



**SOCIAL SECURITY**  
Office of the Inspector General

**MEMORANDUM**

September 27, 2001

Refer To: ICN 31270-23-228

To: Larry G. Massanari  
Acting Commissioner  
of Social Security

Inspector General

Subject: Management Advisory Report: Review of Service Industry Employer with Wage Reporting Problems (A-03-00-10022)

The attached final report presents the results of our review. Our objective was to understand possible reasons why employers submit erroneous wage reports. To do this, we performed an in-depth case study of an employer who continually submitted large numbers of invalid wage reports to the Social Security Administration (SSA). Specifically, we (1) determined the causes of this employer's wage reporting errors and irregularities and (2) identified steps that SSA has taken to reduce such occurrences.

Please comment within 60 days from the date of this memorandum on corrective actions 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

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**REVIEW OF SERVICE INDUSTRY  
EMPLOYER WITH WAGE  
REPORTING PROBLEMS**

September 2001

A-03-00-10022

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**MANAGEMENT  
ADVISORY REPORT**

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## **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

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## OBJECTIVE

The objective of our review was to understand possible reasons why employers submit erroneous wage reports. To do this, we performed an in-depth case study of an employer who continually submitted large numbers of invalid wage reports to the Social Security Administration (SSA). Specifically, we (1) determined the causes of this employer's wage reporting errors and irregularities and (2) identified steps that SSA has taken to reduce such occurrences.

## BACKGROUND

Our September 1999 report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items (A-03-98-31009)*, discussed the 100 employers with the most suspended wage reports over a 4-year period, Tax Years (TY) 1993 through 1996. A wage report is suspended (that is, not posted to an individual's earnings record) when the name/Social Security number (SSN) information in the report does not match the information in SSA's systems. The review showed that 84 of the 100 employers experienced increases in the number of suspended *Wage and Tax Statements* (Form W-2) for their employees, including 28 employers with at least a 100-percent increase. These employers also exhibited patterns of wage reporting irregularities, such as large numbers of SSNs that SSA never issued or the same address for many of their employees. From the list of 100 employers, we selected 1 employer who exhibited above average growth in the number of suspended items over the 4-year period. After discussing the objective of our review, this employer agreed to meet with us and discuss its operations.

The Earnings Suspense File (ESF) contained over 227 million W-2s, and \$333 billion in wages accrued between TYs 1937 and 1999 that could not be matched to individuals' earnings records. During TY 1999 alone, the ESF grew by 8.4 million W-2s and \$41.6 billion in wages. Suspended wages can affect an individual's eligibility for retirement and disability benefits. SSA has numerous efforts under way to reduce the ESF's size and growth, such as updated earnings system edit routines, letters to employers and employees to correct invalid information, and various pilots. SSA issued an ESF Tactical Plan in 1999 that includes 10 projects designed to lower the ESF's growth by over 3 million items, annually, and additional projects to reduce its overall size by over 36 million items on a one-time basis.

During our review, we met with responsible company officials and reviewed their (1) hiring and wage reporting policies and procedures and (2) internal controls designed to prevent suspended items. We analyzed the employer's suspended wage reports for TYs 1997 and 1998 to identify reporting irregularities and errors. We also met with SSA's Employer Services Liaison Officers (ESLO) who assisted employers in improving

their wage reporting submissions; an SSA field office representative in Chicago who is familiar with this employer; and Immigration and Naturalization Service (INS) staff who assisted us in verifying employee documents.

## **RESULTS OF REVIEW**

We identified several factors that contributed to the volume of this employer's suspended wages: (1) the transient nature of the employer's workforce; (2) the use of invalid documents presented by workers when they were hired; (3) the employer's flexible hiring policy and weak internal controls; and (4) the employer's failure to use available SSA programs to verify employee documents. While the employer has taken steps to correct some of its internal business practices, we found the employer was not familiar with SSA's verification programs that could have prevented significant wages from entering the ESF.

### **TRANSIENT WORKFORCE AND INVALID DOCUMENTS CONTRIBUTED TO SUSPENDED WAGES**

The employer selected for this case study is a temporary labor service provider who relies heavily on a low-wage, transient workforce. In TY 1998, the employer reported over 17,400 W-2s and about \$30 million in wages related primarily to temporary workers. According to the employer, over 86 percent of the employees who received a W-2 in TY 1997 did not work for the company in TY 1998. Between TYs 1993 and 1998, the employer experienced a 370-percent increase in the number of wage reports posted to the ESF. When we analyzed the suspended wage reports submitted to SSA from TYs 1996 to 1998, we found that approximately 96 percent of the suspended items indicated the possible use of invalid documents by employees. In our review of employee files for TY 1997, we also found evidence of invalid SSA and INS documents. The combination of a transient workforce and invalid documents contributed to a high volume of erroneous wage data for this employer.

### **BUSINESS PRACTICES NEEDED STRENGTHENING TO REDUCE SUSPENDED WAGES**

We identified three business practices that contributed to the volume of suspended wages: (1) a flexible hiring policy that allowed new hires 3 days to bring in documentation; (2) insufficient internal controls that resulted in the employer's failure to report all available SSNs to SSA; and (3) lack of verification of documents submitted by new hires. For example, we estimate that up to 30 percent of the employer's suspended wage items in 1997 were the result of the 3-day grace period that allowed new hires to work for only a few days, even though they failed to provide a valid SSN. We also found an internal control weakness where the correct SSNs were recorded in the personnel folders but were reported to SSA as zeros. Finally, new employees sometimes submitted invalid documents when they were hired and the employer did not attempt to verify the validity of the names and SSNs.

The employer told us it had already taken steps to minimize these problems by eliminating the grace period for new hires and implementing an internal control to ensure that all available SSNs are reported to SSA. Although the employer continued to request that new hires provide identity and work authorization documents, as of the end of our audit fieldwork, the employer's staff had not taken any steps to verify the accuracy of the names/SSNs of new hires.

### **SSA'S PROGRAMS COULD PREVENT SIGNIFICANT WAGES FROM ENTERING THE SUSPENSE FILE**

To assist employers in filing accurate wage reports, SSA provides various programs, such as the Employee Verification Service (EVS). EVS allows employers to detect invalid names/SSNs reported by new employees by comparing the reported information to SSA's records. We found our profiled employer was not familiar with EVS, even though the employer's use of EVS could have prevented as much as 76 percent of TY 1997 wages from entering the ESF. In addition, the employer was not aware of other services available through the ESLOs or the availability of wage reporting information on the Internet.

SSA's ESF Tactical Plan also provides additional projects to assist employers with invalid wage reports. For example, one project already underway calls for SSA to "Conduct Outreach Efforts with 'Problem' Industries and States in Collaboration with the Immigration and Naturalization Service (INS)." SSA is also evaluating the results of name/SSN verification pilots with the INS and the Office of Child Support Enforcement (OCSE). Both pilots are expected to reduce the turnaround time for SSA to report invalid name/SSN data back to large employers. As of March 2001, the results of the OCSE pilot were under evaluation, while the INS pilot is scheduled for completion in November 2001.

SSA has delayed another project to expand the current EVS to include on-line employee verification for up to 500 names/SSNs. SSA has estimated this EVS project has the potential to prevent 200,000 items from going into the ESF, annually. In the past, SSA reported that it can cost as much as \$300 to remove an item from the ESF. However, SSA staff has advised us that this figure exceeds the current costs to reinstate a wage item. SSA is calculating a new figure. Assuming SSA would be able to reinstate all 200,000 of these wage items, and estimating that the current cost to reinstate a wage item is only 10 percent of SSA's earlier estimate (or \$30 per item), OEVS has the potential to reduce administrative costs by approximately \$6 million, annually. Although SSA planned to have this project in place by August 2000, as of March 2001, the project's release was still awaiting administrative decision.

## CONCLUSIONS AND RECOMMENDATIONS

The employer in our review faces both internal and external factors that are the major causes for the size and growth of its suspended wages. Although the employer had taken several steps to improve its internal business practices, the employer will have more difficulty addressing its dependence on a transient workforce. For example, the employer continued to experience problems in preventing the submission of invalid documents by employees and, hence, the number of suspended wage items that resulted from these documents. Nonetheless, we believe this employer's suspended wages resulting from invalid documents could have been significantly reduced if the employer had been better informed and encouraged by SSA to take full advantage of the wage reporting services that are available. We also see potential benefits being generated by SSA's pilots with INS and OCSE, which may help SSA reduce the amount of bad wage data submitted by employers.

