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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**THE SOCIAL SECURITY  
ADMINISTRATION'S  
COMPLIANCE WITH EMPLOYEE  
TAX REQUIREMENTS**

**April 2007**

**A-03-06-16062**

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**AUDIT REPORT**

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## **Mission**

**By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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**

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



## SOCIAL SECURITY

### **MEMORANDUM**

**Date:** April 6, 2007

**Refer To:**

**To:** The Commissioner

**From:** Inspector General

**Subject:** The Social Security Administration's Compliance with Employee Tax Requirements  
(A-03-06-16062)

### **OBJECTIVE**

Our objective was to determine if the Social Security Administration (SSA) is appropriately paying and reporting employment taxes to the Internal Revenue Service (IRS).

### **BACKGROUND**

In June 2005, the IRS requested that each Federal Office of Inspector General determine whether its parent agency is complying with Federal tax laws. Federal agencies are subject to the same requirements as all other employers. The Internal Revenue Code requires employers to pay employment taxes on wages and to report wages and certain other payments on various IRS forms. Federal employment taxes include withholdings related to Federal income, Social Security, and Medicare taxes. Employers are required to make deposits of employment taxes on a daily, weekly, or semi-weekly schedule depending upon the amount of tax they accumulate for deposits.

Employers are also required to file Forms 941, *Employer's Quarterly Federal Tax Return*, reporting liability for withholdings related to Federal income, Social Security, and Medicare taxes on a quarterly basis.<sup>1</sup> In addition, as part of the Annual Wage Reporting (AWR) process, employers are required to file Forms W-3, *Transmittal of Wage and Tax Statement*, with SSA along with copies of Forms W-2, *Wage and Tax Statement*, for all

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<sup>1</sup> IRS Publication 15, *Circular E, Employers Tax Guide*, Revised January 2004, Section 12 - *Filing Form 941*. See Appendix B for a copy of the Form 941.

of their employees.<sup>2</sup> Employees must complete Forms W-4, *Employee's Withholding Allowance Certificate*, so the employer can withhold the correct Federal income tax from their pay.<sup>3</sup>

### **Processing SSA's Payroll**

Beginning with Tax Year (TY) 1998, the Department of Interior's (DOI) National Business Center (NBC) started processing SSA's payroll through its Federal Personnel Payroll System (FPPS).<sup>4</sup> For TY 2004, SSA was among 35 Federal entities receiving personnel and payroll services from NBC.<sup>5</sup> As SSA's payroll provider, NBC is responsible for calculating applicable Federal, State, and local income tax withholdings as well as Social Security and Medicare taxes based on the information entered into FPPS by SSA staff. NBC is also responsible for preparing the quarterly Forms 941 and annual Forms W-3 and W-2 for all its clients and providing year-end interface files containing wage and tax data to its clients.<sup>6</sup> When reporting tax information to the IRS, NBC combines wage and tax information for its clients and reports it under a single Employment Identification Number (EIN).<sup>7</sup>

### **SCOPE AND METHODOLOGY**

Our audit focused on Federal employment taxes paid to the IRS on behalf of SSA employees. We reviewed personnel, payroll, and other financial records related to SSA's employees for TY 2004 to determine whether the appropriate amount of Federal employment taxes were paid to the IRS. We provide a full description of the scope and methodology and the sampling methodology in Appendices F and G.

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<sup>2</sup> Program Operations Manual System, RM 01101.003 - *Employer Wage Reporting*.

<sup>3</sup> Employees can file Forms W-4 at any time to adjust their tax withholdings. See Appendix C for a copy of the Form W-4.

<sup>4</sup> FPPS is a mainframe-based, on-line, and real time personnel and payroll system. The system provides personnel and payroll support to numerous Federal entities, servicing over 200,000 accounts.

<sup>5</sup> See Appendix D for a listing of the 35 Federal entities.

