SOCIAL SECURITY

MEMORANDUM

Date: October 30, 2003

Refer To:

To: The Commissioner

From: Inspector General

Subject: Follow-Up Review of Employers with the Most Suspended Wage Items (A-03-03-13026)

Attached is a copy of our final report. Our objectives were to determine whether (1) wage reporting had improved among the original 100 employers in our September 1999 report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items,* and (2) the Social Security Administration had taken steps to implement our recommendations from the 1999 report.

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.

James G. Huse, Jr.

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

FOLLOW-UP REVIEW
OF EMPLOYERS WITH THE MOST
SUSPENDED WAGE ITEMS

October 2003 A-03-03-13026

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

The objectives of the audit were to determine whether (1) wage reporting had improved among the original 100 employers in our September 1999 report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items (A-03-98-31009),* and (2) the Social Security Administration (SSA) had taken steps to implement our recommendations from the 1999 report.

BACKGROUND

Our September 1999 report identified those employers with the most suspended wage items from Tax Years (TYs) 1993 through 1996. In the report, we concluded that a relatively small number of employers account for a disproportionate share of the suspended items and dollars in the Earnings Suspense File (ESF), which is the repository for wage items reported under a name and Social Security number (SSN) that does not match SSA records. In this report, we recommended that SSA (1) develop a corrective action plan for problem employers, (2) establish preventive controls related to wage reporting, (3) identify problem employers, and (4) use software to identify employers using the same address. SSA agreed with Recommendations 1 and 3 and disagreed with Recommendations 2 and 4.

RESULTS OF REVIEW

Our review of the ESF activity for the original 100 employers during TYs 1997 to 2000 showed that, of the original 100 employers in our prior review:

- 40 were still on the Top 100 employers list for the follow-up period, and
- 60 were no longer on the Top 100 employers list for the follow-up period.

Of the 60 employers that were no longer on the Top 100 employers list in TYs 1997 to 2000:

- 14 employers showed *increased* reporting accuracy from the original period to the follow-up period;
- 19 employers showed *decreased* reporting accuracy from the original period to the follow-up period; and
- 27 employers did not have sufficient wage items in TY 2000 to determine the reporting accuracy.

We found that some of the employers no longer on the Top 100 list were reporting their wages under different Employer Identification Numbers. In addition, it is possible that some of these employers were no longer in business.

SSA has taken steps to address two of the recommendations through its efforts to assist employers and hold them accountable for their wage reporting, including (1) improving programs to assist employers with wage reporting problems, (2) focusing Employer Service Liaison Officer's (ESLO) resources on the largest contributors to the ESF, and (3) coordinating activities with the Internal Revenue Service so employers who continually report significant name/SSN mismatches can be penalized. However, SSA still needs to do more in establishing preventive controls to detect wage reporting errors and irregularities. The Agency has established an Earnings Data Warehouse that will eventually be able to track employer reporting errors. Furthermore, the Agency has not identified employers that report the same address for many employees. We believe that this "address" control, or similar controls, could assist the Agency in detecting potential SSN misuse.

CONCLUSIONS AND RECOMMENDATIONS

To ensure SSA can identify employer reporting trends and focus its efforts on the employers with the most significant problems, we continue to recommend that SSA establish preventive controls to detect wage reporting errors and irregularities, including a link between the new Earnings Data Warehouse and ESLO efforts.

AGENCY COMMENTS

SSA agreed with our recommendation, stating the Earnings Data Warehouse will provide employer reporting trends in early 2004, and the ESLOs will have access to this data.

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Acronyms

EIN	Employer Identification Number
ESF	Earnings Suspense File
ESLO	Employer Service Liaison Officer
EVS	Employee Verification Service
IRS	Internal Revenue Service
MEF	Master Earnings File
OPSOS	Office of Public Service and Operations Support
SSA	Social Security Administration
SSN	Social Security Number
SSNVS	Social Security Number Verification Service
TY	Tax Year
W-2	Wage and Tax Statement

Introduction

OBJECTIVE

The objectives of the audit were to determine whether (1) wage reporting had improved among the original 100 employers in our September 1999 report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items,* and (2) the Social Security Administration (SSA) had taken steps to implement our recommendations from the 1999 report.

BACKGROUND

Title II of the Social Security Act requires that SSA maintain records of wages employers pay to individuals. Employers report their employees' earnings to SSA annually on a *Wage and Tax Statement* (Form W-2). SSA uses manual and automated edits to match employees' Social Security numbers (SSN) and names to SSA's master file to post their earning to the Master Earnings File (MEF). The Earnings Suspense File (ESF) contains wage items that fail to match SSA's name and SSN records. As of July 2002, SSA's ESF contained about 236 million wage items and $374 billion in wages that could not be posted to individual earnings records. In Tax Year (TY) 2000, the ESF increased by 9.6 million items and $49 billion.

Wages in the ESF affect an individual's Social Security benefits. SSA uses earnings posted to the MEF to determine eligibility for retirement, survivors, disability, and health insurance benefits and calculate benefit amounts. If earnings are not properly posted to an individual's earning record, the person will not receive credit for them.

In September 1999, we issued an audit report that identified the 100 employers with the most suspended wage items from TYs 1993 to 1996. We concluded that a relatively small number of employers account for a disproportionate share of the suspended items and dollars in the ESF, and many of these suspended wage items exhibited patterns of reporting errors and irregularities. We are doing a follow-up review for the following reasons: (1) ongoing congressional interest in the ESF; (2) the ESF's continued growth; and (3) changes SSA made in the earnings reporting area since our 1999 report.

In our prior report, we recommended that SSA:

- Develop and implement a corrective action plan for the 100 employers and continue its current efforts to contact those employers who are responsible for large numbers of suspended wage items.

- Establish preventive controls to detect wage reporting errors and irregularities.

- Identify those employers who continually submit annual wage reports with large numbers and/or percentages of unassigned, identical, and/or consecutively numbered SSNs.

- Run address standardization software as soon as practical after employers submit their annual wage reports to identify employers that report the same address for many employees.

In its comments to our 1999 report, SSA stated that, overall, the findings paralleled its experience with employer reporting problems. SSA indicated that implementing the recommendations would not necessarily influence an employee to provide his/her employer with the correct name/SSN or an employer to improve the accuracy of wage reporting. In addition, SSA stressed that it has no compliance authority and is dependent on the Internal Revenue Service (IRS) efforts in this area.