We have already made a number of recommendations in prior reports related to employer bad wage reporting. For example, we have recommended (1) mandatory use of EVS by those employers who continue to submit large numbers of invalid wage reports, (2) preparation of a legislative proposal giving employers the right to view SSN cards, and (3) the enforcement of the Internal Revenue Service sanctions against employers who continually submit erroneous wage reports. As a result of our work with this profiled employer, we make the following additional recommendations to SSA to improve oversight of employers with large numbers of suspended wage items and provide them with sufficient tools to detect erroneous data:

- Until the use of EVS is mandatory, ensure ESLOs increase awareness of EVS among those employers who have submitted large numbers of suspended wage reports, including those identified by SSA's Office of the Inspector General in its *100 Employers* report.
- Prioritize the implementation of the ESF tactical plan proposal to provide on-line EVS (OEVS) to employers, which will assist employers in identifying invalid documents submitted by new hires while also preventing 200,000 wage items from going into the ESF and reducing overall ESF administrative costs by approximately \$6 million, annually.
- Continue to pursue and/or expand upon viable options to the current EVS procedures, such as the INS and OCSE pilots, to broaden employer participation in SSA's name/SSN verification projects.

### Agency Comments

SSA took exception to the statements and recommendations made in the report because they were based on the examination of a single employer. SSA believes the most significant cause for wage reporting errors is the transient nature of the employers'

workforce and noncompliance on the part of employers. As a result, SSA is not comfortable in predicting a significant reduction of items in the ESF.

SSA concurred with Recommendations 1 and 3. However, SSA did not concur with Recommendation 2. SSA stated that OEVS has already been put on a priority track. In addition, SSA disagreed with our assessment of administrative costs related to the implementation of OEVS. Specifically, SSA noted that our estimate of a \$300 cost per reinstatement far exceeds the current unit cost for earnings disagreements, and the projected savings may not be accurate. SSA stated it will determine how the \$300 amount was derived and recalculate the amount to provide a better cost per reinstatement.

## Office of the Inspector General Response

Over the past few years the OIG has conducted a number of reviews related to the Earnings Suspense File issue. This current review builds upon our work and demonstrates that significant problems exist in the service industry, specifically employers with a transient workforce. SSA agrees this transient workforce is a significant cause for wage reporting errors. In addition, our recommendations related to the issues faced by this employer will further SSA's efforts to reduce contributions to the ESF. In fact, SSA concurs with the substance of our recommendations, such as educating employers, implementing OEVS, and pursuing viable options to the current EVS.

Regarding SSA's disagreement with our estimate of administrative cost savings resulting from the use of OEVS, we point out that both the item and cost figures were provided by SSA and noted in our February 2000 report on SSA's ESF Tactical Plan. We acknowledge the current cost per reinstatement may have changed with time. Since SSA is unable to provide a better estimate, we have adjusted our report to show the impact on administrative costs using only 10 percent of SSA's estimate, or \$30 per reinstatement. While the actual administrative cost savings may change once SSA completes its review, our calculation demonstrates that a delay in implementing OEVS impacts administrative costs.

We welcome SSA's commitment to determine a new cost per reinstatement. We believe significant cost savings could be realized through timely implementation, for many of the reasons SSA already cited in its February 28, 2000 Key Initiative Plan and Schedule for OEVS. For example, SSA stated that OEVS will lead to (1) less Suspense File accretions; (2) lower earnings reconciliation, corrections, and adjustments workloads; (3) fewer claims inquiries from SSA customers; and (4) fewer telephone/magnetic media EVS requests.

SSA also provided technical comments that we considered and incorporated, where appropriate. SSA's comments are included in Appendix D.



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# Acronyms and Forms

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## Acronyms

ESF	Earnings Suspense File
ESLO	Employer Services Liaison Officer
EVS	Employee Verification Service
FO	Field Office
INS	Immigration and Naturalization Service
IRCA	Immigration Reform and Control Act of 1986
IRS	Internal Revenue Service
OCSE	Office of Child Support Enforcement
OEVS	On-line Employee Verification Service
OIG	Office of the Inspector General
SSA	Social Security Administration
SSN	Social Security number
TY	Tax Year

## Forms

Form I-9	Employment Eligibility Verification Form
Form I-551	Resident Alien Card
W-2	Wage and Tax Statement
W-3	Transmittal of Wage and Tax Statement
W-4	Employee's Withholding Allowance Certificate

# Introduction

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## OBJECTIVE

The objective of our review was to understand possible reasons why employers submit erroneous wage reports. To do this, we performed an in-depth case study of an employer who continually submitted large numbers of invalid wage reports to the Social Security Administration (SSA). Specifically, we (1) determined the causes of this employer's wage reporting errors and irregularities and (2) identified steps that SSA has taken to reduce such occurrences.

## BACKGROUND

SSA is required to maintain records of wages employers pay to individuals. Employers must report employees' earnings annually on Internal Revenue Service (IRS) *Wage and Tax Statement* (Form W-2) to SSA. Employers with 250 or more employees must submit their wage reports to SSA on magnetic media. Employers with fewer than 250 employees can submit their reports either in paper format or magnetic media. Many employers choose to submit their reports through a payroll service provider.

SSA provides specific instructions to employers, through its *Technical Information Bulletin*, for reporting W-2 information on magnetic media. These instructions, along with SSA's on-line assistance, and additional IRS instructions<sup>1</sup> for completion of paper Forms W-2 and W-3,<sup>2</sup> convey the importance of reporting earnings to SSA promptly and accurately. The instructions emphasize that employers should (1) exercise care in recording Social Security numbers (SSN) to ensure earnings are properly credited and (2) ask to see an employee's SSN card.

W-2 wage reports that fail the Numident file<sup>3</sup> name/SSN match cannot be credited to workers' earnings records, but, instead, are posted to the Earnings Suspense File (ESF). Wages posted to the ESF can affect workers' insured status for entitlement to retirement, survivors, disability and health insurance benefits and the calculation of benefit rates. Despite SSA's efforts to reduce the growth and size of the ESF, such as updated earnings system edit routines, verification programs, and letters to employers and employees, the ESF grew by 8.4 million W-2s and \$41.6 billion in wages in Tax Year (TY) 1999. The ESF contained over 227 million suspended W-2s

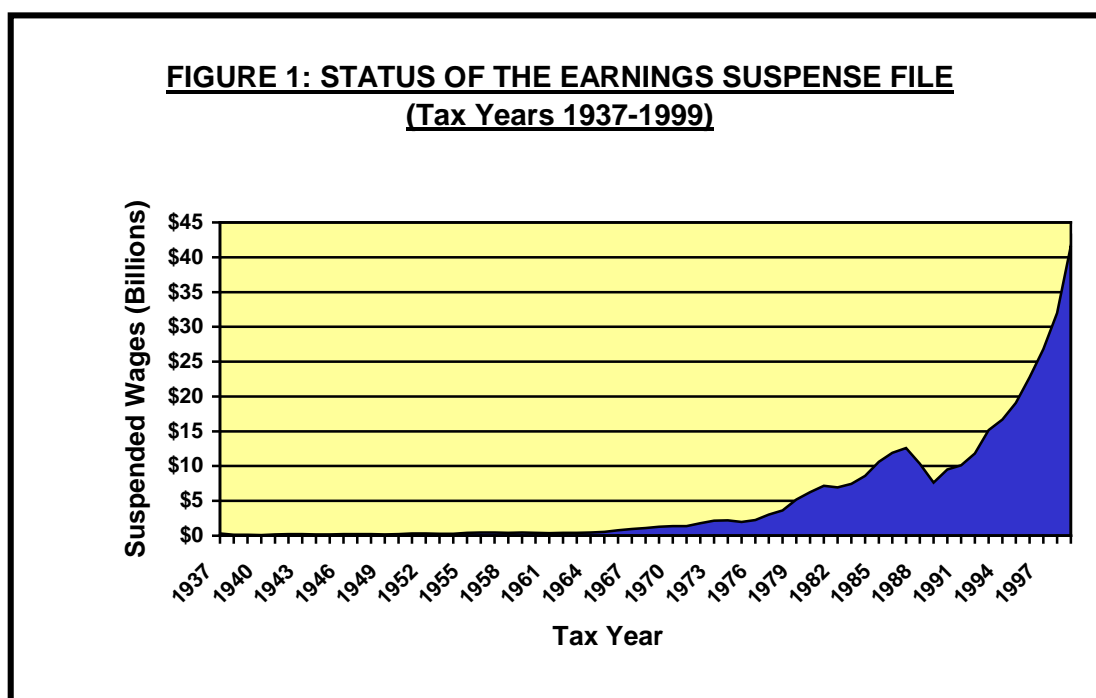
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<sup>1</sup> *Instructions for Form W-2 and W-3.*

<sup>2</sup> *IRS Form W-3, Transmittal of Wage and Tax Statement.*

<sup>3</sup> SSA's master file containing information, such as the name and date of birth, for all individuals issued an SSN.

representing more than \$333 billion in suspended wages posted between TYs 1937 and 1999 that could not be matched to individuals' earnings records, as shown in Figure 1.



