



## SOCIAL SECURITY

Inspector General

April 28, 2003

The Honorable Charles E. Grassley  
Chairman, Committee on Finance  
United States Senate  
Washington, D.C. 20510

Dear Mr. Chairman:

In response to your questions regarding the Social Security Number (SSN) Feedback Pilot Project that was conducted in Massachusetts and Illinois, I am pleased to provide you the enclosed report. Specifically, you were interested in the status of the SSN Pilot process designed to verify the names and SSNs of new employees.

Our objective was to determine (1) the status of the Social Security Administration's (SSA) evaluation of its joint pilot with the Office of Child Support Enforcement to verify employees' SSNs and (2) whether the SSN Pilot can assist SSA in its efforts to reduce the growth of the Earnings Suspense File.

The enclosed report contains information related to:

- the current status of the SSN pilot;
- the potential benefits of the SSN Pilot to SSA, employers, and employees; and
- other possible benefits among several Federal agencies that use this name and SSN information.

If you have any questions or would like to be briefed on this issue, please call me or have your staff contact H. Douglas Cunningham, Executive Assistant, at (202) 358-6319.

Sincerely,

A handwritten signature in blue ink, appearing to read "James G. Huse, Jr.", written in a cursive style.

James G. Huse, Jr.

Enclosure

cc:  
Jo Anne B. Barnhart, Commissioner

# ***CONGRESSIONAL RESPONSE REPORT***

## **Review of the Social Security Number Feedback Pilot Project**

**A-03-03-13017**



**APRIL 2003**

## **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.**

# Background

---

We are providing information on the Social Security Number (SSN) Pilot Project<sup>1</sup> regarding the advantages for the Social Security Administration (SSA), employers, employees, and other Federal and State programs that use SSN information.

## SOCIAL SECURITY NUMBER FEEDBACK PILOT

The SSN Pilot was a joint effort between SSA and the Department of Health and Human Services' Office of Child Support Enforcement (OCSE). The SSN Pilot's goal was to promptly inform employers when they submitted a new employee or "new hire" report that included an incorrect name and SSN combination. The SSN Pilot, conducted in Massachusetts and Illinois, began in spring 1999 and lasted 1 year. At its completion, SSA and OCSE worked with the two States and relevant employers to evaluate the benefits and costs of this early notification system.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996<sup>2</sup> authorized OCSE to establish a "National Directory of New Hires" (NDNH) containing the data provided by new employees on the *Employee's Allowance Withholding Certificate* (Internal Revenue Service [IRS] Form W-4).<sup>3</sup> Once OCSE has collected these data, SSA verifies the accuracy of the name/SSN combination in the NDNH against the Agency's Numident, as required by this Act. This information is shared with OCSE but not the employer. In addition to the States, 146 Federal agencies report new hires and quarterly wage data directly to the NDNH. The NDNH contains three types of records: new hire records, quarterly wage records, and unemployment insurance records. An estimated 68 million new hires are submitted to NDNH annually.

Under the SSN Pilot, SSA notified all employers in the two States when they submitted an incorrect name and SSN combination. Employers were not required to submit another new hire report but instead were asked to correct their records so all future wage filings to Federal and State agencies contain accurate data.

SSA and the OCSE reported on the results of the SSN Pilot in an October 2002 document, *Working Together with Employers to Improve Data Accuracy: The Results of the SSN Feedback Pilot Project*.

---

<sup>1</sup> Hereafter referred to as the SSN Pilot.

<sup>2</sup> Public Law (P.L.) 104-193, section 313.

<sup>3</sup> Federal law requires that all employers submit a new hire report to the State Directory of New Hires (SDNH) no later than 20 days after the date the employer hires the employee. The SDNH must enter the data into its database within 5 business days of receipt of the new hire report. Within 3 business days, the SDNH must furnish the information to the NDNH.

# Results of Review

---

The SSN Pilot offers a number of advantages to SSA, employers, employees, and other Federal and State programs that use SSN information. In particular, the SSN Pilot provided more timely and accurate name and SSN information to these parties. Our report is based on the results of SSA and OCSE findings in their October 2002 final report, *Working Together with Employers to Improve Data Accuracy: The Results of the SSN Feedback Pilot Project* as well as our own observations. We provide additional detail in the appendices to this report.