Specifically, SSA agreed with our recommendations to develop a corrective action plan for the 100 employers and identify those employers who continually submit annual wage reports with mismatched names and SSNs. However, SSA disagreed with the remaining two recommendations, but stated it would explore the feasibility of implementing preventive controls and address standardization software. See Appendix B for the original recommendations and SSA's most recent comments.

SCOPE AND METHODOLOGY

Our audit did not include an evaluation of SSA's internal controls over the wage reporting process. The purpose of our review was to determine how SSA used the wage reporting data the Agency had accumulated. We did not focus our efforts on the collection of wage reporting data, nor did we attempt to establish the reliability or accuracy of such data. We provide additional information on our scope and methodology in Appendix C. The entity audited was SSA's Office of Public Services and Operations Support (OPSOS) under the Deputy Commissioner of Operations and the Office of Earnings, Enumeration and Administrative Systems under the Deputy Commissioner of Systems. We conducted our follow-up audit in Baltimore, Maryland, and the Office of Audit in Philadelphia, Pennsylvania, between August 2002 and May 2003. We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

Of the original 100 employers with wage reporting problems in TYs 1993 to 1996 (hereafter called the original period), 40 employers were still on the top 100 list for TYs 1997 to 2000 (hereafter called the follow-up period). Of the remaining 60 employers, 14 improved their reporting accuracy, whereas the remaining 46 either showed declining reporting accuracy or the accuracy could not be determined. SSA has taken steps to implement two of the recommendations from our earlier audit report. However, the Agency still needs to do more in establishing preventive controls to detect wage reporting errors and irregularities. The Agency has established an Earnings Data Warehouse that will eventually be able to track employer reporting errors. Furthermore, SSA has not taken steps to implement address standardization software to identify employers who report the same address for many employees.

STATUS OF 100 EMPLOYERS ON 1993 TO 1996 LIST

Our review of the ESF activity for the original 100 employers during TYs 1997 to 2000 showed that these employers submitted over 1.3 million items to the ESF, compared with about 1.2 million items submitted by these same employers during TYs 1993 to 1996. This is an increase of about 12 percent (140,000 items) from the original period to the follow-up period. Furthermore, our analysis showed that, of the original 100 employers in our prior review:

- 40 were still on the Top 100 employers list for the follow-up period; and
- 60 were no longer on the Top 100 employers list for the follow-up period.

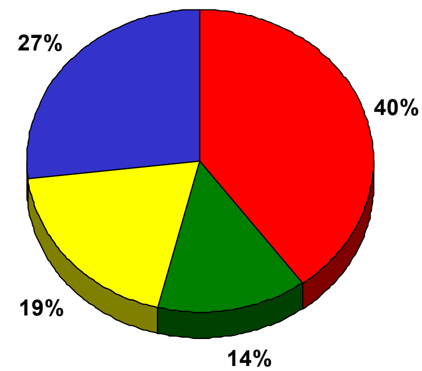
Of the 60 employers that were no longer on the Top 100 employers list:

- 14 employers showed *increased* reporting accuracy[1] from the original period to the follow-up period;
- 19 employers showed *decreased* reporting accuracy from the original period to the follow-up period; and
- 27 employers did not have sufficient wage items in TY 2000 to determine the reporting accuracy.

Figure 1 is a graphic representation of the status of the 100 employers, and Appendix D provides more details on the status of the original 100 employers.

[1] We define reporting accuracy as the percent of reported wage items that fail to match the name and/or SSN in SSA's records and are posted to the ESF. Increased reporting accuracy means fewer of the reported wage items go into the ESF over a period of time.

Figure 1: Status of the Original 100 Employers During Tax Years (TY) 1997-2000



Employers are required to report their earnings under an Employer Identification Number (EIN),[2] and employers can report earnings using more than one EIN. We were unable to identify all employers using multiple EINs during our follow-up period. Based on our analysis of employers where we were able to link EINs, we believe more of the original employers would have a significant number of ESF items, and the number of original employers on the follow-up Top 100 list would have been larger, had these employers reported their wages under the same EIN during the follow-up period.

We were able to learn more about the true reporting trends among the original Top 100 employers through (1) SSA's earnings record system, which often cross references different EINs used by the same employer, and (2) discussions with Employer Service Liaison Officers (ESLO) who were aware of the different EINs being used by employers.

At least 12 of the 60 employers who were not on the follow-up Top 100 list reported their wages under a different EIN(s) during TYs 1997 to 2000.[3] For example, one employer in the hotel industry (employer #11 in Appendix D) reported 19,641 wage items during TYs 1993 to 1996 that went into the ESF. During TY 1996 alone, the employer reported 278,819 W-2s, of which 9,421 went into suspense. During the follow-up period, this same employer reported only 25 wage items that went into the ESF in total. However, we learned that this employer reported the bulk of its W-2s using two different EINs after TY 1996 and ceased using the EIN in our study by TY 2000. This same employer reported 391,047 wage items to SSA in TY 2000 under

[2] The EIN is a nine-digit number assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes.

[3] We looked for anomalies, such as a new reporting EIN, when the number of wage items reported annually during the TYs 1993 to 2000 period dropped significantly.

2 different EINs, of which 18,841 wage items went into the ESF. Had all of this employer's wages been reported under the original EIN, we believe this employer would have been on the follow-up Top 100 employers list.

ORIGINAL EMPLOYERS STILL AMONG THE TOP 100 EMPLOYERS

Forty of the original 100 employers are also on the Top 100 list for the follow-up period. These 40 employers reported over 1 million suspended wage items during the 4-year follow-up period, or an average of 25,100 per employer. In the original 4-year period, these 40 employers reported 649,000 suspended wage items, or an average of 16,200 per employer. Furthermore, these 40 employers represent 55 percent of all suspended wage items on the original Top 100 list, and 76 percent of all suspended wage items on the Top 100 list for the follow-up period.

All but 4 of these 40 employers showed decreased reporting accuracy during the follow-up period. All four employers showing improved accuracy had been contacted by SSA's ESLOs during the follow-up period. We discuss ESLO activity later in this report.