<sup>6</sup> NBC uses the FEDTAX II system, which facilitates the electronic payment of Federal taxes by Federal clients. FEDTAX II also enables Federal entities to transmit the Form 941s to the IRS electronically.

<sup>7</sup> A detail description and flowchart of the payroll process is included in Appendix E.

## RESULTS OF REVIEW

In general, our review found during TY 2004 DOI appropriately withheld and deposited Federal employment taxes for SSA employees. We found DOI properly deposited approximately \$856 million related to withholdings for Federal income, Social Security, and Medicare taxes to the IRS on behalf of SSA employees in TY 2004. Moreover, we reviewed 100 sample employee records to ensure correct amounts of Federal income, Social Security taxes, and Medicare taxes were withheld from the sample employees' pay. We found DOI withheld the proper amount of Federal employment taxes from employees' pay.

### EMPLOYMENT TAXES ON WAGES

Our review found DOI appropriately deposited approximately \$856 million in Federal employment taxes to the IRS on behalf of SSA employees in TY 2004. As stated previously, employers are required to deposit Federal income taxes withheld and the employer and employee portions of the Social Security and Medicare taxes. The deposits should be made on a daily, weekly, or semi-weekly schedule depending on the amount of taxes the employer accumulates for deposits.<sup>8</sup> Our review of deposit confirmations for TY 2004 showed DOI deposited about \$2.4 billion in Federal employment taxes to the IRS for 35 Federal entities.<sup>9</sup> In our review of the DOI's Federal Tax Pay Period Collection Reports and supporting schedules,<sup>10</sup> used by DOI to calculate the deposit amounts, we determined SSA's portion of the \$2.4 billion tax liability totaled about \$856 million, or 36 percent.<sup>11</sup> A breakout of the \$856 million in Federal employment taxes is shown in the following figure.

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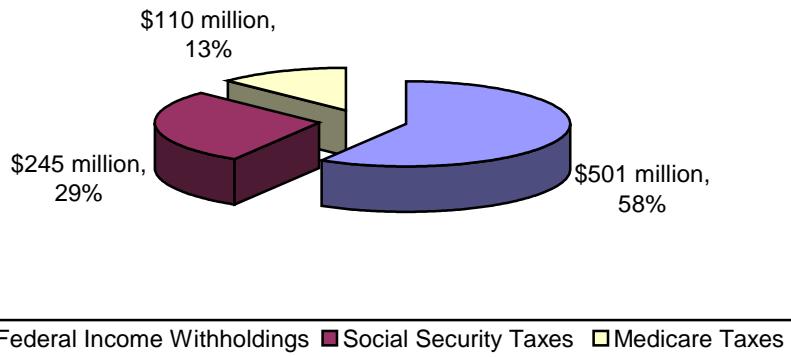
<sup>8</sup> IRS Publication 15, *Circular E, Employers Tax Guide*, Revised January 2004, Section 11 - *When to Deposit*.

<sup>9</sup> While the IRS is in fact being credited with the amount of the tax payments, funds never actually pass through the banking system. Instead, FEDTAX II creates a debit voucher for each Agency Location Code/EIN having reported Federal tax payments for a given day. A deposit ticket, summarizing the total payments made for a given day is created for the IRS. The debit voucher and deposit ticket information is reported to Treasury through CA\$HLINK II, which results in an accounting entry into the central accounting system of the United States.

<sup>10</sup> The Federal Tax Pay Period Collection Report is generated from FPPS and summarizes the Federal tax liability amount for each DOI client. DOI provided us with copies of this report as well as supporting schedules for SSA. DOI did not provide us with copies for the reports and supporting schedules for the other 34 Federal entities because the documents included sensitive tax data.

<sup>11</sup> Our review of SSA records showed DOI initially submitted 205,997 W-2s for 35 entities, of which 70,638 W-2s (34 percent) related to SSA employees.