## TIMELINESS AND ACCURACY OF EMPLOYEE INFORMATION

The SSA/OCSE report states that the SSN Pilot feedback to employers improved the timeliness of employer corrections as well as the accuracy of information used by both the government and private sector. The report estimates employers were notified of name and SSN mismatches 12 to 18 months earlier than under the regular wage reporting process at SSA. In addition, the report notes that the SSN Pilot increased the annual wage reporting accuracy of the SSN Pilot employers by approximately 10 percent.<sup>4</sup>

## EMPLOYER NOTIFICATION PROCESS UNDER THE SOCIAL SECURITY NUMBER PILOT

Under the SSN Pilot, employers in Illinois and Massachusetts submitted their new hire information through the normal OCSE process. This information was verified against SSA's Numident,<sup>5</sup> and, every 2 weeks, unverified results were sent to SSA to produce and mail notices to employers. Employers who received these notices 4 to 6 weeks after hiring a new employee were informed that the name and SSN on their new hire data failed to verify against SSA's records. The notices were sent to employers between August 1999 and July 2000. See Appendix C for a copy of the notice sent to employers and Appendix D for more information on the employers who received these notices.

Employers receiving the notices were asked to

- (1) verify their records against the information submitted;
- (2) ensure the name and SSN were the same as shown on the SSN card;
- (3) correct any errors in their payroll records; and
- (4) inform employees to contact SSA to report a name change or lost SSN card.

The SSA/OCSE report estimates that the SSN Pilot led to a 10-percent correction rate in subsequent *Wage and Tax Statements (W-2)* submitted to SSA for these same employees. While the initial correction rate was higher than 10 percent, the number was later adjusted

---

<sup>4</sup> This rate would apply only to the new hire information provided by these employers and not their overall payroll if errors also existed among the data for longer term employees.

<sup>5</sup> The Numident is SSA's database containing all issued SSNs.

to account for (1) employer corrections that may have been made even in the absence of the notice and (2) SSA corrections that would normally occur after the wages have been reported, which we describe in the next section.

## **EMPLOYER NOTIFICATION PROCESS BEFORE THE SOCIAL SECURITY NUMBER PILOT**

Under the current process, OCSE does not notify employers of inaccuracies in their employee data while SSA notifies employers at the end of the wage reporting process, which can be more than 1 year later. While current law requires that OCSE collect employee new hire data from each employer and verify this information against SSA's Numident, OCSE has not sent the unverified data back to employers for correction. As a result, employers were not notified of accuracy problems with the employee information they submitted to OCSE for processing.

OCSE estimates that about 7.3 million (10.7 percent) of the approximately 68 million W-4s submitted by employers annually have invalid name and SSN combinations.<sup>6</sup> If we apply this 10.7 percent rate to the approximately 250 million new hire records OCSE collected between October 1997 and April 2002, approximately 27 million records were never resubmitted to employers for correction.

SSA notifies the employers about mistakes in their W-2 submissions, but these notices are sent to employers 12 to 18 months after OCSE/SSA verify the employee information. SSA reviews the accuracy of employee information on the W-2 during the Annual Wage Reporting (AWR) process<sup>7</sup> and, should a name/SSN mismatch occur that cannot be resolved through normal edits, the wages go into SSA's Earnings Suspense File (ESF) until the name/SSN mismatch is resolved. Next, SSA sends notices to employees, decentralized correspondence (DECOR),<sup>8</sup> and employers, educational correspondence. However, by the time the AWR and notification process have been completed, more than 18 months could have passed since the individual began to work for the employer.

SSA allows employers to verify the names and SSNs of employees through its various employee verification services (EVS). However, the use of EVS is voluntary. EVS can assist employers in eliminating common SSN reporting errors. Depending on the number of SSNs they want to verify, employers can call an 800-number for 5 or fewer, or submit a paper request for up to 50 names directly to an SSA field office. Employers who wish to verify 51 or more SSNs are encouraged to register for the EVS program.