### SSA Suspense File Initiatives

In March 1999, SSA issued its ESF Tactical Plan,<sup>4</sup> which includes 10 projects (see Appendix A) designed to lower the ESF's growth by over 3 million items, annually, and additional projects to reduce its size by over 36 million items on a one-time basis. SSA is evaluating the results of two pilot projects that used the data bases of other Federal agencies to assist employers in verifying employees' names/SSNs. However, the success of many of these projects and pilots depends on the collaboration with and support from other agencies, such as the IRS, the Immigration and Naturalization Service (INS), and the Office of Child Support Enforcement (OCSE).

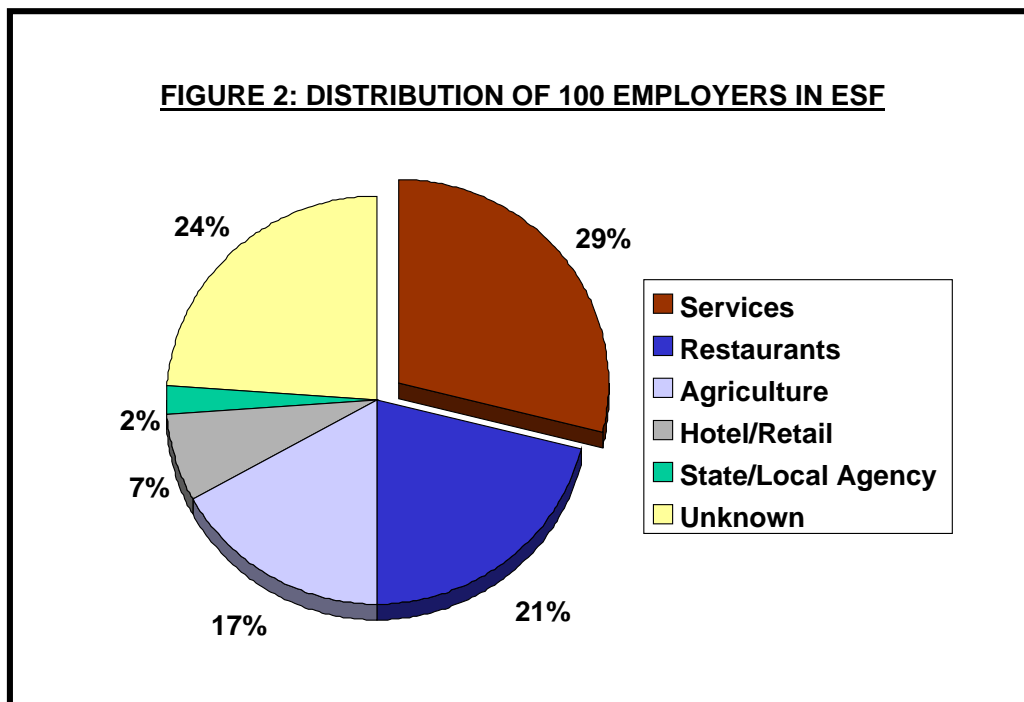
### Industry Distribution of 100 Employers and Selection of Profiled Employer

In a 1999 audit,<sup>5</sup> we analyzed SSA's ESF posting for TYs 1993 through 1996 (the most recent data available at the time of our audit) to develop a data base of the 100 employers who had the most suspended wage items for the period. The audit

<sup>4</sup> We evaluated SSA's plan and issued the report *The Social Security Administration's Earnings Suspense File Tactical Plan and Efforts to Reduce the File's Growth and Size* (A-03-97-31003), February 2000.

<sup>5</sup> The Office of the Inspector General (OIG) evaluated employer reporting in the report, *Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items* (A-03-98-31009), September 1999.

showed that 84 of the 100 employers experienced increases in the number of suspended W-2s for their employees, including 27 employers with at least a 100-percent increase. Many of the employers are in industries that traditionally rely on low-wage, highly transient workers. Figure 2 shows the distribution, by industry, of the 100 employers.

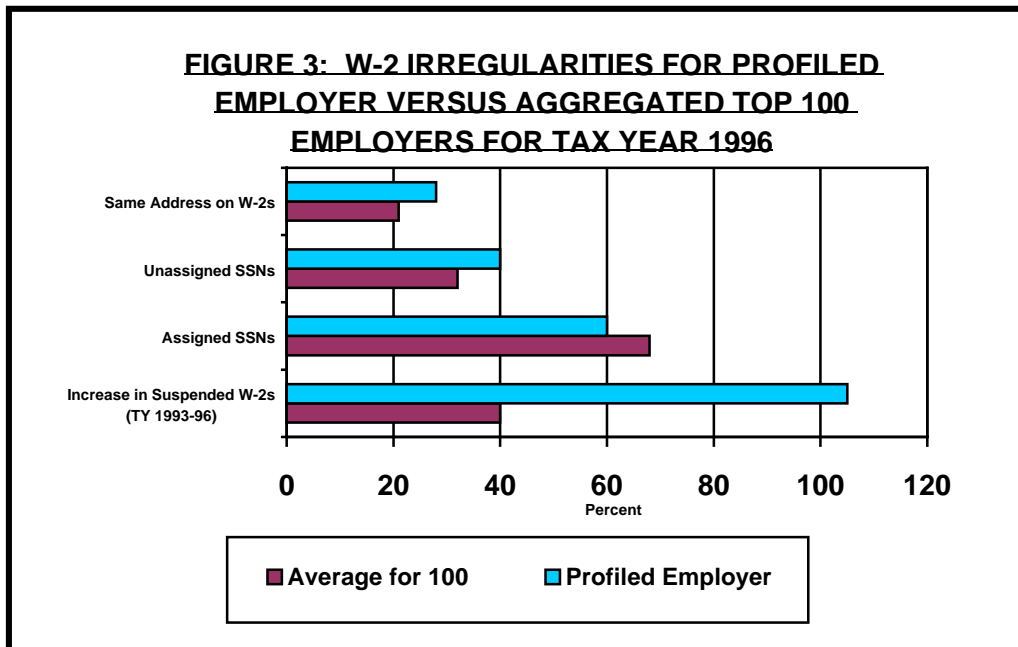


For the 100 employers, we identified patterns of wage reporting errors and irregularities in their TY 1996 suspense files.

- Unassigned SSNs: SSNs with area numbers (first 3 digits) or group numbers (second 2 digits) that SSA has never issued.
- Assigned SSNs: SSNs that have been issued by SSA, but the names on the W-2s do not match SSA's Numident file.
- Same Address: Three or more W-2s contained the same mailing address, and the employees worked for the same employer.
- Duplicate SSNs: Two or more W-2s containing the same SSN for the same employer.
- Growth in Suspended W-2s: Percentage increase in suspended wages over a 4-year period.

Using the information from the earlier audit, we selected an employer whose errors in TY 1996 exceeded the average of the 100 employers in 3 of the above error categories (1) unassigned SSNs; (2) same address; and (3) growth in suspended W-2s (see

Figure 3).<sup>6</sup> In addition, the employer selected is in the largest industry sector, *Services*, which depends on a low-wage workforce.<sup>7</sup> After discussing the objective of our review, this employer agreed to meet with us and discuss its operations.



**Note:** The W-2 irregularities above relate to TY 1996 except in the case of the percentage increase in Suspended W-2s. This increase represents suspended W-2s in TY 1993 compared to suspended W-2s in TY 1996.

## SCOPE AND METHODOLOGY

To accomplish our objective, we performed the following steps.

- We selected an employer for this case study after comparing the errors and irregularities of 100 employers who incurred large numbers of suspended wage items over a 4-year period, TYs 1993 through 1996.
- We met with (1) Employer Services Liaison Officers (ESLO) in Chicago and Philadelphia to obtain an understanding of their interaction with employers and to determine whether any direct assistance was provided to our profiled employer and (2) a field office (FO) representative in Chicago to obtain additional background on this selected employer.

<sup>6</sup> Figure 3 does not compare duplicate SSN data since the employer had too few occurrences to be measured on the chart provided.

<sup>7</sup> In January 2001, we issued a separate report on the agriculture industry, *Significant Obstacles to Reducing SSN Misuse in the Agriculture Industry Exist* (A-08-99-41004).