ORIGINAL EMPLOYERS NO LONGER AMONG THE TOP 100 EMPLOYERS

While 60 percent of the original employers were no longer on the follow-up Top 100 list, most fell off the list because of a change in how they reported wages to SSA rather than improvements in their reporting. We found that 14 employers showed a clear improvement in their reporting accuracy. As a result, they were no longer on the Top 100 employers list for the follow-up period. The percentage of wage items sent to the ESF decreased during the 2 review periods for these 14 employers, which included growers, restaurants, employment agencies, a retail store, and a local government.

For example, one restaurant employer (employer #44) significantly decreased both the number and percentage of W-2 items going to the ESF from 1996 to 2000, even though its payroll increased during the same period. In 1996, almost 37 percent of the employer's reported W-2s did not match SSA's records and were sent to the ESF. The percent of wages going into the ESF decreased to 2 percent in 2000.

We learned that SSA's ESLOs contacted 11 of the 14 employers who improved their reporting accuracy. In addition, one of these employers verified its employees' names and SSNs through SSA's Employee Verification Service (EVS).[4] It appears that SSA's services allowed these employers to improve their wage reporting during the follow-up period.

The remaining 46 employers either (1) showed a decrease in their reporting accuracy or (2) did not report wage items during the entire period, and we were unable to determine their true reporting accuracy. Nineteen employers showed a decrease in their reporting accuracy from TY 1996 to TY 2000. We were unable to determine the reporting accuracy for another 27 employers, since 19 employers (70 percent) reported no wage items in TY 2000, and another 8 employers (30 percent) reported 10 percent or less of their TY 1996 wage items in TY 2000. As noted above, some of these employers may

[4] We discuss EVS later in this report.

be reporting their wages under a different EIN(s). In addition, it is possible that some of these employers were no longer in business.

AGENCY PROGRESS ON EARLIER RECOMMENDATIONS

SSA has taken steps to address two of the recommendations through its efforts to assist employers and hold them accountable for their wage reporting, including (1) improving programs to assist employers with wage reporting problems, (2) focusing resources on the largest contributors to the ESF, and (3) coordinating activities with the IRS so employers who continually report significant name/SSN mismatches can be penalized. However, SSA still needs to do more in establishing preventive controls to detect wage reporting errors and irregularities. The Agency has established an Earnings Data Warehouse that will eventually be able to track employer reporting errors. Furthermore, the Agency has not identified employers that report the same address for many employees.

IMPROVING PROGRAMS TO ASSIST EMPLOYERS

Since our 1999 audit, SSA has taken steps to assist the Top 100 employers, as well as other employers, with their wage reporting. These new efforts include expanded employer correspondence to notify employers of name/SSN mismatches in their wage reports and developing an on-line employee verification program to assist employers with name/SSN mismatches before the wage reports are submitted. SSA also assists employers' wage reporting through its ESLOs, though we did not find a high correlation between the Top 100 employers and those contacted by the ESLOs. We also did not find any corrective action plans specific to the 100 employers identified in our earlier audit.

Employer Correspondence

In TY 2001, SSA improved its notification process for employers by increasing the number of "no match" letters—or educational correspondence—it sends to employers who submit W-2s containing name and/or SSN information that does not agree with SSA's records. Although SSA has been sending educational correspondence letters to specific employers since 1994, in TY 2001, it began sending letters to all employers where the name and/or SSN on just one W-2 did not agree with SSA's records. SSA sent employers approximately 950,000 letters in TY 2001, an almost 9-fold increase from the previous year.

While we find this to be an encouraging step, SSA announced a new policy effective for TY 2002 wage reporting. Employers will receive a letter if they submit more than 10 W-2s that SSA could not process if those W-2s represent more than one-half of 1 percent of the W-2s reported.[5] As a result of this change, SSA estimates it will send 129,000 letters to employers, or about 820,000 fewer letters than in TY 2001. As with the earlier criteria, this change may overlook small employers or employers who submitted only a few records that SSA could not process. SSA attributed the change in policy to a business decision to balance improving the wage reporting process with using Agency resources effectively.

Employee Verification Services

SSA is expanding its current EVS programs[6] to include an on-line service called the Social Security Number Verification Service (SSNVS). SSNVS is being piloted among a few employers, but SSA hopes it will encourage more employers to use SSA's name/SSN verification program for new employees. Our September 2002 report[7] noted that very few employers are using the current EVS system for registered users. This program uses diskettes and magnetic media rather than on-line processes. In the report, we stated that only 392 of approximately 6.5 million employers in the United States were using SSA's EVS during TYs 1999 to 2001. We also noted that SSA did not disclose pertinent information that could have assisted users. Specifically, SSA did not inform employers when a submitted SSN belonged to a deceased individual or when the SSN was issued for non-work purposes. SSA has stated it intends to modify both EVS and SSNVS to disclose the pertinent information to employers.

Our earlier report also determined that only 10 of the Top 100 employers with the largest number of suspended items registered for and used SSA's EVS during TYs 1999 to 2001. A review of the EVS registration list showed that the 10 employers signed up for the program in 1997 or later. The 10 employers represent just 3 percent of the employers that used EVS during a recent 3-year period, 1999-2001; however, they accounted for 25 percent or 13.5 million of the SSNs submitted to EVS. Three employers alone submitted over 11.8 million SSNs.

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[5] Before this, SSA only sent letters to employers who submitted more than 10 W-2s that SSA could not process if those W-2s represented more than 10 percent of the W-2s reported.

[6] The purpose of the EVS program is to ensure employees' names and SSNs are valid before the employers' W-2s are submitted to SSA. The use of EVS is voluntary and can assist employers in eliminating common SSN reporting errors. Depending on the number of SSNs they want to verify at one time, employers can call an 800-number for 5 or fewer or submit a paper request of up to 50 names directly to a SSA field office. Employers who wish to verify 51 or more SSNs at once are encouraged to register for the EVS program.

[7] *The Social Security Administration's Employee Verification Service for Registered Employers* (A-03-02-22008), September 2002.

Of the 10 employers registered to use EVS, only 9 were using it during our follow-up period. Of these 9 employers, our review determined that:

- 6 were still in the Top 100;
- 2 were no longer in the Top 100 but reported little or no earnings for at least 1 of the years in the follow-up period, so we could not determine their overall accuracy; and
- 1 was no longer in the Top 100 and had improved its wage reporting.