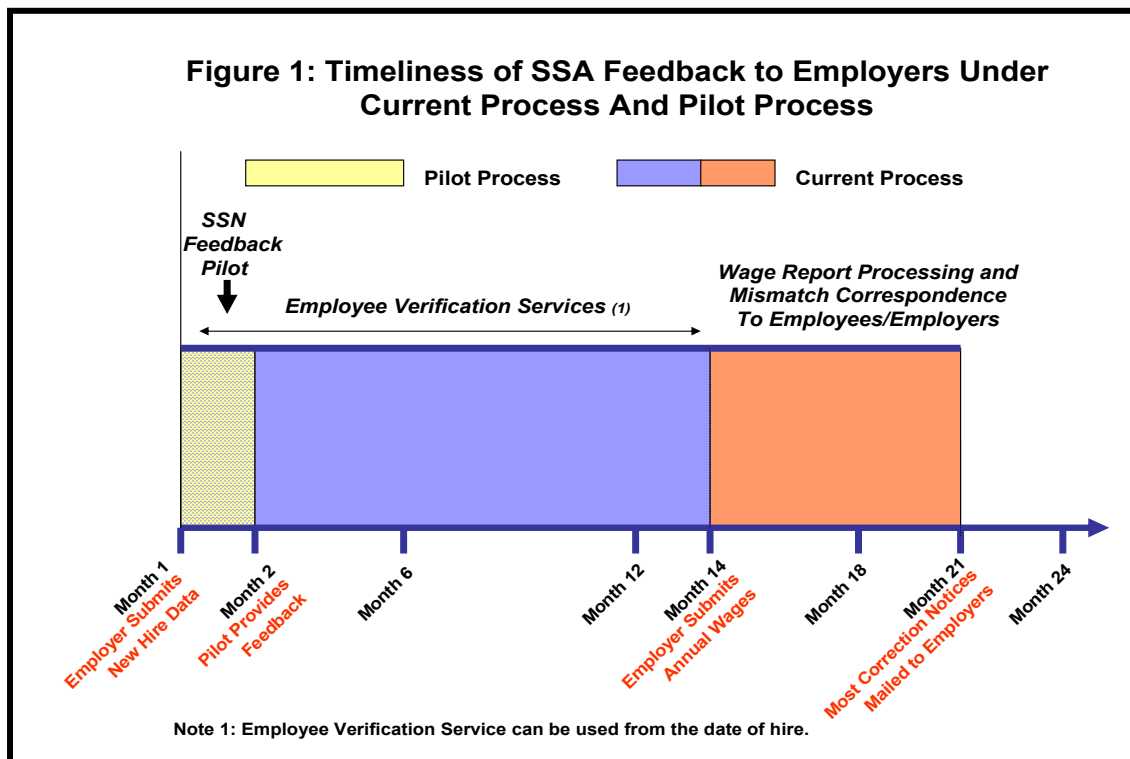
---

<sup>6</sup> Not all errors may have originated with the employers. Some of the errors may relate to data keying errors by State employees. This is more common with paper W-4s, which represent about 75 percent of employer submissions.

<sup>7</sup> SSA's AWR process involves the employer sending SSA a W-2 for each employee in the year following the year of earnings.

<sup>8</sup> Information on the DECOR process is provided in our July 2002 audit, *The Effectiveness of the Social Security Administration's Decentralized Correspondence Process* (A-03-01-11034).

See Figure 1 for a timeline showing a comparison between the current process and the SSN Pilot process.



## SOCIAL SECURITY NUMBER PILOT ADVANTAGES FOR USERS OF INFORMATION

The SSN Pilot provided more timely and accurate information to the various users of the employee data. As a result, SSA was able to improve wage postings and could potentially reduce program administration costs. In addition, employers were able to correct their employee records in a timely manner and potentially minimize their reporting burden to Federal agencies. Finally, other Federal and State agencies are expected to benefit from corrected names and SSNs when administering their programs.

## SOCIAL SECURITY ADMINISTRATION ADVANTAGES

There are many advantages for SSA in using the SSN pilot information. In particular, the SSN Pilot showed that SSA can (1) increase the number of wages posted to an employee's earnings history; (2) decrease the number of wages posted to the ESF; and (3) assist employers by verifying all of their new employees, similar to what the Agency is attempting with EVS.

### *Postings to the Master Earnings File*

The SSN Pilot can improve the accuracy of SSA's earnings records and increase the number of items properly posted to wage earners' accounts. Without a correct name and/or

SSN on the Form W-2, an employee's earnings record with SSA may never be properly credited with wages received from the employer. This may result in a reduction in the employee's Social Security and Medicare benefits (or those of his or her survivors).

The SSA/OCSE report indicated, in terms of quarterly reporting data, that the national implementation of an SSN feedback process would provide NDNH with accurate, verified name/SSN combinations for approximately 1 million additional wage earners. The report did not address the volume of anticipated corrections for annual W-2 submissions to SSA. However, if we apply the SSN Pilot correction rate of 10 percent to the 7.3 million new hires reported incorrectly to OCSE annually, then the SSN Pilot has the potential of correcting the name/SSN combination on approximately 730,000 W-2 items reported to SSA each year. These 730,000 items represent approximately \$3.8 billion in associated wages.<sup>9</sup>

### ***Postings to the Social Security Administration's Earnings Suspense File***

Improved reported accuracy by employers under the SSN Pilot would also reduce the number of items posted to the ESF. As of July 2002, SSA's ESF contained approximately 236 million wage items totaling about \$374 billion related to Tax Years (TY) 1937 through 2000. In TY 2000 alone, 9.6 million items and \$49 billion in wages were posted to the ESF. If we use the estimated correction of 730,000 items with \$3.8 billion in associated wages shown above, the SSN Pilot would have prevented approximately 8 percent of the items and associated wages from going into the ESF in TY 2000.

