ For example, if an individual died in TY 1998 and earnings were reported for TY 1999 for that individual, the earnings would be placed in the ESF. The earnings are also saved

¹ 42 U.S.C. § 405(c)(2)(A).

² The Numident contains identifying information on everyone who has ever been issued an SSN. This information consists of the individual's full name, SSN, and date of birth. Generally, the individual's place of birth and parents' full names are also included.

³ Social Security and Medicare taxes are not due on accrued earnings after the date of death because these amounts are not defined as wages for purposes of the Federal Insurance Contributions Act, 26 U.S.C. § 3121(a)(14). Such earnings should be reported on a *Miscellaneous Income Form* (1099-MISC).

to an EAD investigate file, which is transmitted to the Wilkes-Barre Data Operations Center (WBDOC), so that notices can be printed and mailed to employers and/or earners (see Appendix B for a sample EAD notice).⁴

SSA prints and mails EAD notices to employers, employees, and self-employed individuals. The notices are used to determine whether the number holder is deceased. If the earnings are reported to SSA on a W-2, a notice is sent to the employer. A follow-up notice is sent to the employee 90 days later, if the employer does not respond. In the case of self-employed earnings, the initial EAD notice is sent to the individual for resolution.

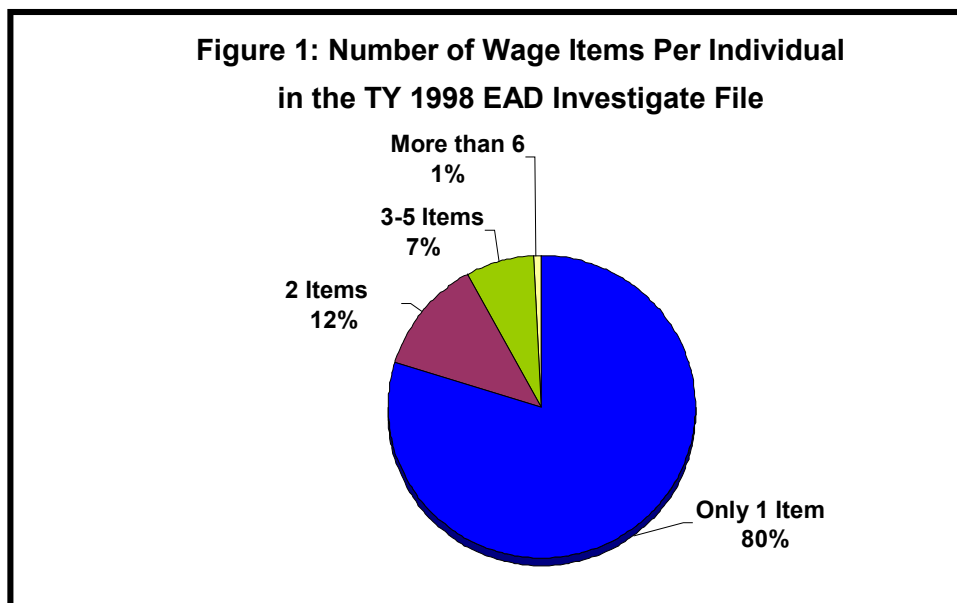
Employer responses are returned to the WBDOC for processing. If the employer states the individual was working for them, WBDOC staff send a notice to the employee requesting that he or she visit a field office to correct the earnings information. At the field office, staff interview the individual and verify his or her identification. If the evidence appears valid, SSA personnel reinstate wages to the proper wage earner's account. If the employer states the wage earner is deceased, SSA informs the employer to refund the employee's share of the Social Security taxes to the employee's estate or next of kin.⁵ In addition, the relevant wages will remain in the ESF. Notices sent to employees and self-employed earners request that the individuals call SSA or visit a field office to resolve the earnings problem (see Appendix C for a flow chart of the EAD process).

Multiple Items Per Individual in the Investigate File

During TY 1998, a total of 64,847 earnings items were suspended under the EAD process. These suspended items related to 47,818 individuals. While 38,129 of the individuals (80 percent) had only 1 earnings item in the file, another 9,689 (20 percent) had at least 2 earnings items in the ESF. Figure 1 shows the percentage of individuals with multiple TY 1998 EAD suspended items.

⁴ Starting in TY 2001, SSA began using a contractor to print and mail these notices.

⁵ SSA also informs employers that they can ask for a refund of the employee and employer Social Security taxes from the IRS.



SCOPE AND METHODOLOGY

To meet our objective, we:

- Discussed the EAD process with SSA officials and performed a walk-through of the process at WBDOC. We also visited field offices and the teleservice center in SSA's Region 3.
- Obtained an EAD investigate file containing 64,847 earnings items (63,224 related to W-2 wages and 1,623 related to self-employment income)—with a corresponding value of \$335.5 million—suspended under the EAD process in TY 1998. From this population, we selected a random sample of 200 items. See Appendix A for our sampling methodology.
- Determined for each sampled item whether the earnings remained in the ESF or, if reinstated, verified the amount and timing of the reinstated earnings. We also determined whether additional items could be reinstated.
- Discussed sample cases with SSA staff to resolve outstanding questions.
- Requested EAD production statistics from the WBDOC staff to include (1) correspondence generated and mailed; (2) processed receipts; (3) undeliverables; and (4) remailables.
- Requested an extract from SSA's ESF Reinstates File for TYs 1994 through 1998 showing earnings corrections due to the EAD process.
- Reviewed policies and procedures regarding EAD processing.