Employer Service Liasion Officers

Since 1996, SSA's OPSOS has developed a national listing of employers who submit 100 or more suspended wage items. These lists are sent to regional ESLOs for follow-up contacts with the employers.[8] SSA does not direct the ESLOs to contact specific employers or follow up with the ESLOs regarding what contacts were made and the results of the contacts. For 2001, the number of employers on these lists ranged from 238 (Kansas City Region) to 3,826 (San Francisco Region)—see Table 1.

Table 1: Employer Service Liaison Officer Contacts and Comments

Region	Employers with More than 100 Items in ESF for TY 2001	Employers on Top 100 List Contacted by ESLO	Stated Mandatory Use of EVS May Improve Employer Wage Reporting	Stated IRS Penalties May Improve Employer Wage Reporting
Atlanta	1,909	0	--	x
Boston	303	1	x	x
Chicago	NP	9	x	x
Dallas (1)	NP	11	x	x
Denver (1)	NP	2	x	x
Kansas City	238	0	--	--
New York	787	7	x	x
Philadelphia	478	1	--	x
San Francisco	3,826	23	--	--
Seattle	761	5	x	x
Totals	**8,302**	**59**	**6**	**8**

NP = Not Provided by ESLO.
Note1: One response was provided covering both the Dallas and Denver Regions.

All nine regional ESLOs responded to our questionnaire regarding employer contacts in their region.[9] All the responding ESLOs received a list from OPSOS showing employers in their region with 100 and more items in the ESF for TY 2001. Seven of the 9 ESLOs reported they contacted at least some of the Top 100 employers from our prior audit. These contacts were made by telephone, letter, and in person. In total, ESLOs

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[8] SSA maintains ESLOs in each Region. The ESLOs' responsibilities include (1) answering employers' questions on wage report submissions; (2) encouraging employers to use SSA's various programs, such as EVS; (3) conducting wage-reporting seminars, in partnership with the IRS, for employers, payroll service providers, and payroll software companies; and (4) contacting employers with significant suspended wage items in their regions.

[9] Although SSA has 10 regions, there are 9 ESLOs. The Dallas and Denver regions share an ESLO.

contacted 59 of the Top 100 employers, including 25 of the 40 employers that were still in the Top 100 list as of TY 2000. One of the ESLOs who did not contact the Top 100 employers during this period stated he had contacted the employers in the past, but other workloads had proved more productive.

Another ESLO noted that the list OPSOS provided did not highlight the Top 100 employers from our earlier audit. When we spoke to OPSOS staff, they pointed out that ESLOs are not provided with information related to employer reporting trends, but rather each ESLO has discretion as to which employers they contact.

When asked for comments regarding ways to improve employer reporting, ESLOs commented that better coordination is needed between several Federal agencies, including SSA, the IRS, and the Bureau of Citizenship and Immigration Services. Furthermore, most of the ESLOs supported the mandatory use of EVS among employers and IRS penalties for submitting incorrect wage reports. Other ESLO comments included the following.

- Until employers can verify the name and SSN before hiring an employee, wage items will continue to go into suspense since the individual is on the payroll before the problem is detected.
- The problem often relates to the nature of the workforce, such as the widespread presence of illegal workers, which is not under SSA's control.
- Some employers may see the IRS penalty as a cost of doing business.

COORDINATION WITH THE INTERNAL REVENUE SERVICE

SSA and the IRS are coordinating their efforts to identify problem employers, which will assist the IRS in assessing penalties against noncompliant employers. The Internal Revenue Code allows the agency to penalize an employer if it fails to file a complete and accurate wage reporting form.[10] The penalty is $50 per incorrect form, with a $250,000 yearly limit. For business with average receipts not more than $5 million, the limit is $100,000 yearly.[11]

In November 1998, SSA proposed that the IRS and SSA work together to develop employer incentives that could encourage improved wage reporting. In August 2000, SSA provided the IRS a list of the most egregious noncompliant employers for TYs 1997 and 1998 so the Agency could determine whether penalties should be assessed. The IRS did not assess penalties against the employers on the 1997 and 1998 lists since the statute of limitations expired before it could take action. The Treasury Inspector General for Tax Administration estimated that the IRS, if it had acted

[10] 26 U.S.C. § 6721 (2003).

[11] *See id.* The gross receipts test is met when, for any calendar year, the average annual gross receipts for the most recent 3 taxable years do not exceed $5 million. In addition, any reference to an entity includes a reference to any predecessor of that entity, and, the Internal Revenue Code allows for exceptions if the errors are due to reasonable cause.

timely, could have assessed penalties between $26.0 and $29.7 million against 93 employers for TY 1997 and an additional 98 employers for TY 1998.[12] Based on our analysis, we believe the same conditions existed for TYs 1999 and 2000, and a like amount of penalties could have been assessed for those years.

In February 2002, the IRS met again with SSA to develop a program for referring the problem employers. Using employer reporting data from TYs 1997 through 2000, the IRS stated it intended to do the following.

- Analyze and develop a list of the most egregiously noncompliant employers for TYs 1997 through 2000. This was to be completed within 120 days from the receipt of the 1999 and 2000 data from SSA.
- Develop a contact letter to notify the most egregiously noncompliant employers of their responsibility to file correct information returns. This letter was to be written within 60 days after receiving data from SSA.
- Take corrective actions when the facts and circumstances show the employer knowingly or willfully failed to comply with the requirements of section 6721 of the Internal Revenue Code. Corrective actions may include another letter, a telephone call or visit by an IRS representative, a proposed penalty assessment, and/or an examination.[13]

The first proposed penalties are scheduled for June 2004 for W-2s filed for TY 2002.

PREVENTIVE CONTROLS AND ADDRESS STANDARIZATION SOFTWARE

SSA had not developed preventive controls to detect wage reporting problems and had instead removed some of the controls already in place. Furthermore, SSA had not taken steps to implement address standardization software to identify employers who report the same address for many employees.

Preventive Controls

SSA had not established preventive controls to detect wage reporting errors and irregularities. In response to this recommendation in our original report, SSA stated it was exploring the feasibility of establishing an Earnings Suspense Management Information Database, which would allow the Agency to better monitor wage reporting errors and irregularities and more rapidly share information with the IRS. However, in its most recent response to our recommendation, SSA noted it had explored and implemented several innovations to improve the preventative controls established to detect wage reporting errors and irregularities, including:

[12] *The Internal Revenue Service Does Not Penalize Employers that File Wage and Tax Statements with Inaccurate Social Security Numbers* (Ref. Number 2002-30-156), Treasury Inspector General for Tax Administration, September 2002.