The SSN Pilot could also assist SSA in reducing ESF administrative costs. Fewer items in the ESF means SSA has to expend fewer resources to resolve these name/SSN discrepancies. Even though SSA created a new notice and mailing process for employers under the SSN Pilot at a cost of \$.50 per notice, the report notes:

Although SSA's analysis suggests that implementation of the W-4 feedback notice generates few cost savings in the current AWR system, integration of the notice with other letters currently generated in response to an invalid name/SSN combination could yield substantial cost savings to both SSA and the employer community.

At this point, SSA has not prepared a cost justification to fully implement this project. In addition, since this is a joint effort between SSA and OCSE, the distribution of costs associated with an expanded SSN Pilot would need to be determined.<sup>10</sup> Furthermore, in the report, OCSE and SSA have recommended that the SSN Pilot be expanded to include additional States and subject to a rigorous analysis by SSA's Office of Quality Assurance. This additional analysis may provide more information on implementation costs.

---

<sup>9</sup> Using TY 2000 ESF data, we calculated an average annual wage of \$5,148, and assumed that this estimated wage would be the same as that for the corrected items from the SSN Pilot process.

<sup>10</sup> SSA and OCSE could also seek reimbursement on a cost reimbursable basis from other Federal and State agencies that benefits from the use of the data. We discuss these benefits in a later section of the report.



## Employee Verification Services

The SSN Pilot offers SSA a chance to expand its EVS services. For instance, the SSN Pilot automatically provided EVS services to all employers in Massachusetts and Illinois who hired new employees during the Pilot period. Expansion of the SSN Pilot into a nation-wide system would provide an opportunity to verify the new hires of all U.S. employers, provide timely feedback on name/SSN mismatches, and assist SSA in reducing the size of the ESF. As we noted earlier, approximately 68 million new hire reports are sent to OCSE, annually. In addition, since U.S. employers are already required to report new hire data for SSA verification, SSA would not be dependent on voluntary participation. While employers may still choose to take advantage of SSA's EVS services for their existing employees (as compared to new hires), over time, a nation-wide verification system should capture most of the U.S. labor force as individuals change occupations.

Previous Office of the Inspector General (OIG) reports have noted (1) the need for mandatory use of EVS by employers and (2) the low use of the EVS programs throughout the U.S. economy. For example, our January 2002 audit<sup>11</sup> recommended that SSA seek legislative authority to provide SSA with the tools to require that chronic problem employers use EVS.<sup>12</sup> Our September 2002 audit<sup>13</sup> noted that, while the number of employers registering with EVS has increased since 1997, overall, just 7,400 employers—less than 1 percent of all U.S. employers—were registered to use EVS.<sup>14</sup> Furthermore, only 392 employers (5 percent of those registered) have submitted data to SSA since 1999. Finally, while the number of employers registered for EVS has increased over the years, the rate of usage actually decreased during the same period.

SSA is also involved in employee verification pilots where the name/SSN information is verified as well as an employee's employment eligibility. Two ongoing SSA pilots with the Department of Homeland Security's Bureau of Citizenship and Immigration Services are described in Appendix E.

## ADVANTAGES FOR EMPLOYERS

The SSN Pilot also offered such benefits to the employer as (1) early notification of problems regarding wage data submissions and (2) reduced administrative burden when verifying new hires. This early notification is particularly important since SSA and the IRS are collaborating to assess penalties against employers who continue to submit wage

---

<sup>11</sup> *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (A-08-99-41004), January 2001.

<sup>12</sup> SSA disagreed with our recommendation that chronic problem employers be required to use EVS, stating that the Internal Revenue Service already has the authority to penalize employers who do not comply with wage reporting requirements.

<sup>13</sup> *The Social Security Administration's Employee Verification Service for Registered Employers* (A-03-02-22008), September 2002.

<sup>14</sup> Since our audit was limited to EVS for registered users, we cannot comment on the volume of employers who verified SSNs through SSA's teleservice centers and field offices.

reports with mismatched name/SSN combinations. Employers that resolve these problems before their annual wage reporting will be able to avoid IRS penalties.

### **Early Notification of Problems**

The SSA/OCSE report noted that early notification of incorrect name/SSN combination errors could help employers save time and reduce costs related to payroll issues. Under SSA's wage reporting system, employers might receive notification of these errors 12 to 18 months after SSA initially detects the name/SSN mismatch. By the time this notification occurs, the employer may have used the "invalid" name/SSN in numerous reports and transactions with Federal entities as well as other parties. Early notification of an error can reduce the employers' administrative time in correcting employee records and allow employers to concentrate on other issues at year-end, such as tax and financial matters.