Our audit did not include a test of information systems to verify the completeness and accuracy of the EAD investigate file or ESF Reinstates File provided by SSA.⁶ Our work was conducted at SSA field offices and a teleservice center in Region 3, the Data Operations Center in Wilkes-Barre, Pennsylvania, and SSA Headquarters in Baltimore, Maryland. We conducted our field work between April 2001 and February 2002. The SSA entity responsible for the maintenance of the ESF is the Office of Central Operations within the Office of the Deputy Commissioner of Operations. Our review was conducted in accordance with generally accepted government auditing standards.

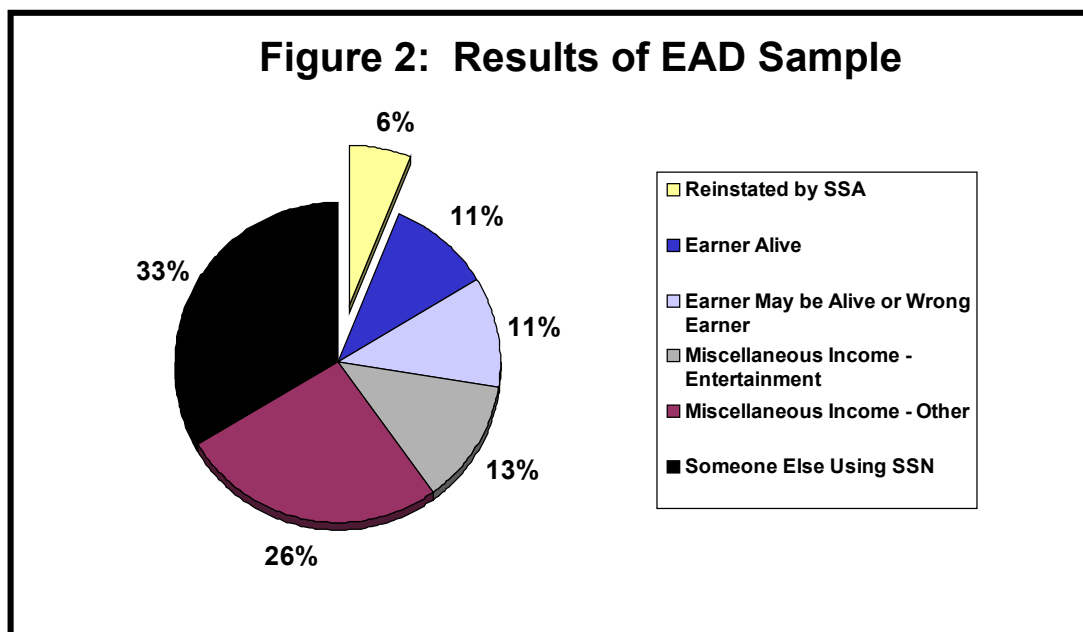
⁶ During the course of our audit, we learned from SSA systems staff that the EAD process had alerted cases that did not meet the EAD criteria. As designed, an EAD alert was only supposed to occur when (1) the name and SSN were valid and (2) SSA's records showed the SSN owner was deceased. However, due to an error in SSA's processing, the EAD process had alerted cases where the name and SSN combination were invalid. We found 17 instances among our 200 sample cases where incorrect EAD alerts occurred. However, since all of these earnings were suspended wages in need of resolution, and all of them were consistently processed under EAD procedures, our sample results were not affected. According to SSA staff, this processing error was fixed soon after TY 2000.

Results of Review

SSA's EAD process was not effective in resolving TY 1998 suspended earnings items. While SSA reinstated approximately 6 percent of the suspended items in our sample, another 22 percent of the suspended items could also have been reinstated. Half of these potential reinstatements related to suspended items that SSA could have reinstated since the individuals were shown as alive on SSA's records. In the remaining cases, SSA's records indicated the individuals may be incorrectly listed as deceased, or another party earned the funds in the ESF. Another 33 percent of the sample items contained instances where it appears someone else was using the deceased individual's name and/or SSN. The remaining 39 percent of our sample items related to deceased individuals with legitimate earnings that should not have been reported to SSA as wages.

EFFECTIVENESS OF EAD PROCESS

Of 200 TY 1998 suspended items, SSA had reinstated 12 items (6 percent) through the EAD process, representing approximately \$280,000 in earnings. Projecting the 12 items SSA reinstated through the EAD process to our population of 64,847 TY 1998 earnings items, we estimate that 3,891 suspended items representing approximately \$90.9 million in earnings had been reinstated through the EAD process. (See Appendix A for our sampling methodology and results.)



We determined that an additional 43 suspended items could be reinstated through SSA's EAD process, including:

- 21 items (11 percent) where the earners are alive on SSA's records, representing approximately \$168,000 in earnings. These 21 items project to 6,809 suspended items representing approximately \$54.5 million in earnings that should be reinstated by SSA.
- 22 items (11 percent) where the individuals who own the SSNs were deceased on SSA's records, though it appeared either the individuals were incorrectly listed as deceased, or the earnings belonged to other individuals. These cases represent about \$155,000 in earnings, and these 22 items project to 7,133 suspended items representing about \$50.4 million in earnings that SSA may be able to reinstate.