[13] *See id.*

- Increasing the threshold at which reports would be returned to employers from 10 percent of the wage report being correct to at least 50 percent of the wage report being correct – that is, containing correct name/SSN combinations. However, SSA noted this policy change had no payoff.
- Identifying the largest contributors to the ESF and providing the employer information to regional offices for discretionary contact. SSA noted the contacts have educated employers on the importance of correct reporting but added the Agency has seen little payoff.

Based on these experiences, SSA believed the expected return on investment did not justify the use of the software development resources that would be required for this project.

We believe the innovations listed above did not have a chance to come to fruition. For example, in our May 2001 Office of the Inspector General report,[14] we commented on the employer threshold and found that SSA's policies and procedures did not improve employer wage reporting as intended because they were not tracking key information. Among other findings, the prior report found SSA (1) had no management information system to identify chronic problem employers and (2) force processed[15] wage reports for the same employers for 2, and sometimes 3, consecutive years.

For TYs 1995 and earlier, SSA accepted magnetic media[16] if as few as 10 percent of the names and SSNs matched SSA's records. SSA increased the acceptance threshold to 30 percent for TY 1996 and to 50 percent for TY 1997 (with a maximum of 5,000 errors allowed). However, as a result of its determination that this threshold was not having its intended effect, SSA increased the acceptance threshold to 95 percent beginning in TY 2000, accepting wage reports with 95 percent of the name/SSN combinations incorrect. Only 5 percent of the items on a wage report would be correctly posted to an individual's earnings record, and the remaining 95 percent would be sent to the ESF.

In the May 2001 report, we disagreed with changing the threshold to 95 percent, stating that, by raising the wage reporting acceptance threshold to 95 percent and continuing to force process wage reports for the same employers, SSA had removed some preventative controls that were in place. We encouraged SSA to reconsider eliminating the 50-percent threshold until it had sufficient time to determine the impact this policy change will have on the ESF. We still believe a 50-percent threshold would be a more viable preventive control than a 95-percent threshold.

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[14] *Force Processing of Magnetic Media Wage Reports with Validation Problems* (A-03-99-31001), May 2001.

[15] *See id.* SSA uses a procedure known as force processing to process employer wage reports that do not meet its acceptance standards. When force processing wage reports, SSA suspends a systems edit and notifies the employer it will force process a wage report one time only. Force processing of wage reports results in unmatched W-2s going directly to the ESF.

[16] Employers with 250 or more employees are required to use magnetic media (tape, diskette, or cartridge) when reporting wage information to SSA.

We also believe improved management information related to employer reporting could focus ESLO contacts in the region and make their efforts more productive. SSA is establishing an Earnings Data Warehouse that can track employer-specific reporting trends.[17] This facility will be able to determine the percent of an employer's payroll that contains name and SSN mismatches. This information, combined with the ESLO efforts, could allow for better targeting of problem employers.

Address Standardization Software

Our first report recommended that SSA run address standardization software as soon as practical after employers submit wage reports to identify employers that report the same address for many employees. SSA disagreed with this recommendation, stating it would review the feasibility of this recommendation. SSA later stated it had decided not to run address standardization software. SSA stated if the name/SSN on the wage report matched SSA's records, the address is immaterial; and if the item does not match SSA's records, the mismatch is the reporting problem. Furthermore, SSA noted that in many cases, especially in the agricultural workforce, a number of people may live at the same address. The Agency stated that this is often the case for a transient workforce where specific apartments or homes are provided as a temporary residence. As a result, SSA believes the potential return on investment does not appear to justify the developmental costs that would be incurred to implement this recommendation.

While we understand the Agency's position, we continue to believe duplicate mailing addresses on W-2s may be an indicator of SSN fraud. Our original report found that 94 of the 100 employers reported duplicate mailing addresses for 3 or more employees, involving almost 73,000 suspended W-2s and $194 million in suspended wages. In light of increasing concerns about SSN misuse in the U.S. economy, maintaining management information on address trends, or other similar trends, may assist SSA in detecting such SSN misuse and allow the Office of the Inspector General to investigate the more egregious situations.

[17] SSA Office of Systems staff said this facility should be able to track employer-specific trends by fall 2003.

Conclusions and Recommendations

SSA has taken steps to implement two of the recommendations from our prior report. However, while SSA's actions have helped improve the wage reporting of some of the 100 employers, wage reporting problems still exist. In addition, we continue to believe establishing preventive controls and implementing address standardization software, or similar controls to detect potential SSN misuse, will help alleviate some of the wage reporting problems and protect the integrity of the SSN.

To ensure SSA can identify employer reporting trends and focus its efforts on the employers with the most significant problems, we continue to recommend that SSA establish preventive controls to detect wage reporting errors and irregularities, including a link between the new Earnings Data Warehouse and ESLO efforts.

AGENCY COMMENTS

SSA agreed with our recommendation, stating the Earnings Data Warehouse will provide employer reporting trends in early 2004, and the ESLOs will have access to this data.

Appendices

Earlier Audit Findings Related to the Top 100 Employers

In our earlier audit,[1] we noted that 84 of the 100 employers experienced increases in suspended wage items over the 4-year period (1993 to 1996), including 27 employers with increases of 100 percent or more.

Patterns of reporting errors and irregularities exhibited by the 100 employers included the following.

- Ninety-six employers reported 109,360 unassigned Social Security numbers (SSN), numbers never issued by the Social Security Administration, representing about $298.5 million in suspended wages.
- Thirty-six employers reported 3,127 of the 109,360 unassigned SSNs as "000-00-0000."
- Ninety-four employers reported duplicate mailing addresses for 3 or more employees, involving 72,770 suspended *Wage and Tax Statements* (Form W-2) or 21 percent of the 340,922 suspended wage items for these employers in 1996. Suspended wages involving duplicate addresses totaled about $193.7 million.
- Eighty-six employers reported 3 or more consecutively numbered SSNs involving 4,910 W-2s and $14.4 million in suspended wages. We defined consecutive SSNs as those where the first six digits were identical.
- Sixty-nine employers reported 16,742 identical W-2s, representing $31.1 million in suspended wages, that were used 2 or more times by employees working for the same employer.

[1] *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31009), September 1999.