### Federal Employment Tax Deposits for SSA (TY 2004)



To determine whether the \$856 million in employment taxes for SSA appeared reasonable, we reviewed the Forms W-2 data reported to SSA as part of the AWR process. Our comparison showed the tax deposits totaled approximately \$855,704,000 in employment taxes while Forms W-2 totaled about \$855,748,000, a difference of about \$44,000. The \$44,000 difference primarily related to credits received from the IRS for prior year adjustments for Social Security and Medicare taxes. As a result, we believe DOI paid the appropriate amount of employment taxes to the IRS for SSA employees later reported through the AWR process.

## EMPLOYMENT TAX WITHHOLDINGS

Based on our review of personnel and payroll records for 100 sample SSA employees in TY 2004, we found DOI withheld the proper amount of Federal employment taxes from the employees' pay. We performed this test to ensure DOI accurately computed the employment tax withholdings. Our review of the personnel and payroll records for the 100 sample employees—50 employees who submitted Forms W-4<sup>12</sup> in TY 2004 and 50 employees who did not request a change to their Federal withholdings—showed the following:<sup>13</sup>

- **Sample Employees with Forms W-4.** The 50 sample employees submitted a total of 85 Forms W-4<sup>14</sup> during TY 2004 that were processed by SSA Personnel Offices

<sup>12</sup> The employee completes the Form W-4 so the employer can withhold the correct Federal income tax from their pay. Employees have an option to complete a manual or electronic version of the Form.

<sup>13</sup> See Appendix G for a full description of the sampling methodology.

<sup>14</sup> The 50 sample employees submitted 1 to 11 Forms W-4 during TY 2004.

or through Employee Express,<sup>15</sup> which is an automated system that allows Federal employees to make discretionary changes to their payroll records.<sup>16</sup> Based on our review of the Forms W-4 and the employees' FPPS records, we found SSA properly processed the 85 requests by entering the correct withholdings data into FPPS. Furthermore, to determine if DOI withheld the proper amount of employment taxes from the sample employees' pay, we calculated the withholding amounts of Federal income, Social Security, and Medicare taxes<sup>17</sup> for all 50 employees and compared the calculated amounts to the employment tax withholdings shown in the employees' FPPS records.<sup>18</sup> We found in all 50 cases, the amounts agreed.

- **Sample Employees without Forms W-4.** For the 50 sample employees who did not submit Forms W-4 during TY 2004, we calculated the withholding amounts of Federal income, Social Security, and Medicare taxes for the last pay period in TY 2004 and compared the calculated amounts to the amount of employment tax withholdings shown in the employees' payroll record. Again, we found the amounts agreed.

## CONCLUSION

Our review did not disclose any material discrepancies with the amount of Federal employment taxes withheld and deposited for SSA employees in TY 2004. We found DOI properly deposited approximately \$856 million in employment taxes to the IRS for SSA employees during the period reviewed. Furthermore, we found DOI withheld the correct amounts of Federal income, Social Security and Medicare taxes from SSA employees' wages during the period.

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<sup>15</sup> Employee Express is an on-line self-serve program that allows Federal employees to effect certain changes to their payroll/personnel data. Changes made through Employee Express are electronically transmitted to FPPS to update the employees' payroll/personnel records.

<sup>16</sup> Of the 50 sample employees, we found 14 submitted a manual Form W-4, while 36 employees submitted an electronic Form W-4 through Employee Express.

<sup>17</sup> We used IRS Publication 15, *Circular E, Employers Tax Guide*, to calculate the amount of Federal income, Social Security, and Medicare withholdings. We used the Percentage Method to calculate the Federal income tax withholdings because it can be used for any number of allowances claimed by the employee on the Form W-4 and any amount of wages. To calculate the Social Security and Medicare taxes, we used the employee tax rates of 6.2 percent and 1.45 percent, respectively.

<sup>18</sup> DOI uses a commercial tax package to compute taxes shown in FPPS. The software is a subprogram that interfaces with most payroll systems to calculate U.S. and Canadian payroll withholding taxes.