- We met with INS staff who verified employee documents in INS data files.
- We met with responsible company officials and reviewed their hiring policies and procedures as well as any internal controls to prevent suspended items.
- We analyzed this employer's suspended wage reports for TYs 1996 through 1998 to identify invalid names/SSNs and other reporting irregularities.
- We determined the average number of days worked and the average wages for the 6,700 suspended wage reports in TY 1997. We computed the days worked by dividing each employee's suspended wages by \$40.00 per day (average minimum wage of \$4.95 per hour, rounded to \$5.00, times an 8-hour workday). For this determination, we assumed that each of the 6,700 employees whose wages were suspended received the minimum hourly wage and did not work overtime.
- We tested the validity of employee documentation contained in personnel folders, such as SSN cards, INS documents, and employee statements. We planned to select a random sample of items from the 6,700 suspended items in this employer's 1997 suspense file: 1 sample of 50 items with all zero SSNs (or less than 9 digits) and a second sample of 50 items with complete SSNs (9 digits). However, because the employer was unable to locate all of the personnel files, we reviewed only 13 files from the first sample and 6 files from the second sample. For the files provided, we matched the employees' names/SSNs in the personnel folders to SSA's Numident file and requested INS assistance to verify INS and Illinois State documents. Although we do not project the results of this testing, we are presenting the results of our limited personnel file review in this report because they provide some insight into the causes of this employer's suspended wage reports.

Our review did not include a test of information systems to verify the completeness and accuracy of the ESF data provided by SSA. We conducted this review at the employer's home office in Chicago, Illinois; SSA's Mid-Atlantic Program Service Center in Philadelphia, Pennsylvania; and SSA Headquarters in Baltimore, Maryland. We conducted the fieldwork from November 1999 through October 2000. The SSA entity that is responsible for the maintenance of the ESF is the Office of Systems Requirements within the Office of the Deputy Commissioner of Systems.

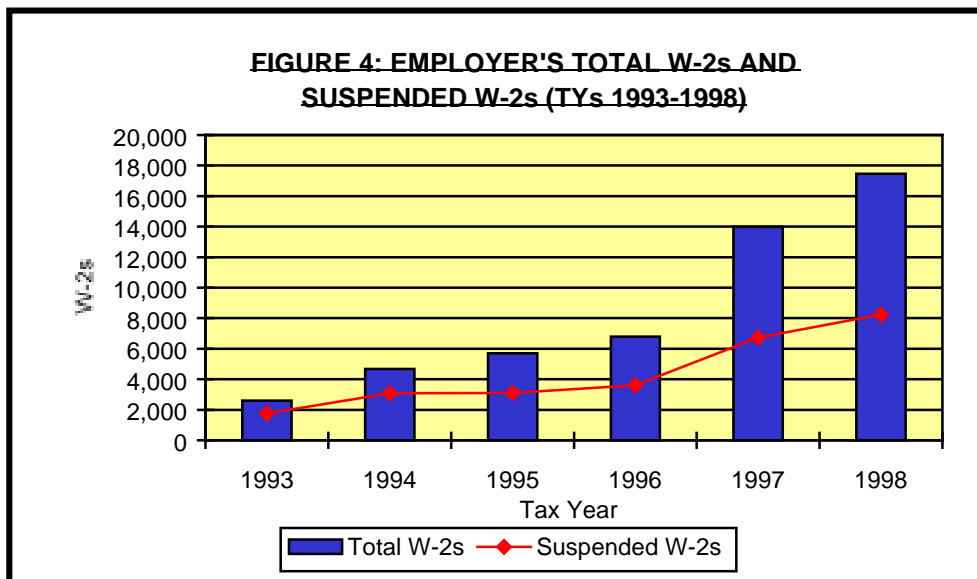
# Results of Review

We identified several factors that contributed to the volume of this employer's suspended wages, such as (1) the transient nature of the employer's workforce; (2) the use of invalid documents presented at the time of hiring; (3) the employer's flexible hiring policy and weak internal controls; and (4) the employer's failure to use available SSA programs to verify new employee documents. While our profiled employer has taken steps to correct some of its internal business practices, the employer was not familiar with SSA's verification programs that could have prevented significant wages from entering the ESF.

## TRANSIENT WORKFORCE AND INVALID DOCUMENTS CONTRIBUTED TO SUSPENDED WAGES

The employer's reliance on a highly transient workforce, combined with the large percentage of invalid documents submitted by these employees, were major contributors to the volume of suspended wages the employer reported to SSA. The employer, in business since 1991, supplies temporary labor to approximately 150 client companies in the Chicago metropolitan area. With about 85 full-time employees, the employer hires up to 300 temporary workers on a daily basis to perform light industrial work, such as packing and assembly work and loading and unloading trucks. It operates 22 hours a day and supplies workers for 3 shifts.

Since 1993, the employer has experienced continued growth in business activity, as evidenced by the number of W-2s issued. For example, in TY 1998, the employer issued over 17,400 W-2 wage reports, a 571-percent increase over TY 1993. The employer also experienced a 367-percent increase in suspended W-2s over this same period. Figure 4 charts the number of W-2s reported and suspended over the 6-year period, TYs 1993 to 1998.

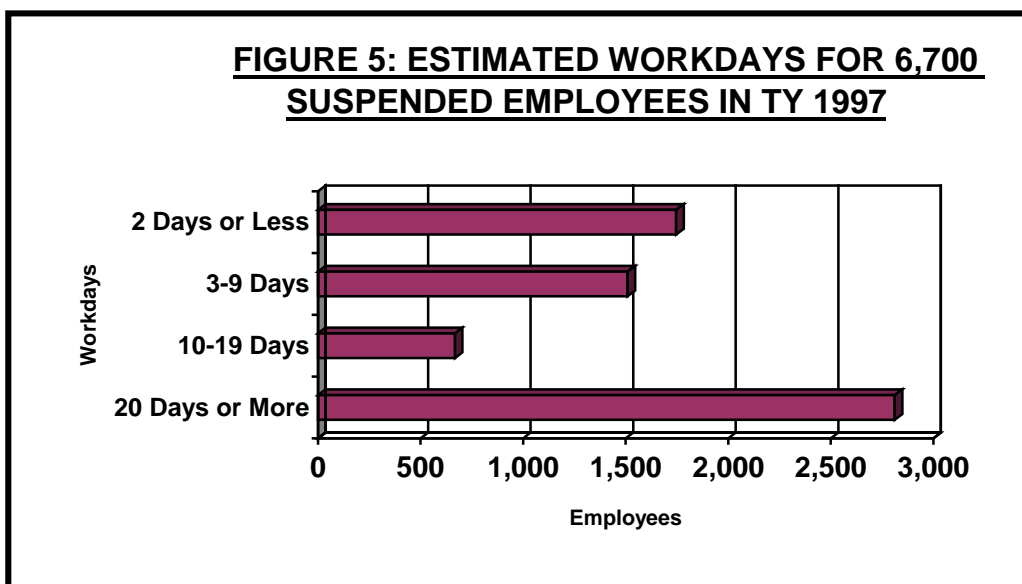




## Employer's Transient Workforce Increased Volume of Reported Wages

Because of the requirements of a temporary labor operation, the employer attracts and hires a generally low-wage workforce that is constantly changing. The transient nature of this workforce contributes to the volume of suspended wage items. According to the employer, over 86 percent of the employees who received a W-2 in TY 1997 did not work for the company in TY 1998. Further, many employees only worked for several days and then moved on.

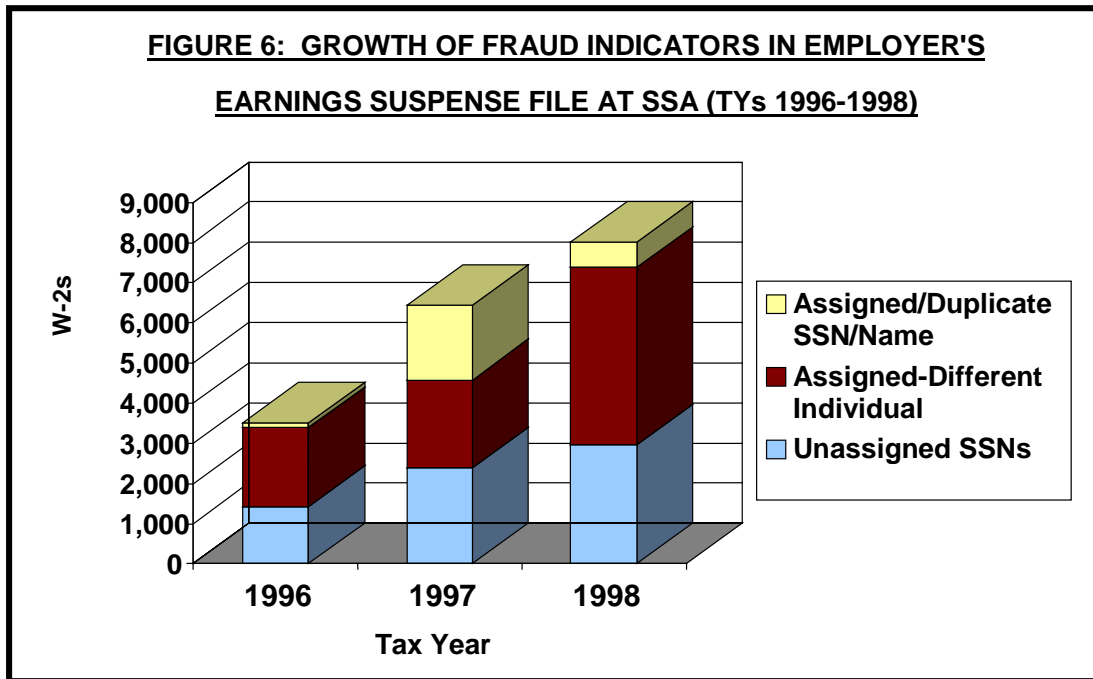
To illustrate the transient nature of the workforce, we computed the number of days worked by the 6,700 suspended employees using available wage data. Our analysis of the TY 1997 wage data shows 4,100 (61 percent) employees earned \$1,000 or less during TY 1997. The employer also told us that approximately 90 percent of the workforce earned minimum wage. Using this information, we determined that approximately 1,700 employees (26 percent) worked just 2 days or less, and another 1,500 employees (22 percent) worked just 3 to 9 days (see Figure 5). These employees chose not to work long-term, despite the fact that the employer provided many opportunities to work.