Additionally, early notification to the employer can help resolve problems with the "seasonal employees" that work for them. We define "seasonal employees" as transient individuals who work for only part of a year with one employer. These employees usually have left the employer when the employer receives notification from SSA concerning an incorrect name/SSN combination. Hence, in many cases, the employer cannot correct the information submitted to SSA, and the employee does not receive any credit for the wages earned.<sup>15</sup>

In a November 23, 1998 letter to SSA cited in the SSA/OCSE report, the American Society for Payroll Management stated:

Notifying employers of errors contained in their annual W-2 submission is too late. By that time, many employees have left and there is no way to correct the information. We feel strongly that providing immediate feedback to employers as close to the hiring event as possible will make a significant difference in the accuracy of Social Security numbers and names reported by employers.

### **Employer Reporting Burden**

As noted earlier, the SSN Pilot used new hire information employers are already required to provide to OCSE. Hence, unlike other SSA verification programs, the SSN Pilot did not place any new reporting requirements on the employer. In effect, the verification process was invisible to the employer. Nonetheless, the employer benefited from timely verification that would not have otherwise occurred under the normal OCSE process.

Some employers have noted that SSA's employee verification services can be slow and cumbersome. In a June 17, 1998 letter to SSA also cited in the report, the American Payroll Association (APA) noted:

APA members are aware of the various tools already available to assist employers in identifying name/SSN mismatches. Unfortunately, none of the tools are adequate for the large employer. For instance, in order to use SSA's much publicized [EVS], a

---

<sup>15</sup> We mention the benefits of earlier verification for transient employees in our report, *Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems (A-03-00-10022)*, September 2001).

large employer must provide the agency with magnetic tape or a diskette. Producing this tape often requires the assistance of systems support personnel outside the payroll department. Then the tape must be mailed and processed by SSA.

SSA is piloting a new on-line EVS program, called the Social Security Number Verification Service, to eliminate the need for magnetic tapes and diskettes as part of the verification process. However, employers still need to register with SSA to use this service, and the verification process will still entail extra steps by the employers. The SSN Pilot did not ask employers to perform any additional tasks beyond those already required by law.

### **Internal Revenue Service Penalties**

The Internal Revenue Code provides for a penalty against employers that do not file correct Forms W-2. An inaccurate name/SSN combination is classified as an incorrect information return. The penalty is up to \$50 for each inaccurate return.<sup>16</sup> Beginning in July 2004, the IRS plans to implement a penalty program for Forms W-2 with inaccurate name/SSN combinations.<sup>17</sup> The SSN Pilot provided employers with the opportunity to correct name/SSN mismatches before they were reported on a W-2 and became subject to IRS penalties.

### **ADVANTAGES FOR OTHER FEDERAL AND STATE PROGRAMS**

The SSN Pilot offers numerous additional advantages to Federal and State programs when it leads to corrected name/SSN employee information. The SSA/OCSE report identified some potential benefits the following organizations may realize: (1) OCSE; (2) the IRS; (3) the Department of Education, and (4) various State agencies. In Table 1, we summarize of the advantages derived under the SSN Pilot.

---

<sup>16</sup> 26 U.S.C. § 6721 (a) (2002). The total penalty imposed on an employer for 1 year cannot exceed \$250,000. Penalties for businesses with less than \$5 million in gross receipts are limited to \$100,000.

<sup>17</sup> IRS report, *The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers*, September 2002, Reference Number: 2002-30-156.

**Table 1: Advantages of SSN Feedback Pilot for  
Other Federal and State Programs**

| <b>GOVERNMENT AGENCY</b>       | <b>SSN PILOT BENEFITS CITED IN SSA/OCSE REPORT</b>      | <b>DESCRIPTION</b>   |
|--------------------------------|---|--|
| <b>SSA</b>                     | Reduced Supplemental Security Income (SSI) overpayments | SSA uses NDNH data on-line as part of its pre-claims processing since the leading source of payment error in the SSI program is undisclosed wages. If an applicant alleges no earnings, eligibility and payment amounts are determined on that basis. Improved accuracy in the NDNH data should lead to greater detection of undisclosed wages.  |
| <b>OCSE</b>                    | Increased child support collections                     | More accurate data can improve the operation of OCSE's Federal Parent Locator Service (FPLS), increasing the number of non-custodial parents located by the FPLS and the amount of child support collected.  |
| <b>IRS</b>                     | Tax administration benefits                             | The accuracy of name/SSN combinations can improve the IRS' productivity for tax identification purposes. Additionally, the accuracy of name/SSN combinations can be used by the IRS. The IRS accesses data in the Federal Case Registry of Child Support Orders to verify taxpayer eligibility for the Earned Income Tax Credit.   |
| <b>Department of Education</b> | Increased collection of defaulted loans                 | An increase in the accuracy of name/SSN combinations could increase collections of defaulted loans by the Department of Education.   |
| <b>State Agencies</b>          | Accuracy of records, fraud detection                    | State agencies can realize an increased number of name/SSN matches from the improved accuracy of Quarterly Wage records to locate fraud in their unemployment insurance programs. Also, State agencies have access to new hire data for the verification of eligibility for various programs. These programs include Temporary Assistance for Needy Families, Medicaid, unemployment compensation, food stamps and other programs. |