Of the remaining 145 suspended items in our sample:

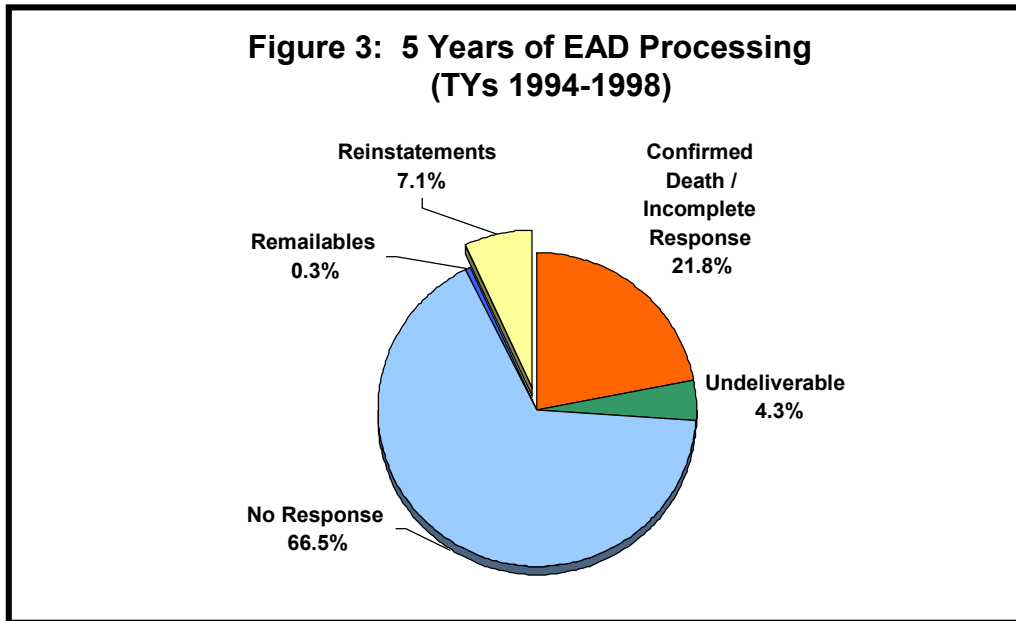
- 67 items (33 percent) potentially indicate that others were using the deceased individuals' SSNs, representing about \$372,000 in earnings. This issue needs to be investigated further for potential SSN misuse. These 67 items project to 21,724 suspended items, representing about \$120.7 million in earnings.
- 78 items (39 percent) relate to legitimate earnings that should have been reported to SSA as miscellaneous income on an Internal Revenue Service (IRS) Form 1099-MISC rather than as wages on a W-2, representing about \$50,000 in earnings. These 78 items project to 25,290 suspended items representing about \$16.3 million in earnings. Approximately one-third of these legitimate earnings related to entertainment industry employers.

EFFECTIVENESS OVER THE PAST 5 YEARS

Between Fiscal Years (FY) 1995 and 1999, SSA mailed approximately 445,988 EAD notices to the public. Of the mailed notices, SSA reported:

- the WBD0C received and processed approximately 128,949 return notices (28.9 percent) from employers and/or individuals;
- approximately 19,136 notices (4.3 percent) were deemed "undeliverable" due to an incomplete address or no forwarding address;
- about 1,529 notices (0.3 percent) were re-mailed based on a new forwarding address; and
- approximately 296,374 notices (66.5 percent) were never returned to SSA.

Between TYs 1994 and 1998, the EAD process was able to reinstate an average of 6,300 earnings items annually. Of the approximately 445,988 EAD notices for TYs 1994 through 1998, about 31,585 (7.1 percent) resulted in earnings reinstatements.⁷ We provide this 5-year analysis in Figure 3 below.



SSA REINSTATEMENTS AND RECURRING SUSPENSIONS

Although SSA was able to reinstate 12 of the 200 suspended items in our sample, a further review of these items indicated that, in 5 of the 12 cases (42 percent), earnings were suspended and reinstated for these individuals at least twice. In two cases, the reinstatement in TY 1998 followed earlier reinstatements. In three cases, the TY 1998 reinstatement was followed by a TY 1999 EAD suspension. For example, SSA reinstated \$18,053 for an individual in TY 1998. However, TY 1999 earnings of \$15,575 were also suspended under the EAD process.

These cases indicate that either (1) an erroneous death was reported again; (2) the date of death was never removed from the Numident during the earlier reinstatement; or (3) the field office staff failed to notice suspended items from other TYs when removing the first suspended item. It is not clear what happened since neither the Numident nor

⁷ Each TY is generally processed in the first 9 months of the following calendar year. In the above example, TY 1994 EAD notices were processed during the last 9 months of FY 1995. SSA's Epoxy accounting data do not accurately reflect the number of EAD items reinstated for the same period. This could indicate that the reinstatement rate might be higher. However, we were unable to confirm this data for the period covered. Therefore, we restricted our analysis to initial EAD notices.

the Earnings Modernization 2.8 system⁸ maintain an audit trail showing whether a date of death was removed.⁹ However, in each case, SSA had to prepare a new EAD notice for the employer and/or employee and initiate the entire reinstatement process again. This incomplete processing of suspended items also impacts SSA's service delivery since earners must revisit field offices, prove they are alive, and request once again that their wages be reinstated.

POTENTIAL REINSTATEMENTS

SSA could have reinstated an additional 43 of the 200 suspended earnings items in our sample. The evidence we reviewed indicated (1) the individual who earned the suspended amount was shown as alive on SSA's Numident; (2) the Numident appears to incorrectly list the individual as deceased; or (3) the earnings may belong to another individual. These cases are described below.