## Invalid Documents Contributed to Erroneous Wage Reports

The high percentage of invalid documents submitted by employees, combined with the nature of the employer's workforce, was a major contributor to wage reporting problems. Our analysis of the employer's suspended wage items for the 3-year period, TYs 1996 through 1998, showed that approximately 96 percent of the reported items contained errors and irregularities. These errors included (1) SSNs that were never issued (unassigned SSNs); (2) SSNs that belonged to other individuals (assigned SSNs); and

(3) SSNs used two or more times (duplicate SSNs). Figure 6 illustrates the cumulative growth of fraud indicators for this employer during a 3-year period.<sup>8</sup>



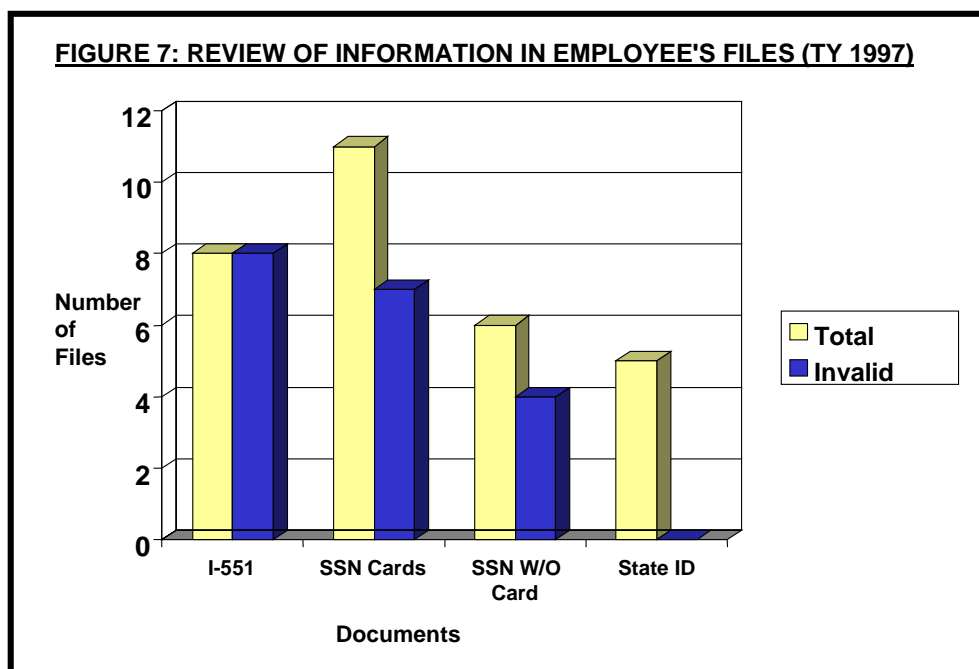
In addition to the fraud indicators, our limited review of the employer's TY 1997 personnel folders showed evidence of workers providing invalid names/SSNs and INS documents. We verified employee information recorded on the INS *Employment Eligibility Verification Form* (Form I-9), as well as other records, by tracing the data to SSA's Numident file, INS data files, and State records.<sup>9</sup> As shown in Figure 7, of the 19 folders available to us,<sup>10</sup> we found that 11 contained invalid documents, 2 contained no documents, and 6 had valid documents. Within these 19 folders, we found that 11 of the 17 documents we reviewed with SSNs<sup>11</sup> (65 percent) were invalid. We also found that all of the eight INS *Resident Alien Cards* (Form I-551) we reviewed were invalid. The most reliable documents were those issued by the State, such as drivers' licenses and identification cards.

<sup>8</sup> We excluded zero SSNs from the fraud indicators because our review of personnel folders (see *Wage Reporting Problems Result of Weak Internal Control*) indicated possible employer errors. We did not have duplicate address information available for these years, so we do not have any information on this fraud indicator.

<sup>9</sup> Employee files can contain more than one identification document.

<sup>10</sup> The 19 folders represent items from both samples: zero SSNs and complete SSNs. See *Scope and Methodology* section for more information.

<sup>11</sup> Two employee folders did not contain documents with SSNs.



Employers in the State of Illinois must deal with a large population of undocumented workers<sup>12</sup> who have easy access to counterfeit documents. An SSA FO representative informed us that fake documents are sold in the Chicago area in packets of threes, which include an INS card, an SSN card, and a local driver's license. The sale of such documents appears to be so prevalent that a local newspaper reported, in September 1999, that violent gangs are extorting "street taxes" from vendors of counterfeit documents.<sup>13</sup>

In July 1999, the General Accounting Office stated in testimony before a congressional committee,<sup>14</sup> that invalid documents are undermining the employment verification process. The report noted that the INS identified about 50,000 noncitizens who used 78,000 invalid documents to obtain employment from October 1996 through May 1998. About 60 percent of the invalid documents were INS documents, and most of the remaining were SSN cards. The report also noted that employers should not be expected to detect skillfully prepared invalid documents.

<sup>12</sup> In its October 1996 report, *Illegal Alien Resident Population*, the INS estimated the State of Illinois has over 290,000 undocumented immigrants, the fifth largest concentration in the nation.

<sup>13</sup> *Fake Papers Net Real Cash*, Chicago Tribune, September 19, 1999.

<sup>14</sup> *Fraudulent Documents Undermining the Effectiveness of the System*, testimony before the Subcommittee on Immigration and Claims, Committee on the Judiciary, House of Representatives (GAO/T-GGD/HEHS-99-175, July 1999).

## **BUSINESS PRACTICES NEEDED STRENGTHENING TO REDUCE SUSPENDED WAGES**

In our review of the employer, we identified three business practices that contributed to the volume of its suspended wages. These business practices, some of which are unique to this employer, included (1) a policy permitting new hires a 3-day grace period to bring in identity and work eligibility documents; (2) a weak internal control that resulted in the employer's failure to report all available SSNs to SSA; and (3) lack of verification of documents submitted by new hires.

### **Policy Permitted New Hires 3-Day Grace Period to Bring in Documentation**

To meet its workforce requirements, the employer had a hiring policy that accommodated large numbers of transient workers. According to the employer, over 95 percent of its workforce population speaks little or no English and is usually apprehensive when applying for work. We were informed that many workers do not carry the required identity and work eligibility documents with them for fear of losing them. The employer, therefore, permitted them a grace period of up to 3 days to bring in the documents for management's review. During the grace period, the new hires were put to work and paid daily.

The employer estimated that up to one-third of the workers whose wages were suspended did not return after 2 days of work. This estimate is consistent with our analysis of the days worked by the 6,700 employees whose wages were suspended (see Figure 5). As a result of the employer's hiring policy, we estimate the wages of 1,700 employees who worked just 2 days or less ended up in the ESF. Although it is difficult to determine the various reasons, it is possible that some of these workers did not return for work on the third day because they lacked valid identity/work authorization documents.

The employer informed us it discontinued the 3-day grace period in 1999. New hires who don't carry the documents are still permitted to work on their first day. However, the employer implemented a new step requiring that managers obtain identification documents from a new employee before distributing the first paycheck. The effect of this change is that the 3-day policy is now a 1-day policy, since paychecks are provided on a daily basis.

### **Wage Reporting Problems Result of Weak Internal Control**

Our review of the employer's TY 1997 personnel folders showed that some wage items ended up in the ESF because of an internal control weakness. The employer did not have a control in place to ensure that all SSNs provided by employees were also recorded in payroll records. Of the 13 personnel folders we reviewed,<sup>15</sup> 6 folders contained valid names/SSNs that matched to data in SSA's Numident file. The wages

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<sup>15</sup> This sample consisted of zero SSNs or SSNs with fewer than nine digits.

for these six employees would not have been suspended if the names/SSNs as contained in the folders were reported to SSA. To illustrate, we compared the employee information in one folder to SSA's Numident file and found the folder contained both a valid name and SSN. However, according to SSA's ESF records, only the name was properly input while the SSN was reported as zeros.