## **AGENCY COMMENTS**

SSA did not have any specific comments to the draft report. The full text of the Agency's memorandum is included in Appendix I.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

# **Appendices**

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**APPENDIX A** – Acronyms

**APPENDIX B** – Form 941 Employer's Quarterly Federal Tax Return

**APPENDIX C** – Form W-4 Employee's Withholding Allowance Certificate

**APPENDIX D** – Listing of Federal Entities

**APPENDIX E** – Description of SSA's Payroll Process

**APPENDIX F** – Scope and Methodology

**APPENDIX G** – Sampling Methodology

**APPENDIX H** – Annual Wage Reporting Reconciliation

**APPENDIX I** – Agency Comments

**APPENDIX J** – OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

AWR	Annual Wage Reporting
DOI	Department of Interior
EIN	Employer Identification Number
FPPS	Federal Personnel and Payroll System
HRMIS	Human Resource Management Information System
IRS	Internal Revenue Service
MTAS	Mainframe Time and Attendance System
NBC	National Business Center
OIG	Office of the Inspector General
SSA	Social Security Administration
TY	Tax Year

### **Forms/Numbers**

Form 941	<i>Employer's Quarterly Federal Tax Return</i>
Form W-2	<i>Wage and Tax Statement</i>
Form W-3	<i>Transmittal of Wage and Tax Statements</i>
Form W-4	<i>Employee's Withholding Allowance Certificate</i>
SF-50	<i>Notification of Personnel Action</i>
SF-52	<i>A Request for Personnel Action</i>

## *Appendix B*

# Form 941 Employer's Quarterly Federal Tax Return

**941**  
 Form (Rev. January 2004)  
 Department of the Treasury  
 Internal Revenue Service (99)

**Employer's Quarterly Federal Tax Return**

► See separate instructions revised January 2004 for information on completing this return.

Please type or print.

OMB No. 1545-0029

T
FF
FD
FP
I
T

Enter state  
 code for state  
 in which  
 deposits were  
 made only if  
 different from  
 state in  
 address to  
 the right ►  
 (see page  
 2 of separate  
 instructions).

Name (as distinguished from trade name)	Date quarter ended
Trade name, if any	Employer identification number
Address (number and street)	City, state, and ZIP code

If address is  
 different  
 from prior  
 return, check  
 here ►

IRS Use	1    1    1    1    1    1    1    1    1    2	3    3    3    3    3    3    3    3    3    4	5    5    5
	6    7    8    8    8    8    8    8    8	9    9    9    9    9    10    10    10    10	10    10    10    10    10    10

A. If you do not have to file returns in the future, check here ►  and enter date final wages paid ►

B. If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ►

1 Number of employees in the pay period that includes March 12th . ► <b>1</b>	2	
2 Total wages and tips, plus other compensation (see separate instructions) . . . . .	3	
3 Total income tax withheld from wages, tips, and sick pay . . . . .	4	
4 Adjustment of withheld income tax for preceding quarters of this calendar year . . . . .	5	
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4) . . . . .	6a	
6 Taxable social security wages . . . . .	6a	× 12.4% (.124) =
Taxable social security tips . . . . .	6c	× 12.4% (.124) =
7 Taxable Medicare wages and tips . . . . .	7a	× 2.9% (.029) =
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax . . . . . ► <input type="checkbox"/>	8	
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ _____ ± Other \$ _____ =	9	
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9) . . . . .	10	
11 Total taxes (add lines 5 and 10) . . . . .	11	
12 Advance earned income credit (EIC) payments made to employees (see instructions) . . . . .	12	
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941)) . . . . .	13	
14 Total deposits for quarter, including overpayment applied from a prior quarter. . . . .	14	
15 Balance due (subtract line 14 from line 13). See instructions . . . . .	15	
16 Overpayment. If line 14 is more than line 13, enter excess here ► \$ _____ and check if to be: <input type="checkbox"/> Applied to next return or <input type="checkbox"/> Refunded.		