# Conclusions

---

We commend SSA and OCSE for their efforts regarding the SSN Pilot. Their completed report indicates that prompt notification to an employer of an incorrect name/SSN combination can increase the accuracy of the name/SSN combination in future quarterly wage reports submitted to the NDNH. Additionally, the report suggests that there is an improvement in the accuracy of the name/SSN combination in annual wage reports submitted by employers under the new hire process.

The SSA/OCSE report, as well as our own observations, indicate that expansion of the SSN Pilot may be a worthwhile investment for SSA and OCSE. Furthermore, this expansion should include additional analysis to document the return on investment. The benefits of an expanded SSN Pilot would include:

- Timely reporting of name/SSN errors to employers leading to increased accuracy of the information submitted to government agencies.
- Increasing the likelihood that (1) wages are posted to an employee's earnings history; (2) wages are not posted to the ESF; and (3) more employers are assisted with verification of their new employees.
- Providing employers with (1) early notification of problems regarding wage data submissions; (2) a reduced administrative burden when verifying new hires; and (3) resolution of name/SSN errors so they are not subject to IRS penalties.
- Increasing the efficiency and effectiveness of Federal and State programs by (1) reducing overpayments; (2) increasing child support collections, (3) improving tax identification; (4) increasing the collection rate on defaulted loans; and (5) improving the accuracy of government records while detecting fraud.

# Appendices

---

**Appendix A** – *Acronyms*

**Appendix B** – *Scope and Methodology*

**Appendix C** – *Social Security Number Pilot Notification Form*

**Appendix D** – *Characteristics of the Social Security Number Pilot Responses*

**Appendix E** – *Additional Social Security Administration Employee Verification Pilots*

**Appendix F** – *Prior Office of the Inspector General Reports*

**Appendix G** – *OIG Contacts and Staff Acknowledgments*

## Acronyms

|        |   |
|--------|---|
| APA    | American Payroll Association                                |
| AWR    | Annual Wage Reporting                                       |
| BCIS   | Bureau of Citizenship and Immigration Services              |
| DECOR  | Decentralized Correspondence                                |
| ESF    | Earnings Suspense File                                      |
| EVS    | Employee Verification Service                               |
| FPLS   | Federal Parent Locator Service                              |
| IIRIRA | Illegal Immigration Reform and Immigrant Responsibility Act |
| IRS    | Internal Revenue Service                                    |
| NDNH   | National Directory of New Hires                             |
| OCSE   | Office of Child Support Enforcement                         |
| OIG    | Office of the Inspector General                             |
| SDNH   | State Directory of New Hires                                |
| SSA    | Social Security Administration                              |
| SSI    | Supplemental Security Income                                |
| SSN    | Social Security Number                                      |
| TY     | Tax Year  |

**Forms:**

|     |  |
|-----|--|
| I-9 | Employment Eligibility Verification          |
| W-2 | Wage and Tax Statement                       |
| W-4 | Employee's Allowance Withholding Certificate |

### Scope and Methodology

To respond to the Chairman's questions, we:

- Obtained policies and procedures regarding the Social Security Number (SSN) Feedback Pilot Project.
- Obtained and reviewed the final report completed on the SSN Pilot.
- Obtained and analyzed a data extract from Office of Child Support Enforcement (OCSE) of SSNs returned to employers under the SSN Pilot. Using this information, we determined and identified the number of employers involved in the feedback process, the number of notices sent to employers based on name/SSN mismatches, and those industries in which the name/SSN mismatches occurred.
- We compared the SSN Pilot results with the Social Security Administration's ongoing Employee Verification Service efforts to reduce the growth of the Earnings Suspense File.
- Reviewed the overall benefits of the SSN Pilot Project to (1) the Social Security Administration, (2) employees, (3) employers, and (4) other Federal and State programs.

Our audit did not include a test of information systems to verify the completeness and accuracy of the SSN Pilot data, including the OCSE feedback data submitted for our review. Our work was conducted in Philadelphia, Pennsylvania, from November 2002 to February 2003. We conducted our review in accordance with generally accepted government auditing standards.