When informed of this condition, the employer stated that, after the 3-day grace period, some employees would bring in valid SSNs, which were then recorded in their personnel folders.<sup>16</sup> Because these individuals were already receiving paychecks, the employer's clerks sometimes neglected to pass the SSNs on to the payroll department. Consequently, some SSNs were recorded as zeros on payroll records and the annual wage reports. Due to the large number of employees hired on a daily basis, these errors went undetected.

The employer stated that a recent procedural change addresses this internal control weakness. The payroll department is now alerted an SSN is missing when a check is prepared. A check will not be issued until an SSN is on file in the payroll department. The earlier requirement that identification documents be submitted, combined with this new payroll edit, is designed to ensure that all available SSNs are reported to SSA. However, we did not verify these new procedures or their impact on the employer's wage reporting to SSA, since they occurred after the period of our review.

### **Employees' Documents Not Verified By Employer**

Although the employer had occasionally contacted the local SSA FO to verify a limited number of SSNs, it was not company policy to verify the SSNs or documents submitted by new hires. In part, this was due to the large number of new hires and the hiring guidelines established by the Immigration Reform and Control Act of 1986 (IRCA).<sup>17</sup>

IRCA requires employers to certify whether their employees are authorized to work in the United States and makes it illegal for employers to knowingly hire unauthorized noncitizens. IRCA also states that, as long as an employee's documents are allowed by law, appear to be genuine on their face, and relate to the person, they should be accepted. The employer maintains an INS Form I-9 for each employee. However, the employer has not taken any steps to verify the accuracy of employees' documents, even though it is aware that some may be invalid.

The employer also stated that employee documents that do not contain correct names/SSNs might be the primary cause for its large numbers of suspended items. However, the employer also stated that, even if it suspected the documents were false, the company would not be inclined to fire the individuals because of fear of a

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<sup>16</sup> Personnel folders contained the following documents: personal information forms; INS Form I-9 that references to identity and work eligibility documents; and IRS *Employee's Withholdings Allowance Certificate* (Form W-4). We discuss invalid documents in another section of this report.

<sup>17</sup> Public Law No. 99-603. See Appendix B for a summary of selected INS legislation.

discrimination lawsuit under IRCA. The employer also noted that the company is not familiar with detecting invalid documents. This factor, combined with a high workforce turnover, contributed in part to the employer's wage reporting problems.

Presently, up to 29 documents<sup>18</sup> issued by various Federal, State, and local awarding agencies are valid for completing the Form I-9. The variety of acceptable identification may discourage employers from verifying these documents. Acceptable records include (1) INS identity and work authorization documents; (2) U.S. passports; (3) SSN cards; (4) State and local Government records; and (5) records from schools, medical facilities, and the military services.

## **SSA'S PROGRAMS COULD PREVENT SIGNIFICANT WAGES FROM ENTERING THE SUSPENSE FILE**

SSA provides various programs to assist employers in preparing accurate wage reports, including a name/SSN verification program that could have significantly reduced the amount of suspended wages for our profiled employer. However, the employer was either unaware of these programs or reluctant to use them. SSA plans to conduct greater outreach to employers and enhance some of the current verification programs to better assist employers with wage reporting problems. These projects have the potential to reduce ESF administrative costs as well. In addition, SSA is evaluating pilot verification programs to see how they can assist employers. Nonetheless, the size of the ESF will continue to grow unless SSA is proactive in implementing these programs.

### **Employee Verification Service Program Could Have Improved Employer Reporting**

The employer's use of SSA's primary name/SSN verification program, the Employee Verification Service (EVS),<sup>19</sup> could have prevented significant wages from entering the suspense file. We estimate that, had the employer been aware of and registered for the EVS program in TY 1997, up to \$10.2 million in suspended wages (76 percent) could have been prevented or at least reduced. The avoidable suspended wages represent amounts paid by the employer after the point where EVS verification would have noted an invalid name/SSN.

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<sup>18</sup> See Appendix C for a sample INS Form I-9 showing a list of 29 acceptable documents.

<sup>19</sup> In our February 2000 report on SSA's ESF tactical plan, we reported that only about 3,000 of 6.5 million employers have registered for the program.

Under EVS, employers with a large workforce can register with the Office of Central Operations and submit more than 50 SSNs for verification. The usual turnaround time for this verification is 30 calendar days or 22 workdays.<sup>20</sup> For our profiled employer, EVS would have identified 2,700 employees who worked 23 days or more and provided invalid SSNs. The employer would then have had the opportunity to go back to the employee and request a valid SSN. As noted above, this action could have reduced the volume of suspended wages reported by this employer for these employees. For the 4,000 employees who worked 22 days or fewer for this employer, EVS information would have been too late because these individuals would have already left the company.<sup>21</sup>

When we asked a company officer why the payroll staff never used the EVS program, he stated he was not aware of this SSA program. Once we explained the potential benefits of EVS in identifying bad names/SSNs, the employer was still reluctant to use this verification program, noting the program was of limited use to his company since it did not provide advance knowledge of an employee's SSN status before they were added to the payroll.

The employer was also unaware of other SSA services, such as the Region's ESLO and SSA's Internet site, that could have assisted the company with wage reporting problems. SSA maintains ESLOs in each Region. The ESLO's responsibilities include (1) answering employers' questions on magnetic media submission of W-2s; (2) conducting wage-reporting seminars, in partnership with the IRS, for employers, payroll service providers, and payroll software companies; and (3) contacting employers in their regions who have 100 or more suspended wage items. However, the regional ESLO had not contacted our profiled employer, although the local FO representative had visited the employer at its work site.<sup>22</sup>

Employers can also access SSA's Internet site, which contains the latest wage reporting requirements and a monthly SSN listing of valid area numbers (first three digits) and valid group numbers (next two digits). Had our profiled employer known about this Internet site, the use of this SSN information within the employer's payroll software could have aided the employer in identifying invalid SSNs and prevented suspended wages. As noted in Figure 3, unassigned SSNs accounted for 40 percent of the suspended wage items for this employer.

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<sup>20</sup> We interpreted the 30-day turnaround time to be calendar days and equivalent to 22 working days. The employer can also submit up to 50 SSNs to the local FO, however, turnaround time would vary, depending on the FO's workload.

<sup>21</sup> SSA also offers employers a real-time, toll-free verification system for up to five SSNs. However, this system is not designed for large employers with multiple hires, as is the case with the employer in this review.

<sup>22</sup> As early as 1996, SSA has been providing ESLO's with names of over 7,000 employers who submitted 100 or more suspended wage reports annually. Due to the large number of employers, ESLOs can choose regional staff or local managers to contact the employers.

## ESF Tactical Plan Projects and Pilot Verification Projects Should Assist Employers

SSA has acknowledged it needs to increase interaction with employers and make EVS more user-friendly. In its 1999 ESF Tactical Plan, SSA planned to (1) conduct outreach efforts with “problem” industries and States in collaboration with the INS, (2) provide overnight electronic name/SSN verification services to employers (that is, EVS), and (3) provide error feedback to employers on new hire reports in collaboration with the OCSE. Together, these projects are expected to reduce the size of the ESF by 500,000 items, annually.<sup>23</sup> However, SSA needs to be more proactive if it intends to correct some of the problems identified at our profiled employer.

In our earlier review of the ESF Tactical Plan, we noted the ESF is likely to continue to grow unless SSA takes aggressive and/or timely action. We also noted that, while SSA had identified 7,000 employers in need of assistance to correct and prevent wage reporting errors, as outlined in the first project above, Agency efforts did not specifically address the small number of employers who continually add large numbers of wage items to the ESF and/or disregard wage reporting problems. Our profiled employer falls into this category of employers not sufficiently monitored by SSA. As a result, the problems noted with our profiled employer, such as the unawareness of EVS, may continue to occur with other employers until this initiative is more focused.

The second project, providing on-line EVS (OEVS), would reduce the present turnaround time by providing overnight electronic name/SSN verification for up to 500 name/SSN requests per session. This project comes close to meeting the needs of our employer for advance knowledge of an employee’s SSN. SSA's Tactical Plan notes that OEVS could prevent an estimated 200,000 items from going into the ESF, annually. In the past, SSA reported that it can cost as much as \$300 to remove an item from the ESF.<sup>24</sup> However, SSA staff has advised us that this figure exceeds the current costs to reinstate a wage item. SSA is calculating a new figure. Assuming SSA would be able to reinstate all 200,000 of these wage items, and estimating that the current cost to reinstate a wage item is only 10 percent of SSA's earlier estimate (or \$30 per item), OEVS has the potential to reduce administrative costs by approximately \$6 million, annually. The OEVS project was planned for release in August 2000. However, as of March 2001, SSA noted that release of the project was still "awaiting Administrative decision."<sup>25</sup>

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<sup>23</sup> See Appendix A for the ESF item reduction estimates related to each of these projects.