• All filers: If line 13 is less than \$2,500, do not complete line 17 or Schedule B (Form 941).

• Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here . . . . . ►

• Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. . . . . ►

17 Monthly Summary of Federal Tax Liability. (Complete Schedule B (Form 941) instead, if you were a semiweekly schedule depositor.)			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
_____	_____	_____	_____

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see separate instructions)?  Yes. Complete the following.  No.

Designee's name ► Phone no. ► ( ) Personal identification number (PIN) ►

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Sign Here Signature ► Print Your Name and Title ► Date ►

## Appendix C

# Form W-4 Employee's Withholding Allowance Certificate

### **Form W-4 (2004)**

**Purpose.** Complete Form W-4 so that your employer can withhold the correct Federal income tax from your pay. Because your tax situation may change, you may want to refigure your withholding each year.

**Exemption from withholding.** If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2004 expires February 16, 2005. See Pub. 505, Tax Withholding and Estimated Tax.

**Note:** You cannot claim exemption from withholding if: (a) your income exceeds \$800 and includes more than \$250 of unearned income (e.g., interest and dividends) and (b) another person can claim you as a dependent on their tax return.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized

deductions, certain credits, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply. However, you may claim fewer (or zero) allowances.

**Head of household.** Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See line E below.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding? for information on converting your other credits into withholding allowances.

**Nontax income.** If you have a large amount of nontax income, such as interest or dividends, consider making estimated tax payments using

**Form 1040-ES**, Estimated Tax for Individuals. Otherwise, you may owe additional tax.

**Two earners/two jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others.

**Nonresident alien.** If you are a nonresident alien, see the **Instructions for Form 8233** before completing this Form W-4.

**Check your withholding.** After your Form W-4 takes effect, use Pub. 919 to see how the dollar amount you are having withheld compares to your projected total tax for 2004. See Pub. 919, especially if your earnings exceed \$125,000 (Single) or \$175,000 (Married).

**Recent name change?** If your name on line 1 differs from that shown on your social security card, call 1-800-772-1213 to initiate a name change and obtain a social security card showing your correct name.

#### **Personal Allowances Worksheet (Keep for your records.)**

- A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . A \_\_\_\_\_
- B Enter "1" if:
  - You are single and have only one job; or
  - You are married, have only one job, and your spouse does not work; or
  - Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. } . . B \_\_\_\_\_
- C Enter "1" for **your spouse**. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . C \_\_\_\_\_
- D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . . D \_\_\_\_\_
- E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . E \_\_\_\_\_
- F Enter "1" if you have at least \$1,500 of **child or dependent care expenses** for which you plan to claim a credit . . F \_\_\_\_\_  
*(Note: Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)*
- G **Child Tax Credit** (including additional child tax credit):  
  - If your total income will be less than \$52,000 (\$77,000 if married), enter "2" for each eligible child.
  - If your total income will be between \$52,000 and \$84,000 (\$77,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have four or more eligible children. G \_\_\_\_\_
- H Add lines A through G and enter total here. **Note:** This may be different from the number of exemptions you claim on your tax return. ► H \_\_\_\_\_
- For accuracy, complete all worksheets that apply.  
  - If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
  - If you have **more than one job** or are **married** and you and your spouse **both work** and the combined earnings from all jobs exceed \$35,000 (\$25,000 if married) see the **Two-Earner/Two-Job Worksheet** on page 2 to avoid having too little tax withheld.
  - If **neither** of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> <small>► Your employer must send a copy of this form to the IRS if: (a) you claim more than 10 allowances or (b) you claim "Exempt" and your wages are normally more than \$200 per week.</small>			
1 Type or print your first name and middle initial      Last name		2 Your social security number _____			
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <small>Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.</small>			
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a new card. ► <input type="checkbox"/>			
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5 _____ 6 \$ _____			
6 Additional amount, if any, you want withheld from each paycheck					
7 I claim exemption from withholding for 2004, and I certify that I meet <b>both</b> of the following conditions for exemption: <ul style="list-style-type: none"> <li>• Last year I had a right to a refund of <b>all</b> Federal income tax withheld because I had <b>no tax liability</b> and</li> <li>• This year I expect a refund of <b>all</b> Federal income tax withheld because I expect to have <b>no tax liability</b>.</li> </ul> If you meet both conditions, write "Exempt" here . . . . . ► 7 _____					
<small>Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or I am entitled to claim exempt status.</small> <b>Employee's signature</b> <small>(Form is not valid unless you sign it.) ►</small>				<b>Date</b> ►	
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)		10 Employer identification number (EIN) _____	