Individuals Alive on the Numident

In 21 of the 43 cases, the individuals were alive according to the Numident, but their TY 1998 earnings were still in the ESF. Apparently, these individuals were erroneously listed as deceased at one time on SSA's Numident. In one sample case, the individual was alive on the Numident but still had \$16,126 in TY 1998 earnings in the ESF because of the EAD process. In addition, the suspended earnings were consistent with this individual's work history. We contacted SSA to see if these earnings could be reinstated. Field office staff agreed with our observations and reinstated these earnings.¹⁰ We have referred these 21 cases to SSA field offices for resolution. As of May 2002, nine of these individuals had their wages reinstated.

Individuals Incorrectly Listed as Deceased

In another 12 of the 43 sample cases, the earners appeared to be alive and incorrectly listed as deceased on the Numident. For example, in one of our cases, the Numident showed the individual as deceased since 1968, while the ESF indicated the same individual earned \$6,410 in TY 1998 from three different employers. In this case, SSA had reinstated TY 1999 earnings under the EAD process in the amount of \$7,200. If the

⁸ The Earnings Modernization 2.8 program is a computerized process for making adjustments to an individual's earnings record, thereby helping SSA establish and maintain an accurate and complete MEF. This program allows SSA employees to add, change, move, or delete an individual's earnings overnight via interactive input screens. This is basically a paperless system, with proofs and rationale recorded electronically after an initial inspection by a SSA employee(s).

⁹ In an earlier Office of the Inspector General report, *Management Controls In Place for Earnings Modernization 2.8 Transactions Processed at Field Offices and Teleservice Centers (A-03-97-31001)*, issued September 1999, we recommended that SSA require that the Earnings Modernization 2.8 documentation and development screens be used for ESF Reinstatements.

¹⁰ A further review of this case indicated that wages from TYs 1997 and 1999 were still in the ESF because of the EAD process.

field office conducted the appropriate review before reinstating the TY 1999 earnings, then SSA made a determination that this individual was alive. However, the date of death had not been removed from the Numident. In addition, the field office should have reinstated these TY 1998 earnings when the TY 1999 earnings were reinstated. We have referred these sample cases to SSA for further review.

Earnings Posted to the Wrong Account

In the remaining 10 of these 43 cases, the suspended earnings may belong to someone other than the deceased individual. In two cases, the Numident listed two individuals as sharing the same SSN, even though each had a distinct name, different dates of birth, and two different sets of parents. When one of the individuals on the Numident died, the other individual was also recorded as deceased, resulting in his or her earnings being placed in the ESF. In one of these cases, an earner's \$36,462 in TY 1998 earnings went into the ESF because one of the individuals was listed as deceased since 1998. In the second case, \$1,373 in earnings still remained in the ESF even though the earner was shown as alive on SSA's Numident.¹¹

QUESTIONABLE USE OF DECEASED NAMES AND SSNs

Of our 200 sample cases, 67 had indications the deceased individuals' SSNs were used by others. In 23 of these cases, the names used on the W-2s were not the same as the names of the owners of the assigned SSNs. In such cases, it is possible that the SSN of a deceased individual was accidentally used, but it could also indicate that someone was trying to use the deceased individual's identity.¹² However, in the remaining 44 cases, it appears that individuals were attempting to use both the names and SSNs of the deceased individuals to report their TY 1998 earnings. These 44 cases showed earnings ranging from \$20 to \$46,700 and were reported to SSA at least 1 year after the date of death.

In one case, earnings were reported for an individual 32 years after the date of death shown on the Numident. When we reviewed the earnings history for this name and SSN, we found no evidence of posted earnings since 1966. Nonetheless, our sample

¹¹ Based on our review, we could not determine why two different individuals would be listed on one Numident. Our discussion with SSA staff revealed this type of problem occurs when identifying information for one person is erroneously posted to the Numident record belonging to another individual. SSA may have issued the second person on the SSN record a Social Security card with the wrong SSN. Usually the individual who is assigned the wrong SSN already has a correct SSN. However, there are cases where the individual was never assigned an original SSN. SSA staff stated that when two individuals have been assigned the same SSN, SSA corrects the problem by assigning an original SSN to the second person. If the second person already has another SSN, SSA issues him or her a replacement card with the correct SSN. If the second person cannot be contacted, refuses to cooperate, or is deceased, SSA takes other appropriate action to resolve the problem. SSA is investigating the problems noted in our sample.

¹² The dates of death for 8 of the 23 individuals were removed from SSA's Numident at the time of our audit. However, our review indicated that the suspended wages belonged to someone other than the owner of the SSN.

item of \$4,832—as well as two additional TY 1998 suspended items totaling \$7,592—were in the ESF under the deceased individual's name and SSN. We have referred this case and the others discussed in this section to the Office of the Inspector General's (OIG) Office of Investigations to determine whether SSN misuse was involved.