<sup>24</sup> We reported this in our earlier audit, *The Social Security Administration’s Earnings Suspense File Tactical Plan and Efforts to Reduce the File’s Growth and Size*.

<sup>25</sup> *Executive Customer Targeted Work Meeting*, March 19, 2001.



The third project, providing error feedback to employers on new hire reports in collaboration with the OCSE, is known as the *SSN Feedback Pilot Project*. OCSE maintains a national directory of all new hires.<sup>26</sup> Employers are mandated under Federal law to submit new hire data through State agencies to OCSE. Civil monetary penalties can be imposed by the State agencies on employers for noncompliance. The joint pilot began in July 1999, lasted just 1 year, and was limited to employers from Massachusetts and Illinois (the locale of our profiled employer). Under the pilot, SSA verified the names/SSNs of new hires in the OCSE directory against SSA's Numident file containing all valid SSNs. Employers were notified within 15 to 30 days of nonmatches and were asked to correct their records. However, employers were not required to resubmit corrected data. As of March 2001, the OCSE pilot results were still under evaluation.

SSA is also conducting a joint pilot with INS called the *Basic Pilot Employment Eligibility Confirmation Program*.<sup>27</sup> The pilot provides volunteer employers in five States, including Illinois where our profiled employer is located, with query access to SSA and INS data bases to verify a new employee's name/SSN, authorization to work, and alien registration number within 3 business days after hiring. If the pilot does not verify the name/SSN data, the employer can request additional documentation from those new hires who provided the invalid data. The employer also has the option of terminating an employee who provided invalid information as long as the action was taken in good faith reliance on information provided through the program. The pilot began in November 1997 and will run for 4 years. Although our profiled employer was encouraged to join the program by a local FO representative, the employer declined to participate.

Both the INS and OCSE pilots, if proven successful, have an advantage over the current voluntary EVS program for registered employers since they provide more timely feedback to large employers. However, the OCSE pilot has additional advantages over the voluntary INS pilot as well since (1) the submission of name/SSN data for new hires is federally mandated; (2) a State-administered penalty mechanism is already in place for noncompliance; and (3) no additional submission requirements are placed on the employer. In its 1999 *Employer Focus Group Report*, SSA found that large employers prefer an EVS system that "automatically provides feedback on mismatches soon after the employee is hired."<sup>28</sup> The joint pilot has the potential to meet this need.

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<sup>26</sup> Under the *Personal Responsibility and Work Opportunity Reconciliation Act of 1996* (Public Law No. 104-193), employers are required to submit new hire data to designated State agencies.

<sup>27</sup> The program is one of three established under the *Illegal Immigration Reform and Immigrant Responsibility Act of 1996* (Public Law No. 104-208). Other programs are *Citizen Attestation Pilot* and *Machine-Readable Document Pilot*. The programs were offered to employers in Illinois, California, Texas, New York, and Florida. Pilot results are not yet available.

<sup>28</sup> In May and June 1999, SSA's Office of Communications held focus groups and conducted interviews with employers, representatives of employer stakeholder organizations, and interested third parties.

# Conclusions and Recommendations

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The employer in our review faces both internal and external factors that are the major causes for the size and growth of its suspended wages. The employer has taken several internal steps to reduce suspended wages, which include (1) eliminating the 3-day grace period for new hires to bring in documentation and (2) implementing a procedure that alerts the payroll department when an SSN is missing. However, the employer will have more difficulty addressing its dependence on a transient workforce. In addition, the employer has had difficulties with employees submitting invalid INS and SSA documents and the number of suspended wage items that resulted from these documents. Nonetheless, we believe this employer's suspended wages resulting from invalid documents could have been significantly reduced if it had been better informed and encouraged by SSA to take full advantage of the available wage reporting services.

Although SSA has a number of ongoing projects to control the size of the ESF, we believe there are three projects that, when fully implemented, are more likely to address the needs of our profiled employer in reducing its suspended items and wages. The projects include (1) conducting outreach efforts with "problem" industries and States with collaboration from INS; (2) providing on-line name/SSN verification service for up to 500 SSNs, which does not require any outside agency support; and (3) providing error feedback to employers on new hire reports with collaboration from INS and OCSE through joint pilots. However, some of these projects have either lacked a clear focus or have been delayed, necessitating greater Agency attention if the size of the ESF is to be reduced.

The INS and OCSE pilots cited above have the potential to provide SSA a quicker mechanism than the current EVS for reporting bad data back to large employers. In addition, the joint SSA/OCSE pilot has additional advantages over the current EVS program for registered employers and even the INS pilot. However, the actual benefits of the OCSE pilot will not be known until SSA completes its evaluation.

We have already made several recommendations in prior reports related to employer bad wage reporting. For example, we have recommended (1) mandatory use of EVS by those employers who continue to submit large numbers of invalid wage reports; (2) preparation of a legislative proposal giving employers the right to view SSN cards; and (3) the enforcement of IRS sanctions against employers who continually submit erroneous wage reports.

As a result of our work with this profiled employer, we make the following additional recommendations to SSA to improve oversight of employers with large numbers of suspended wage items and provide them with sufficient tools to detect erroneous data.

1. Until the use of EVS is mandatory, ensure ESLOs increase awareness of EVS among those employers who have submitted large numbers of suspended wage reports, including those identified by SSA's OIG in its *100 Employers* report.
2. Prioritize the implementation of the ESF tactical plan proposal to provide OEVS to employers, which will assist employers in identifying invalid documents submitted by new hires while also preventing 200,000 wage items from going into the ESF and reducing overall ESF administrative costs by approximately \$6 million, annually.
3. Continue to pursue and/or expand upon viable options to the current EVS procedures, such as the INS and OCSE pilots, to broaden employer participation in SSA's name/SSN verification projects.

## Agency Comments

SSA took exception to the statements and recommendations made in the report because they were based on the examination of a single employer. SSA believes the most significant cause for wage reporting errors is the transient nature of the employers' workforce and noncompliance on the part of employers. As a result, SSA is not comfortable in predicting a significant reduction of items in the ESF.

SSA concurred with Recommendations 1 and 3. However, SSA did not concur with Recommendation 2. SSA stated that OEVS has already been put on a priority track. In addition, SSA disagreed with our assessment of administrative costs related to the implementation of OEVS. Specifically, SSA noted that our estimate of a \$300 cost per reinstatement far exceeds the current unit cost for earnings disagreements, and the projected savings may not be accurate. SSA stated it will determine how the \$300 amount was derived and recalculate the amount to provide a better cost per reinstatement.

## Office of the Inspector General Response

Over the past few years the OIG has conducted a number of reviews related to the Earnings Suspense File issue. This current review builds upon our work and demonstrates that significant problems exist in the service industry, specifically employers with a transient workforce. SSA agrees this transient workforce is a significant cause for wage reporting errors. In addition, our recommendations related to the issues faced by this employer will further SSA's efforts to reduce contributions to the ESF. In fact, SSA concurs with the substance of our recommendations, such as educating employers, implementing OEVS, and pursuing viable options to the current EVS.

Regarding SSA's disagreement with our estimate of administrative cost savings resulting from the use of OEVS, we point out that both the item and cost figures were provided by SSA and noted in our February 2000 report on SSA's ESF Tactical Plan.

We acknowledge the current cost per reinstatement may have changed with time. Since SSA is unable to provide a better estimate, we have adjusted our report to show the impact on administrative costs using only 10 percent of SSA's estimate, or \$30 per reinstatement. While the actual administrative cost savings may change once SSA completes its review, our calculation above demonstrates that a delay in implementing OEVS impacts administrative costs.

We welcome SSA's commitment to determine a new cost per reinstatement. We believe significant cost savings could be realized through timely implementation, for many of the reasons SSA already cited in its February 28, 2000 Key Initiative Plan and Schedule for OEVS. For example, SSA stated that OEVS will lead to (1) less Suspense File accretions; (2) lower earnings reconciliation, corrections, and adjustments workloads; (3) fewer claims inquiries from SSA customers; and (4) fewer telephone/magnetic media EVS requests.

SSA also provided technical comments that we considered and incorporated, where appropriate. SSA's comments are included in Appendix D.