Status of Office of the Inspector General Recommendations Made in September 1999 Top 100 Report

<u>Recommendation 1:</u> Develop and implement a corrective action plan for the 100 employers and continue efforts to contact those employers responsible for large numbers of suspended wage items.

Status: The Social Security Administration (SSA) agreed and implemented the recommendation on October 2, 2001.

> <u>SSA Response:</u> SSA agreed that these employers should take corrective action. SSA is in its third year of contacting employers with 100 or more items in the suspense file. It plans to continue these efforts as a way of educating those employers on the importance of submitting accurate wage reports.
>
> SSA's payoff from these efforts has been that it has learned a lot about those who cause the most items to be placed in the suspense file. The most egregious offenders are not improving their name/number accuracy and are not interested in learning how to do so, although SSA recognizes that some employers are interested and appreciate the educational contacts it makes. SSA believes improvement will only come through some stronger action.
>
> In addition, a change has already been made that will be included in notices sent in February 2000 for Tax Year 1999. SSA is inserting a section in the notice informing employers about their responsibilities and employee rights. This has become necessary because SSA does not want employers to abuse the information sent them by releasing employees without giving them the opportunity to correct their records or explain why information may be incorrect.

<u>Recommendation 2:</u> Establish preventive controls to detect wage reporting errors and irregularities.

Status: SSA disagreed.

> <u>SSA Response:</u> SSA has explored and implemented several innovations to improve the preventative controls established to detect wage reporting errors and irregularities. The threshold at which reports would be returned was increased from 10 to 50 percent with no payoff to SSA. SSA has also identified the largest contributors to the suspense file and provided the employer information to its regional offices for discretionary contact. SSA's contacts have educated employers on the importance of correct reporting, but it has seen little payoff.

Based on SSA's experiences, it believes the expected return on investment does not justify the use of the software development resources that would be required for this project.

Recommendation 3: Identify those employers who continually submit annual wage reports with large numbers and/or percentages of unassigned, identical, and/or consecutively numbered Social Security numbers (SSN).

Status: SSA agreed and administratively closed out the recommendation on September 5, 2000.

SSA Response: Regional offices receive listings of those employers creating 100 or more suspense items and make discretionary contact. SSA also provides employers with educational notices when the number of errors in a report submittal exceed 10 percent.

Recommendation 4: Run address standardization software as soon as practical after employers submit their annual wage reports to identify employers who report the same address for many employees.

Status: SSA disagreed and closed this recommendation on December 31, 2000.

SSA Response: SSA explored the feasibility of implementing this recommendation. The Office of the Inspector General stated that identifying employers who report the same address for numerous employees could point to a reporting problem. Operations existing processes already identify name/SSN mismatches. If the wage items in question match SSA's Numident and post to individual records on the Master Earnings File, the address reported by the employer is immaterial. Items that do not match the Numident and fall to suspense indicate a reporting problem. Through the processes already in place, SSA does send correspondence to the employers requesting that corrective action be taken.

Scope and Methodology

To meet our objective, we:

- Reviewed Social Security Administration (SSA) policies and procedures for maintaining individual earnings records.

- Reviewed prior SSA Office of the Inspector General and Treasury Inspector General for Tax Administration reports related to the Earnings Suspense File (ESF) and inaccurate wage reporting.

- Reviewed SSA's most recent actions related to recommendations in our September 1999 report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items,* and discussed SSA's employer follow-up actions with staff in the Office of Public Services and Operations Support.

- Contacted SSA's regional Employer Service Liaison Officers for information regarding employer contact and suspended wage items.

- Reviewed SSA's actions targeting employers who submit large numbers of suspended wage items to the ESF.

- Reviewed SSA's ESF activity for 1997 to 2000 for the original 100 employers with the most suspended wage items in 1993 to 1996.

- Created a new Top 100 employers list using the same criteria we used in the original Top 100 report. We identified all employers who contributed 200 or more wage items to the ESF in each of the 4 years in our follow-up period, 1997 to 2000. Using these data, we selected the 100 employers who had the most suspended wage items over the 4-year period. We then determined how many employers from the earlier audit were still on this new Top 100 listing and analyzed the reporting activity related to each of these 100 employers.

  The following are some important factors regarding the methodology used in our follow-up review that need to be considered.

  - These employers were identified using a specific methodology. This is not the only methodology one could use, but using auditor's judgment, we determined it was a useful way of identifying reporting trends.

  - The list is based on wage items reported under an Employer Identification Number (EIN), and some employers report under multiple EINs. Hence, while the trends noted in the audit relate to the EIN, they do not necessarily give a complete picture of the employer. Furthermore, not all employers report their wages in the same way, so one company may report all of its operations under a single EIN and another may use multiple EINs. However, SSA's systems house the wage data under EINs and do not allow us to focus on individual employers. As a result, the audit is identifying the 100 EINs with the most suspended wage items and not necessarily the 100 employers with the most suspended wage items.

- Employers are allowed to switch their EINs for reporting. As a result, we found instances where wages were reported under different EINs over the 4-year period. Under our methodology, if a company switched EINs between 1993 and 1996, it may have failed to report over 200 items in a particular year under a particular EIN and therefore never have made the top 100 listing. However, if one were to look at the employer over the 4-year period rather than the EIN they might have been among the top 100 employers. The same reasoning holds true for our follow-up period, 1997 to 2000, when reviewing the reporting activity of the original top 100 employers.

- Some employers are on the list because of their employment volume rather than significant problems with their reporting accuracy. For example, some employers are reporting only 1 percent of their employees with name/Social Security number mismatches, but they are on the list because 1 percent of their total payroll is a large number. These employers may not have the same underlying problems as the smaller employer reporting as much as 85 percent of its payroll in error.