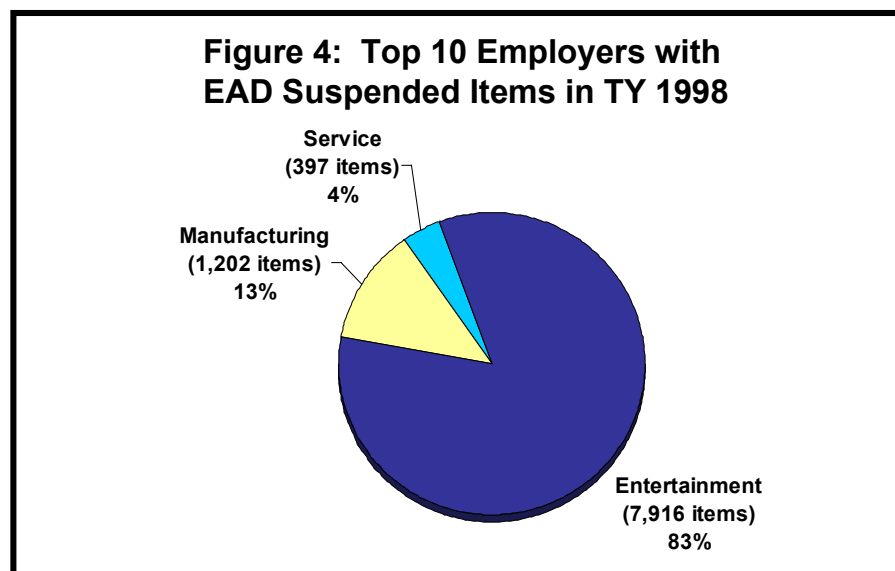
NON-WAGE REPORTING BY EMPLOYERS

From our sample of 200, we identified 78 cases where it appeared the wages belonged to the deceased individuals. However, these earnings should have been reported as miscellaneous income on an IRS Form 1099-MISC, and not reported as wages on W-2s to SSA. In 25 of these 78 cases, the TY 1998 wages related to entertainment industry employers. These entertainment-related wages appear to be royalty fees issued to the wage earners' estates. In one case, a well-known folk singer received \$853 in wages via a W-2 statement from a movie and television conglomerate 3 years after his death. When we presented these findings to one of SSA's Employee Service Liaison Officers, he concurred with our assessment.

By reporting these earnings on a W-2, the employer and deceased employee may be incurring unnecessary payroll taxes. Since taxpayers can resolve this payroll tax issue directly with the IRS, we do not know whether refunds were ever provided for our sample items. In addition to the issue of overpaid taxes, these items are accumulating in the ESF and continue to overstate the volume of suspended wages and items.

A review of the TY 1998 EAD investigate file indicated the entertainment industry is a large

contributor of suspended wage items. Among the 10 employers contributing the highest number of suspended items, 7 were from the entertainment industry, representing approximately 83 percent of the suspended items among all 10 employers (see Figure 4 for the breakout of the top 10 employers and the associated wage items). While these entertainment industry employers represent a large number of items, they tend to be smaller dollar amounts.¹³



¹³ The average wage amount among the seven entertainment employers noted above was only \$167, whereas the remaining three employers had an average reported wage of \$1,393.

EAD NOTICE AND PROCESSING OF RESPONSES

SSA did not utilize employer responses on returned EAD notices to permanently remove wage items from the ESF. In addition, SSA's EAD notice could do more to assist employers in understanding SSA and IRS reporting responsibilities for wages paid after an employee's death.

Employer Confirmation of Death

Approximately 129,000 EAD notices were returned to WBDOC between FYs 1995 and 1999. While up to 32,000 notices led to reinstatements of wages, the remaining 97,000 notices were either incomplete or contained an employer response confirming the death of an employee. SSA staff was unable to provide more specific information related to the returned responses, such as the overall number of employer confirmations of death. However, notices confirming employees' deaths offered SSA an opportunity to remove these wages from the ESF. According to SSA staff, the Agency has the ability to remove items from the ESF, while still maintaining evidence of the correction in the earnings system. Such removals could reduce the size of the ESF, while maintaining evidence of the removal.

IRS Form 1099-MISC

In its EAD notice to employers, SSA states that "If employment ended because the employee died, refund the employee's share of the Social Security taxes to the employee's estate or next of kin, and obtain a receipt. Then, ask for a refund of the employer and employee Social Security taxes from the Internal Revenue Service (IRS)." The notice is silent on how such wages should have been initially reported, even though the IRS requires that a deceased employee's wages must be filed on an IRS Form 1099-MISC. According to IRS instructions, "If an employee died during the year, you must report on Form 1099-MISC the accrued wages, vacation pay, and other compensation paid after the date of death. If you made the payment after the year of death, do not report it on Form W-2, and do not withhold social security and Medicare taxes." By adding this information to the EAD notice, SSA could assist the employer with current reporting problems, while also aiding the employers in avoiding future wage reporting errors.

Conclusions and Recommendations

We identified a number of instances where the effectiveness of SSA's EAD process could be improved. While SSA has been able to reinstate a number of suspended earnings, we still located significant earnings where the individuals are alive on SSA's records, but the earnings have not been reinstated. In these cases, a periodic comparison of earlier EAD suspended items to the most recent Numident could have led to the reinstatement of the suspended items. In addition, SSA could implement procedures to remove suspended wages from the ESF when the employer confirms the employee's death. SSA could also reduce the number of items entering the ESF by educating employers—particularly in the entertainment industry—on the process for reporting earnings when the earner is deceased.

To improve the Agency's ability to reinstate wages suspended under the EAD process, we recommend that SSA:

1. Resolve remaining cases in our sample where the individuals were determined to be alive, incorrectly listed as deceased, or where another party earned the funds in the ESF.
2. Periodically match prior year EAD suspended items to the Numident to determine whether the individuals are still listed as deceased. If they are not deceased, reinstate their earnings as appropriate.
3. Remind staff reinstating earnings suspended under the EAD process to (1) remove the date of death on the Numident and (2) determine whether additional items suspended for the same individual can be reinstated.
4. Maintain the annual EAD investigate files with unresolved suspended items for later review of potential SSN misuse by SSA and the OIG. The OIG will use this information to conduct trend analysis, investigations or seek other remedies.
5. As EAD notices are returned, remove from the ESF those wage items specifically identified in the notice related to employees whose deaths are confirmed by employers.
6. Educate the top 10 contributors to the EAD investigate file—especially entertainment industry employers—that earnings reported after the year of death should be reported as miscellaneous income, not as wages.
7. Add language to the EAD notice to educate employers on the proper reporting procedures for wages after employees have died.