# *Appendices*

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## Earnings Suspense File Tactical Plan

Project Description	Project Status As Of July 2000 (1)		SSA's Estimated Annual Reduction in ESF Items
	Start	End	
1. Strengthen Name/Social Security Number (SSN) Validation Software Used for Determining Wage Earner Identity	Initiated	February 1999	60,000
2. Request the Internal Revenue Service (IRS) Establish Audit Policy for "Chronic Problem Employers"	Initiated	TBD	100,000
3. Provide Error Feedback to Employers on New Hire Reports in Collaboration with the Office of Child Support Enforcement	Initiated	October 2000 (2)	100,000
4. Provide Overnight Electronic Name/SSN Verification Services to Employers (that is, On-line Employee Verification Service)	Initiated	August 2000 (3)	200,000
5. Establish Effective Format for Customer Name	Initiated	January 2002	No Estimate
6. Improve Communication of Report Errors to Employers/Submitters and Employees	Initiated	TBD (4)	1,000,000
7. Establish Employers Right to See Social Security Card	TBD	TBD	150,000
8. Conduct Outreach Efforts with "Problem" Industries and States in Collaboration with the Immigration and Naturalization Service and the IRS	Initiated	Ongoing	200,000
9. Establish and Implement IRS Penalty Provision for "Chronic Problem Employers"	TBD	TBD	1,500,000
10. Revise the Social Security Administration's (SSA) Earnings System to Immediately Accept and Post All Valid <i>Wage and Tax Statements (W-2)</i> Received From Employers	Initiated	TBD	50,000
Estimated Annual Reduction in Items			<b>3,360,000</b>

TBD = To be determined.

Notes: (1) In a February 2001 meeting, SSA staff noted that this was the most current ESF Tactical Plan project status document.

(2) SSA has conducted the pilot, but was still evaluating the pilot results at the time of our review.

(3) SSA had planned to implement this by August 2000. However, as of March 2001, SSA noted that release of the project was still "awaiting Administrative decision."

(4) SSA staff have noted the Agency has already improved the process in Tax Year 2000.

Sources: March 1999 and July 2000 Earnings Suspense File Tactical Plan Updates and discussions with SSA officials.

## Summary of Selected Immigration and Naturalization Service Legislation

Legislation	Date Enacted	Provisions
Social Security Act Amendments (Public Law No. 92-603 §137)	October 30, 1972	Provides that Social Security numbers (SSN) be assigned to noncitizens at the time of their lawful admission to the United States either for permanent residence or to engage in employment in the United States.
Immigration Reform and Control Act of 1986 (Public Law No. 99-603)	November 6, 1986	Establishes an employment verification system that <ol style="list-style-type: none"> <li>1. Requires an employer to attest that the employee's work status has been verified by examination of a passport, birth certificate, SSN card, alien documentation papers or other proof. An employer has complied with this requirement if the document reasonably appears on its face to be genuine.</li> <li>2. Makes it an unfair immigration-related practice for an employer of three or more persons to discriminate against any individual (other than an unauthorized noncitizens) with respect to hiring, recruitment, firing, or referral for fee, because of such individual's origin or citizenship status.</li> </ol>
Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (Public Law No. 104-208)	September 30, 1996	<ol style="list-style-type: none"> <li>1. Within 1 year of enactment, requires the establishment of three distinct pilot programs, each of which will last for 4 years. The pilots include (a) a basic employee verification pilot program; (b) a citizen attestation program; and (c) a machine-readable document program.</li> <li>2. Requires the Social Security Administration to develop cost estimates for a prototype counterfeit resistant card with various security features that could be used in establishing proof of citizenship or legal noncitizenship status.</li> </ol>

## Immigration and Naturalization Service Form I-9 Required Documentation

An employer is required to examine one document from List A or examine one document from List B and one from List C.

List A Documents that Establish Both Identity and Employment Eligibility	List B Documents that Establish Identity	List C Documents that Establish Employment Eligibility
1. U.S. Passport	1. State driver's license or identification card with photo and personal information	1. Social Security card issued by the Social Security Administration (other than a card stating it is not valid for employment)
2. Certificate of U.S. Citizenship Immigration and Naturalization Service (INS) (Form N-560 or N-561)	2. Federal, State, local Government agencies identification card with photo and personal information	2. Certificate of Birth Abroad issued by State Department (Form FS-545 or Form DS-1350)
3. Certificate of Naturalization (INS Form N-550 or N-570)	3. School identification card with photo	3. Birth Certificate issued by State, county, municipal authority or U.S. possession
4. Foreign passport (unexpired) with I-551 stamp or INS Form I-94	4. Voter's registration card	4. Native American tribal document
5. Alien Registration Receipt card with photo (INS Form I-551)	5. U.S. military card or draft record	5. U.S. Citizen Identification Card (INS Form I-197)
6. Temporary Card (unexpired) (INS Form I-688)	6. Military dependent's ID card	6. ID Card for use of Resident Citizen in the United States (INS Form I-179)
7. Employment Authorization Card (unexpired) (INS Form I-688A)	7. U.S. Coast Guard Merchant Mariner Card	7. INS Employment Authorization document (unexpired) (other than those listed under List A)
8. Reentry Permit (unexpired) (INS Form I-327)	8. Native American tribal document	
9. Refugee Travel Document (unexpired) (INS Form I-571)	9. Canadian driver's license	
10. Employment Authorization Document with photo (INS Form I-688B)	10. School record or report card (persons under age 18)	
	11. Medical record: clinic, doctor, or hospital (persons under age 18)	
	12. Day-care or nursery school record (persons under age 18)	



Agency Comments



## SOCIAL SECURITY

MEMORANDUM

29320-24-583

Date: August 22, 2001

Refer To: SIJ-3

To: James G. Huse, Jr.  
Inspector General

From: Larry G. Massanari  
Acting Commissioner of Social Security

Subject: Office of the Inspector General (OIG) Draft Management Advisory Report, "Review Of Service Industry Employer With Wage Reporting Problems" (A-03-00-10022)—INFORMATION

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

Please let us know if we can be of further assistance. Staff questions may be referred to Robert Berzanski on extension 5-2675.

Attachment:  
SSA Comments

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “REVIEW OF SERVICE INDUSTRY EMPLOYER WITH WAGE REPORTING PROBLEMS” (A-03-00-10022)**

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

We have serious reservations about OIG making broad policy statements and recommendations based on the examination of a single employer. We do not concur with the conclusion that the implementation of these recommendations will have a significant impact on the numbers of earnings items going to the Earnings Suspense File (ESF). We believe the most significant cause for wage reporting errors is the transient nature of the employers' workforce, and noncompliance on the part of employers. While the steps recommended may help reduce wage-reporting errors, we are not comfortable in predicting a significant reduction of items in the ESF.

**Recommendation 1**

Until the use of Employee Verification Service (EVS) is mandatory, ensure Employer Services Liaison Officers (ESLOs) increase awareness of EVS among those employers who have submitted large numbers of suspended wage reports, including those identified by SSA's OIG in its *100 Employers* report.

**Comment**

We agree that the ESLOs should continue to inform employers of EVS. A concentrated effort will continue to contact those employers who have submitted large numbers of suspended wage reports, including those identified in the *100 Employers* report (*Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items A-03-98-31009*). ESLOs will also continue to contact and invite large problem filers to seminars to educate them on the availability and use of EVS as part of their individual outreach efforts and in association with the Internal Revenue Service seminars.

**Recommendation 2**

Prioritize the implementation of the ESF tactical plan proposal to provide Online Employee Verification Service (OEVS) to employers, which will assist employers in identifying invalid documents submitted by new hires while also preventing up to 200,000 items from going into the ESF and reducing overall ESF administrative costs by as much as \$60 million, annually.

**Comment**

We do not concur. OEVS has already been put on a priority track, including a separate OEVS tactical plan. Therefore, it is not necessary to further modify the ESF tactical plan. However, given the extremely sensitive nature of providing name and Social Security number (SSN) information online, it is imperative that SSA address all the issues and concerns raised by members of congress, advocacy groups, and the public in general before implementing OEVS.

We also disagree with the assessment that implementing this recommendation would prevent up to 200,000 items from going into the ESF and reduce overall ESF administrative costs by as much as \$60 million annually. Although we cannot provide the average unit cost to work an earnings disagreement at this time, we believe OIG's estimate of a \$300 cost per reinstatement far exceeds the current unit cost for earnings disagreements and therefore, projects huge savings that may not be accurate. We will determine how the \$300 amount was derived and recalculate the amount to provide a better cost per reinstatement. The earlier audit report referenced (*Patterns of Reporting Errors and Irregularities by 100 Employers with the Most Suspended Wage Items, A-03-98-31009*) reviewed wage items from 1993 through 1996.

### **Recommendation 3**

Continue to pursue and/or expand upon viable options to the current EVS procedures, such as the Immigration and Naturalization Service (INS) and Office of Child Support Enforcement (OCSE) pilots, to broaden employer participation in SSA's name/SSN verification projects.

### **Comment**

We concur and will continue to explore the viability of performing additional pilots as determined appropriate and cost effective.

## **OIG Contacts and Staff Acknowledgements**

### ***OIG Contacts***

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# **Overview of the Office of the Inspector General**

## **Office of Audit**

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

## **Office of Executive Operations**

OEO supports the 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.