Initial Top 100 Listing Highlighting Status in Follow-Up Period

1993-96 Ranking	State	Tax Year (TY) 1996 W-2s Reported	TY 1996 W-2s in ESF	TY 2000 W-2s Reported	TY 2000 W-2s in ESF	Present in 1997-2000 Top 100 Employers?	Reporting Accuracy		
							TY 1996 Percent of Reported W-2s in the Earnings Suspense File (ESF)	TY 2000 Percent of Reported W-2s in ESF	Has the Reporting Accuracy Improved?
1	CA	331,348	7,621	358,238	3,938	Yes	2.30%	1.10%	Yes
2	IL	237,656	17,019	229,361	33,829	Yes	7.16%	14.75%	No
3	FL	236,139	13,577	209,921	20,367	Yes	5.75%	9.70%	No
4	MI	559,694	11,237	533,439	15,037	Yes	2.01%	2.82%	No
5	SC	98,020	9,594	103,641	11,006	Yes	9.79%	10.62%	No
6	IL	10,053	4,790	5,571	3,896	Yes	47.65%	69.93%	No
7	GA	51,465	6,536	46,416	11,472	Yes	12.70%	24.72%	No
8	CA	57,639	9,107	95,250	20,182	Yes	15.80%	21.19%	No
9	CA	20,356	6,290	0	0	No	30.90%	NA	Unknown
10	CA	9,629	6,336	8,616	5,171	Yes	65.80%	60.02%	Yes
11	DC	278,819	9,421	0	0	No	3.38%	NA	Unknown
12	TX	29,953	5,576	0	0	No	18.62%	NA	Unknown
13	OK	215,189	6,456	254,990	11,527	Yes	3.00%	4.52%	No
14	CA	24,920	5,245	32,617	9,475	Yes	21.05%	29.05%	No
15	GA	26,982	4,559	11,012	5,183	Yes	16.90%	47.07%	No
16	MI	593,667	5,343	599,972	7,209	Yes	0.90%	1.2%	No
17	IL	9,027	659	10,494	7,500	Yes	7.30%	71.47%	No
18	FL	225,759	4,809	134	0	No	2.13%	0.00%	Unknown
19	CA	188,000	564	0	0	No	0.30%	NA	Unknown
20	CA	224,099	4,814	4,712	15	No	2.15%	0.32%	Unknown

1993-96 Ranking	State	TY 1996 W-2s Reported	TY 1996 W-2s in ESF	TY 2000 W-2s Reported	TY 2000 W-2s in ESF	Present in 1997-2000 Top 100 Employers?	Reporting Accuracy: TY 1996 Percent of Reported W-2s in ESF	Reporting Accuracy: TY 2000 Percent of Reported W-2s in ESF	Reporting Accuracy: Has the Reporting Accuracy Improved?
21	CA	80,038	4,242	0	0	No	5.30%	NA	Unknown
22	TX	45,371	4,401	40,729	5,655	Yes	9.70%	13.88%	No
23	CA	94,608	5,551	146,911	12,919	Yes	5.87%	8.79%	No
24	MA	35,131	3,100	0	0	No	8.82%	NA	Unknown
25	CA	5,971	4,039	8,297	6,495	Yes	67.64%	78.28%	No
26	CA	11,464	3,474	15,500	4,870	Yes	30.30%	31.42%	No
27	IL	6,807	3,604	0	0	No	52.95%	NA	Unknown
28	OR	44,277	4,655	49,988	3,580	Yes	10.51%	7.16%	Yes
29	CA	4,216	2,783	2,052	1,350	No	66.01%	65.79%	Yes
30	KY	93,733	4,218	81,819	9,485	Yes	4.50%	11.59%	No
31	KS	29,804	3,143	99	26	No	10.55%	26.26%	Unknown
32	NY	11,030	2,386	9,726	2,514	No	21.63%	25.85%	No
33	IL	6,249	3.384	1,014	763	Yes	54.15%	75.25%	No
34	AR	578,903	3,216	0	0	No	0.56%	NA	Unknown
35	NC	107,036	2,701	99,668	2,391	No	2.52%	2.40%	Yes
36	TX	39,144	3,569	24,546	1,276	Yes	9.12%	5.20%	Yes
37	NY	26,459	1,449	14,912	55	No	5.48%	0.37%	Yes
38	TX	8,256	2,633	6,076	2,402	No	31.89%	39.53%	No
39	CA	4,317	3,084	0	0	No	71.44%	NA	Unknown
40	KS	155,893	2,879	136,577	8,555	Yes	1.85%	6.26%	No
41	CA	3,401	2,648	0	0	No	77.86%	NA	Unknown
42	CA	4,748	2,713	57	0	No	57.14%	0.00%	Unknown
43	AZ	7,543	2,481	9,511	3,357	Yes	32.89%	35.30%	No
44	IL	7,386	2,721	8,148	162	No	36.84%	1.99%	Yes
45	IL	5,407	2,682	10,399	6,727	Yes	49.60%	64.69%	No
46	CA	64,356	2,439	0	0	No	3.79%	NA	Unknown
47	SC	4,641	1,935	7,076	3,310	No	41.69%	46.78%	No
48	CA	3,658	2,798	2,864	4	No	76.49%	0.14%	Yes

1993-96 Ranking	State	TY 1996 W-2s Reported	TY 1996 W-2s in ESF	TY 2000 W-2s Reported	TY 2000 W-2s in ESF	Present in 1997-2000 Top 100 Employers?	Reporting Accuracy TY 1996 Percent of Reported W-2s in ESF	Reporting Accuracy TY 2000 Percent of Reported W-2s in ESF	Reporting Accuracy Has the Reporting Accuracy Improved?
49	WA	3,841	2,027	3,527	2,128	No	52.77%	60.33%	No
50	NY	26,091	3,511	0	0	No	13.46%	NA	Unknown
51	OH	66,903	3,244	47,769	7,976	Yes	4.85%	16.70%	No
52	TN	93,011	1,973	51,458	1,403	No	2.12%	2.73%	No
53	CA	9,351	2,191	0	0	No	23.43%	NA	Unknown
54	IL	2,554	1,866	2,329	1,806	No	73.06%	77.54%	No
55	FL	5,085	2,603	0	0	No	51.19%	NA	Unknown
56	FL	1,977	952	0	0	No	48.15%	NA	Unknown
57	CA	11,019	2,485	14,921	4,790	Yes	22.55%	32.10%	No
58	CA	6,345	1,715	6,344	2,396	No	27.03%	37.77%	No
59	CA	6,639	2,722	0	0	No	41.00%	NA	Unknown
60	OH	37,573	2,928	35,772	7,061	Yes	7.79%	19.74%	No
61	WA	3,394	2,348	3,880	2,622	No	69.18%	67.58%	Yes
62	FL	3,824	1,028	0	0	No	26.88%	NA	Unknown
63	IA	5,132	2,330	6,473	4,126	Yes	45.40%	63.74%	No
64	CA	7,086	2,551	10,354	4,794	Yes	36.00%	46.30%	No
65	CA	17,730	3,617	15,661	5,089	Yes	20.40%	32.49%	No
66	NY	443,776	2,214	442,395	943	No	0.50%	0.21%	Yes
67	TX	2,958	1,692	0	0	No	57.20%	NA	Unknown
68	CA	2,990	1,944	3,252	2,234	No	65.02%	68.70%	No
69	WA	2,955	1,868	4,194	2,785	Yes	63.21%	66.40%	No
70	TX	14,767	1,611	12,359	1,554	No	10.91%	12.57%	No
71	WA	3,712	2,261	5,221	3,574	Yes	60.91%	68.45%	No
72	CA	7,159	2,125	685	133	No	29.68%	19.42%	Unknown
73	NC	32,368	2,576	27,271	3,375	Yes	7.96%	12.38%	No
74	NJ	9,614	1,692	9,583	1,776	No	17.60%	18.53%	No
75	CA	2,486	1,771	3,651	2,755	No	71.24%	75.46%	No
76	MN	280,056	2,261	407,714	7,458	Yes	0.81%	1.83%	No