# Social Security Number Pilot Notification Form

**Social Security Administration  
Retirement, Survivors, and Disabilities Insurance  
Important Employment Information**

Social Security Administration  
300 N. Greene Street  
Baltimore, MD 21290-0300

Employer Name  
Employer Street Address 1  
Employer Street Address 2  
Employer Street Address 3  
City, State ZIP

Employer Identification Number

We are writing to you about the name(s) and Social Security number(s) (SSN) shown below. Recently, you provided information on newly hired employees to your State Directory of New Hires. This information was forwarded to the Social Security Administration to verify the accuracy of the name(s) and SSN(s) you provided, and the following name(s) and SSN(s) don't agree with our records.

|       |       |       |              |
|-------|-------|-------|--------------|
| FName | MName | LName | Employee SSN |
| FName | MName | LName | Employee SSN |
| FName | MName | LName | Employee SSN |
| FName | MName | LName | Employee SSN |
| FName | MName | LName | Employee SSN |

Please do the following:

- Check your records to verify that you reported the name and SSN as furnished by the employee
- Ensure that the information recorded (name/number) is exactly as shown on the Social Security Card
- If an incorrect name or SSN is being used, correct it
- Ask the employee to call SSA toll free at 1-800-772-1213 or contact any Social Security Office to report a name change or replace a lost Social Security card.

Accurate names and SSNs are important to you and your employees for several reasons. Federal and State agencies will receive more accurate data, which will ensure accuracy of benefits to which your employees may be entitled. For example, SSA uses the name and SSN to maintain a record of earnings for each of your employees. Generally, we are not able to credit an employee's Social Security record for his or her earnings unless the name and SSN reported on the Form W-2 agree with our records. Also, Forms W-2, which do not agree with SSA's records may subsequently be returned for correction. Incorrect reporting may therefore impact the eligibility and amount of Social Security benefits, or other government benefits, due your employee.

(Please See Reverse)

Form SSA-L8188 (4-99)

This letter is intended to allow you to correct your records in order to submit correct data in all future filings to Federal and State agencies, (e.g., Form W-3/W-2 Wage and Tax Statement). You do not need to submit a corrected new hire report for the employee(s).

If you have any questions about this letter, you may call our Employer Reporting Service Center toll-free at 1-800-772-6270 from 7:00 a.m. to 7:00 p.m., eastern standard time (this number is for employers only).

/s/

W. Burnell Hurt  
Associate Commissioner  
Office of Central Operations

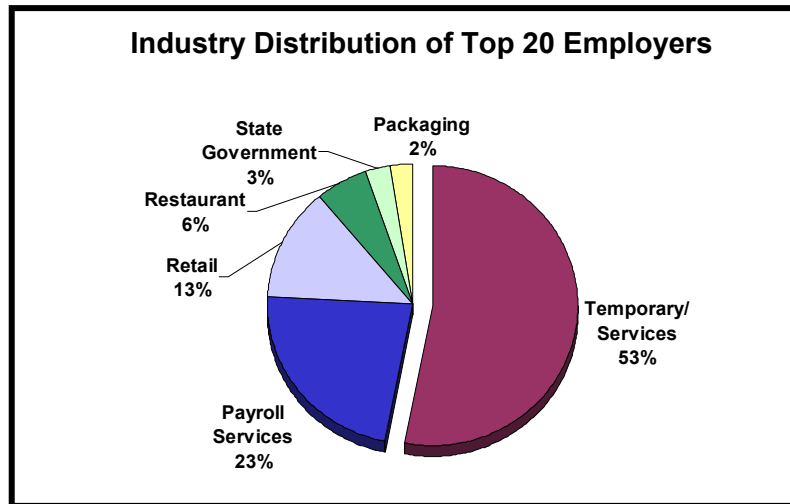
## Characteristics of the Social Security Number Pilot Responses

The Office of Child Support Enforcement (OCSE) provided us with a data extract of the name/Social Security number (SSN) mismatches that occurred during the SSN Feedback Pilot Project. The extract contained approximately 210,800 notices containing about 426,100 specific name/SSN mismatches reported to employers.<sup>1</sup> About two-thirds of the notices were mailed to employers in Illinois and the remaining one-third to employers in Massachusetts.

We identified 53,432 employers related to these notices.<sup>2</sup> Of the top 20 employers among the data, we found the largest representation was temporary employment agencies. The break-out among industries was as follows.

- Temporary/Services – 53 percent
- Payroll Services – 23 percent
- Retail – 13 percent
- Restaurant – 6 percent
- State Government – 3 percent
- Packaging – 2 percent

These 20 employers received approximately 10,415 notices under the SSN Pilot. These same employers later submitted a total of 680,462 W-2s to SSA for Tax Year 2000.



<sup>1</sup> While only 393,102 notices were sent to employers under the final SSN Pilot, another 32,998 notices were issued in the earlier testing phase. OCSE staff provided a file that combined the final data with the test data.

<sup>2</sup> We used the Employer Identification Number, a tax identification number issued by the Internal Revenue Service, to determine the number of employers.