AGENCY COMMENTS

SSA agreed with five of our seven recommendations, provided a qualified concurrence on Recommendation 5 and disagreed with Recommendation 6. SSA agreed with the intent of Recommendation 5, but noted it is the Agency's policy to not remove items from the ESF unless they can be posted to an individual's Master Earnings Record. As a result, there is no mechanism for simply deleting items from the ESF. Also, SSA is implementing a number of enhancements to increase the accuracy of all earnings posted with an emphasis on reducing the size and growth of the ESF. However, the Agency does not yet know whether these activities will have an impact on EAD suspended wages.

Regarding Recommendation 6, SSA stated that the dollar amount of items placed into the ESF from these employers is very low. As a result, SSA does not believe that implementing this recommendation would be cost-effective considering the time and resources needed to implement the recommendation.

OIG RESPONSE

We believe Recommendation 5 is consistent with SSA's efforts to reduce the size and growth of the ESF. As a result, SSA may need to revisit its policy regarding wage item removal and ensure that such changes are part of future enhancements to the ESF.

We also believe that SSA should act on Recommendation 6 to reduce the number of wage items going into the ESF. In TY 1998, SSA incurred administrative costs notifying these top 10 employers of approximately 9,500 instances where wages were reported after an employee's death. As a result, SSA is already spending time and resources on these employers. By contacting these top 10 employers, SSA could reduce a similar workload in future years. Also, since most of the entertainment employers cited in our report appear to be located in California, SSA may expend fewer resources educating these employers than expected.

Other Matters

ERRONEOUS DEATH INFORMATION

An earnings item in the EAD investigate file indicates that SSA's Numident, at one time, showed the earner as deceased. However, as discussed earlier in this report, 45 of our 200 sample items (22.5 percent) represent cases where incorrect death information was listed on SSA's records. In a previous audit, we also identified a number of individuals who were incorrectly listed as deceased.¹⁴ SSA's Numident file may contain incorrect death information for a number of reasons. For example, we have already noted instances where two individuals sharing the same SSN can cause death information to be recorded for the wrong individual. Regardless of the cause, this incorrect death information is shared with Federal and State agencies, as well as the private sector, through SSA's Death Master File (DMF).

SSA maintains the DMF and provides the file on a cost-reimbursable basis under the Freedom of Information Act (FOIA). SSA extracts information from its Numident and creates a complete DMF each quarter. The DMF is distributed to 10 Federal agencies, including 4 that pay Federal benefits. These agencies use the file to identify deceased individuals who are receiving benefits. In addition, the DMF is released to the National Technical Information Service, which responds to FOIA requests. Each month, SSA provides a supplemental tape containing newly recorded deaths and any changes or deletions to the DMF.

We believe that improving the effectiveness of the EAD process could also remove some of the incorrect death information from SSA's death records. As a result, SSA will improve the accuracy of its own records, as well as the records of those who depend upon SSA's death information.

¹⁴ In an OIG report entitled *Disclosure of Personal Beneficiary Information to the Public* (A-01-01-01018), issued January 2002, we recommended that SSA correct erroneous death information to improve the accuracy of its DMF.

Appendices

Sampling Methodology and Results

From the Social Security Administration (SSA), we obtained a copy of the Tax Year (TY) 1998 earnings after death (EAD) investigate file, which represented earnings items suspended because of the recorded death of the earners. Our population consisted of 64,847 TY 1998 earnings items totaling over \$335,516,549. We selected a random sample of 200 items from this population, with an associated dollar value of \$1,026,354.

Sample Results and Projections	
Population size in items	64,847
Sample size in items	200
Attribute Projections	
Sample cases – Earnings items reinstated through the EAD process	12
Projection – Earnings items reinstated through the EAD process	3,891
Projection lower limit	2,270
Projection upper limit	6,184
Sample cases – Earnings items where the owner of the Social Security number (SSN) is alive on the Numident	21
Projection – Earnings items where the owner of the SSN is alive on the Numident	6,809
Projection lower limit	4,635
Projection upper limit	9,573

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

Attribute Projections	
Sample cases – Earnings items where the individual who owns the SSN may not be deceased or the earnings appear to belong to other individuals	22
Projection – Earnings items where the individual who owns the SSN may not be deceased or the earnings appear to belong to other individuals	7,133
Projection lower limit	4,908
Projection upper limit	9,940
 	
Sample cases – Earnings items where others were potentially using the deceased individuals' SSNs	67
Projection – Earnings items where others were potentially using the deceased individuals' SSNs	21,724
Projection lower limit	18,144
Projection upper limit	25,544
 	
Sample cases – Earnings items related to legitimate earnings that should have been reported as miscellaneous income	78
Projection – Earnings items related to legitimate earnings that should have been reported as miscellaneous income	25,290
Projection lower limit	21,553
Projection upper limit	29,188