1993-96 Ranking	State	TY 1996 W-2s Reported	TY 1996 W-2s in ESF	TY 2000 W-2s Reported	TY 2000 W-2s in ESF	Present in 1997-2000 Top 100 Employers?	Reporting Accuracy TY 1996 Percent of Reported W-2s in ESF	Reporting Accuracy TY 2000 Percent of Reported W-2s in ESF	Reporting Accuracy Has the Reporting Accuracy Improved?
77	UT	57,373	3,245	91,086	5,222	Yes	5.66%	5.73%	No
78	IL	3,645	2,501	4,647	3,565	Yes	68.61%	76.72%	No
79	CA	3,084	2,098	3,810	2,919	No	68.03%	76.61%	No
80	AL	58,598	2,464	64,325	4,031	Yes	4.20%	6.27%	No
81	CA	2,749	2,326	3	0	No	84.60%	0.00%	Unknown
82	CA	2,746	1,870	0	0	No	68.10%	NA	Unknown
83	TX	20,661	4,191	32,282	8,931	Yes	20.28%	27.67%	No
84	CA	2,167	1,610	2,224	1,651	No	74.30%	74.24%	Yes
85	CA	6,735	1,842	5,603	1,818	No	27.35%	32.45%	No
86	CA	1,930	1,396	1,268	909	No	72.33%	71.69%	Yes
87	TX	377,808	1,660	343,106	1,480	No	0.44%	0.43%	Yes
88	TX	18,474	2,637	20,937	2,283	No	14.27%	10.90%	Yes
89	FL	4,589	2,249	3,424	2,237	Yes	49.01%	65.33%	No
90	NC	3,244	2,725	277	176	No	84.00%	63.54%	Unknown
91	CA	5,519	320	8,121	2.620	No	5.80%	32.26%	No
92	NJ	4,126	2,779	3,111	0	No	67.35%	0.00%	Yes
93	FL	16,033	1,378	41,772	2,286	No	8.59%	5.47%	Yes
94	CA	8,578	1,587	9,645	2,435	No	18.50%	25.25%	No
95	NJ	4,974	2,514	7	0	No	50.54%	0.00%	Unknown
96	CA	35,006	1,478	33,405	2,093	No	4.22%	6.27%	No
97	CA	1,699	1,347	2,555	2,177	No	79.30%	85.21%	No
98	TX	15,115	1,766	13,941	3,320	No	11.68%	23.81%	No
99	IL	50,135	2,509	54,303	689	No	5.00%	1.27%	Yes
100	KS	52,516	1,843	50,317	1,830	No	3.51%	3.64%	No
Totals		**6,738,264**	**340,922**	**5,085,385**	**365,153**				

Note: Some of the TY 1996 accuracy rates have been adjusted from the earlier audit to (1) show a more precise rate and (2) account for the most recent employer wage reporting information available in the Agency's systems.

Agency Comments

SOCIAL SECURITY

MEMORANDUM 32226-24-950

Date: October 17, 2003 Refer To: S1J-3

To: James G. Huse, Jr.
Inspector General

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

Subject: Office of the Inspector General (OIG) Draft Report, "Follow-up Review of Employers with the Most Suspended Wage Items" (A-03-03-13026)--INFORMATION

We appreciate OIG's efforts in conducting this follow-up review. Our comments on the recommendations are attached.

Please let us know if we can be of further assistance. Staff questions can be referred to Janet Carbonara at extension 53568.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "FOLLOW-UP REVIEW OF EMPLOYERS WITH THE MOST SUSPENDED WAGE ITEMS" A-03-03-13026

We appreciate the opportunity to comment on the draft report. As stated in this report, the Agency has, and continues to pursue activities that would remove items from the Earnings Suspense File (ESF) and promote prevention efforts. We have worked with the Internal Revenue Service (IRS) to encourage them to consider penalizing employers who continually have larger amounts or percentages of wage items placed in the ESF during wage and tax statement processing. To assist IRS in the analysis of this proposal, we provided IRS with a list of the Top 100 employers of wage items placed in the ESF based on both volume and percentage for tax years 1999 and 2000. In addition, we have worked with the Treasury Inspector General (IG) to further support this activity. Based on a Treasury IG report, the IRS is studying the effect of imposing penalties on the most egregious employers who place items in the ESF.

Below are our specific comments to the recommendation.

Recommendation 1

Establish preventive controls to detect wage reporting errors and irregularities, including a link between the new Earnings Data Warehouse and Employer Service Liaison Officer (ESLO) efforts.

Comment

We agree. Phase II of the Earnings Data Warehouse (EDW), scheduled for implementation in March 2004, will incorporate employer records (W-3's) with much of the associated detail. Phase II will have historical data from receipt year 1999 (tax year 1998) through the present receipt year data and will also have the data to identify employers who have, or had, incorrect name/SSN combinations.

Additionally, our ESLOs go through extensive efforts to assist employers in their wage reporting issues. ESLOs will have access to EDW through the Brio tool, an on-line analytical processing tool used to analyze data, and are able to perform ad-hoc queries on a larger number of data sources.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Walter Bayer, Director, (215) 597-4080

Staff Acknowledgments

In addition to those named above:

Michael Thomson, Senior Auditor

Richard Devers, Senior Auditor

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-03-03-13026.

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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.