## Additional Social Security Administration Employee Verification Pilots

Title IV, Subtitle A of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (IIRIRA),<sup>1</sup> provides that all U.S. employers, subject to eligibility for participation, geographical limitations, and limitations of available Bureau of Citizenship and Immigration Services (BCIS) and Social Security Administration (SSA) resources may elect to participate in one or more of three employment verification pilot programs — the Basic Pilot, the Citizen Attestation Pilot, and the Machine-Readable Document Pilot. The Citizen Attestation Pilot does not involve SSA in the verification process, so we do not discuss it below.

IIRIRA requires that the Attorney General, BCIS, and SSA implement the pilot programs to test different methods of providing an effective nondiscriminatory work eligibility verification procedure focusing on electronic verification. Through an automated confirmation system, employers will match information provided by employees on the *Employment Eligibility Verification* (Form I-9) against existing information contained in SSA's and BCIS' databases to confirm an individual is eligible to work.

### BASIC PILOT PROGRAM

The Basic Pilot is being conducted jointly by the BCIS and SSA in the States of California, Florida, Illinois, Nebraska, New York, and Texas. The pilot started in November 1997. On January 16, 2002, the President signed into law H.R. 3030 (P.L. 107-128), to extend the basic pilot program for employment eligibility verification until 2004.

Employers participating in the Basic Pilot check the SSA automated system to verify the name, SSN, and date of birth of all newly-hired employees, regardless of citizenship. When the Numident shows the newly-hired employee is a U.S. citizen or permanent resident alien, SSA's automated system also confirms employment eligibility. When the SSA automated system cannot confirm employment eligibility, employers must check the BCIS automated system.

The Basic Pilot program is free to employers who volunteer to participate. The BCIS provides the software, manual, notices, and a computer based tutorial which provides information relating to Basic Pilot policy and procedures. The SSA and the BCIS continue to recruit employers for participation in the Basic Pilot program. To participate, an employer must sign an agreement with the BCIS and SSA.

---

<sup>1</sup> Public Law 104-208.

## **MACHINE-READABLE DOCUMENT PILOT PROGRAM**

In May 1999, the BCIS and SSA began conducting the Machine-Readable Document Pilot in Iowa. The Machine-Readable Document Pilot is identical to the Basic Pilot in all respects, except for the more limited geographic scope of the pilot and the machine-readable feature. The pilot is expected to last 4 years.

If an employee presents an Iowa's driver's license or identification card containing a machine-readable SSN, the employer will make an inquiry through the confirmation system by using the machine-readable feature. To participate, an employer needs a personal computer with a modem. The BCIS will provide the machine-reading device at no cost to the employer.

The Machine-Readable Document Pilot will end in May 2003. On March 11, 2003, the BCIS sent a letter to participating employers requesting that they register for the Basic Pilot.

Prior Office of the Inspector General Reports

| <b>Office of the Inspector General Reports Related to Social Security Number Pilot Feedback Project</b> |  |                           |
|---|--|---------------------------|
| <b>Common Identification Number</b>   | <b>Report Title</b>  | <b>Date Report Issued</b> |
| A-03-03-23038   | <i>Status of the Social Security Administration's Earnings Suspense File</i>                               | November 2002             |
| A-03-02-22008   | <i>The Social Security Administration's Employee Verification Service for Registered Employers</i>         | September 2002            |
| A-03-01-11034   | <i>The Effectiveness of the Social Security Administration's Decentralized Correspondence Process</i>      | July 2002                 |
| A-03-00-10022   | <i>Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems</i>        | September 2001            |
| A-01-00-20006   | <i>Review of the Social Security Administration's Office of Child Support Enforcement Pilot Evaluation</i> | May 2001                  |
| A-08-99-41004   | <i>Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry</i>                     | January 2001              |

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Walter Bayer, Director, (215) 597-4080

Rona Rustigian, Director, (617) 565-1819

### ***Acknowledgments***

In addition to those named above:

Walter Mingo, Auditor-in-Charge

For additional copies of this report, please visit our web site at <http://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-03-03-13017.

## DISTRIBUTION SCHEDULE

Commissioner of Social Security

Office of Management and Budget, Income Maintenance Branch

Chairman and Ranking Member, Committee on Ways and Means

Chief of Staff, Committee on Ways and Means

Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Subcommittee on Human Resources

Chairman and Ranking Minority Member, Committee on Budget, House of Representatives

Chairman and Ranking Minority Member, Committee on Government Reform and Oversight

Chairman and Ranking Minority Member, Committee on Governmental Affairs

Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Committee on Finance

Chairman and Ranking Minority Member, Subcommittee on Social Security and Family Policy

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board



# **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, rather than detecting problems after they occur.

## **Office of Executive Operations**

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

## **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.