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

Variable Projections	
Sample cases – Earnings reinstated through the EAD process	\$280,397
Projection - Earnings reinstated through the EAD process	\$90,914,515
Projection lower limit	\$36,315,480
Projection upper limit	\$145,513,550
Sample cases – Earnings that could be reinstated by SSA	\$168,034
Projection – Earnings that could be reinstated by SSA	\$54,482,533
Projection lower limit	\$13,989,349
Projection upper limit	\$94,975,718
Sample cases – Earnings where the individual who owns the SSN may not be deceased or the earnings appear to belong to other individuals	\$155,387
Projection – Earnings where the individual who owns the SSN may not be deceased or the earnings appear to belong to other individuals	\$50,381,797
Projection lower limit	\$20,096,146
Projection upper limit	\$80,667,448
Sample cases – Earnings where others were potentially using the deceased individuals' SSNs	\$372,281
Projection – Earnings where others were potentially using the deceased individuals' SSNs	\$120,706,517
Projection lower limit	\$77,176,482
Projection upper limit	\$164,236,552
Sample cases - Legitimate earnings that should have been reported as miscellaneous income	\$50,256
Projection – Legitimate earnings that should have been reported as miscellaneous income	\$16,294,676
Projection lower limit	\$7,607,904
Projection upper limit	\$24,981,448

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

Based on our review of SSA's investigate file, approximately 10 percent of the suspended items had no associated wages. As a result, some of our variable projections contain no associated wages. For example, in our variable projection of the 21 items that SSA could have reinstated, only 20 of the suspended items had associated dollar amounts. As a result, our attribute appraisal was based on 21 sample cases, while our variable appraisal was based on 20 cases.

EARNINGS AFTER DEATH NOTICE

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

Social Security Administration
Data Operations Center
P.O. Box 39
Wilkes Barre, PA 18767-0039

Date:

Sequence Number:

Employer Number:

We are writing to you about your Wage and Tax Statement (W-2) for the employee shown below. The amount you reported appears to be payments made after the employee stopped working for you and is not covered by Social Security.

Company Name:
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 about this letter, you may call us toll free at 1-800-772-6270 from 7 a.m. to 7 p.m., Eastern Standard Time.

/s/
W. Burnell Hurt
Associate Commissioner for
Central Operations

Enclosure:
Envelope

(Please See Reverse)

Form SSA-L4112 (4-99)

Social Security Request for Employee Information

1. Does the employee still work for you? Yes No
(Give last Known Address)

2. Did employment end because the employee died? Yes No

If employment ended because the employee died, refund the employee's share of the Social Security taxes to the employee's estate or next of kin, and obtain a receipt. Then, ask for a refund of the employer and employee Social Security taxes from the Internal Revenue Service (IRS). For details about how to obtain a refund, contact the IRS (there are time limits for seeking a refund from the IRS).

3. If the earnings shown above are earnings covered by Social Security, print the name and number shown on the employee's Social Security card and the tax year of these earnings.

	FIRST	M. INITIAL	LAST
Name:	<input type="text"/>	<input type="text"/>	<input type="text"/>
Social Security Number	<input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
			Tax Year: <input type="text"/>

THE PRIVACY ACT

Section 205(a) and (c) of the Social Security Act allows us to ask for the information on this form. The information you give us will be used to give the employee credit for the correct amount of wages. You do not have to complete this letter, however, if you don't, we can't give the employee credit for the correct amount of wages.

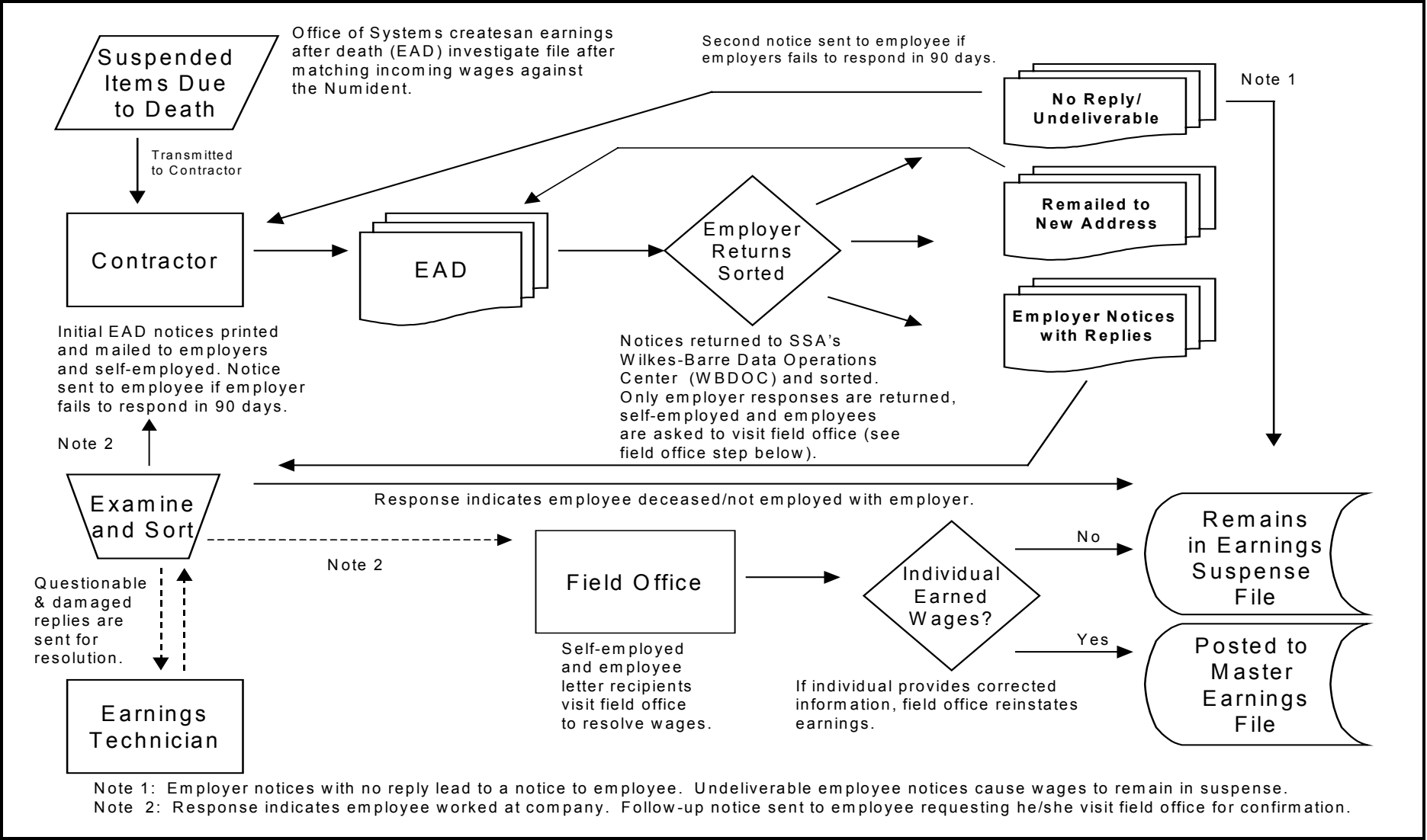
We may give this information to the Internal Revenue for tax administration purposes or to the Department of Justice for investigating and prosecuting violations of the Social Security Act. We may also use the information you give us when we match records by computer. Matching programs compare our records with those of other Federal, State or local agencies. Many agencies may use matching programs to find or prove that a person qualifies for benefits paid by the Federal government. The law allows us to do this even if you do not agree with it.

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

PAPERWORK REDUCTION ACT AND TIME IT TAKES STATEMENT

This information collection meets the clearance requirements of 44 U.S.C. section 3507, as amended by section 2 of the **Paperwork Reduction Act of 1995**. You are not required to answer these questions unless we display a valid Office of Management and Budget control number. We estimate that it will take you about 10 minutes to read the instructions, gather the necessary facts, and answer the questions.

Flow Chart of Earnings After Death Process



Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 23, 2002 **Refer To:** S1J-3

To: James G. Huse, Jr.
Inspector General

From: Larry Dye /s/
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Review of the Effectiveness of the Earnings After Death Process," A-03-01-11035

We appreciate OIG's efforts in conducting this review. Our comments on the draft report contents 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 REPORT "REVIEW OF THE EFFECTIVENESS OF THE EARNINGS AFTER DEATH (EAD) PROCESS," A-03-01-11035

We appreciate the opportunity to comment on the draft report. Overall, we found value in the report contents and recommendations. Our responses to the specific recommendations are provided below.

Recommendation 1

SSA should resolve the remaining cases in our sample where the individuals were determined to be alive, incorrectly listed as deceased, or where another party earned the funds in the earnings suspense file (ESF).

Comment

We agree. OIG's EAD investigation file contained 200 1998 tax year suspended earnings items, 12 of which were reinstated during the study. We have initiated contact with OIG to identify and resolve the remaining 188 suspended items.

Recommendation 2

SSA should periodically match prior year EAD suspended items to the Numident to determine whether the individuals are still listed as deceased. If they are not deceased, reinstate their earnings as appropriate.

Comment

We agree and will work with other SSA components to implement recommended improvements to the EAD process. We will develop an implementation plan by the end of the calendar year.

Recommendation 3

SSA should remind staff reinstating earnings suspended under the EAD process to remove the date of death on the Numident and determine whether additional items suspended for the same individual can be reinstated.

Comment

We agree. The Agency plans to issue a reminder to the field by August 15, 2002.

Recommendation 4

SSA should maintain the annual EAD investigate files with unresolved suspended items for later review of potential Social Security Number misuse.

Comment

We agree. The retention period of the EAD investigate files can be tailored to the users' needs. OIG and other users will submit their requests to the Office of Systems for the necessary establishment of an appropriate retention period.

Recommendation 5

As EAD notices are received, SSA should remove from the ESF all wage items related to employees whose deaths are confirmed by employers.

Comment

We agree with the intent of this recommendation; however, it is the Agency's policy not to remove items from the ESF if they cannot be posted to an individual's Master Earnings Record. Currently, there is no mechanism for simply deleting items from the ESF. The Agency is implementing a number of enhancements to increase the accuracy of all earnings posted with an emphasis on reducing the size and growth of the ESF. We do not yet know if those activities will have an impact on EAD wages being placed in suspense.

Recommendation 6

SSA should educate the top 10 contributors to the EAD investigate file (especially entertainment industry employers) that earnings reported after death should be reported as miscellaneous income, not as wages.

Comment

We disagree. The dollar amount of items placed into suspense is extremely low from these employers. We do not believe that implementing this recommendation would be cost effective, as the small savings that might result would not offset the time and resources expended to implement the recommendation.

Recommendation 7

SSA should add language to the EAD notice to educate employers on the proper reporting procedures for wages after employees have died.

Comment

We agree. The current SSA letter, form SSA-L-4112, advises the employers to refund any taxes paid if the employee is deceased. We will revise the SSA-L-4112 by June 2003 and will include language to instruct employers on the proper reporting of employees' wages after their death.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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

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

Staff Acknowledgments

In addition to those named above:

Richard Devers, Auditor

Carol Ann Frost, Computer Specialist

Walt Mingo, Auditor-in-Charge

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Ranking Minority Member, Senate Special Committee on Aging	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
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Total	96

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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.

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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.

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