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 10220Q

Form W-4 (2004)

### Deductions and Adjustments Worksheet

**Note:** Use this worksheet **only** if you plan to itemize deductions, claim certain credits, or claim adjustments to income on your 2004 tax return.

- 1 Enter an estimate of your 2004 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 2004, you may have to reduce your itemized deductions if your income is over \$142,700 (\$71,350 if married filing separately). See **Worksheet 3** in Pub. 919 for details.) . . . . . 1 \$ \_\_\_\_\_
- 2 Enter: 
$$\left\{ \begin{array}{l} \$9,700 \text{ if married filing jointly or qualifying widow(er)} \\ \$7,150 \text{ if head of household} \\ \$4,850 \text{ if single} \\ \$4,850 \text{ if married filing separately} \end{array} \right\} . . . . . 2 \$ _____$$
- 3 Subtract line 2 from line 1. If line 2 is greater than line 1, enter "-0-". . . . . 3 \$ \_\_\_\_\_
- 4 Enter an estimate of your 2004 adjustments to income, including alimony, deductible IRA contributions, and student loan interest. . . . . 4 \$ \_\_\_\_\_
- 5 Add lines 3 and 4 and enter the total. (Include any amount for credits from **Worksheet 7** in Pub. 919) . . . . . 5 \$ \_\_\_\_\_
- 6 Enter an estimate of your 2004 nonwage income (such as dividends or interest) . . . . . 6 \$ \_\_\_\_\_
- 7 Subtract line 6 from line 5. Enter the result, but not less than "-0-". . . . . 7 \$ \_\_\_\_\_
- 8 Divide the amount on line 7 by \$3,000 and enter the result here. Drop any fraction. . . . . 8 \_\_\_\_\_
- 9 Enter the number from the **Personal Allowances Worksheet**, line H, page 1 . . . . . 9 \_\_\_\_\_
- 10 Add lines 8 and 9 and enter the total here. If you plan to use the **Two-Earner/Two-Job Worksheet**, also enter this total on line 1 below. Otherwise, stop here and enter this total on Form W-4, line 5, page 1 . . . . . 10 \_\_\_\_\_

### Two-Earner/Two-Job Worksheet (See Two earners/two jobs on page 1.)

**Note:** Use this worksheet **only** if the instructions under line H on page 1 direct you here.

- 1 Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) . . . . . 1 \_\_\_\_\_
- 2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here . . . . . 2 \_\_\_\_\_
- 3 If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "-0-") and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet. . . . . 3 \_\_\_\_\_

**Note:** If line 1 is **less than** line 2, enter "-0-" on Form W-4, line 5, page 1. Complete lines 4-9 below to calculate the additional withholding amount necessary to avoid a year-end tax bill.

- 4 Enter the number from line 2 of this worksheet . . . . . 4 \_\_\_\_\_
- 5 Enter the number from line 1 of this worksheet . . . . . 5 \_\_\_\_\_
- 6 Subtract line 5 from line 4 . . . . . 6 \_\_\_\_\_
- 7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . . . 7 \$ \_\_\_\_\_
- 8 Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding needed . . . . . 8 \$ \_\_\_\_\_
- 9 Divide line 8 by the number of pay periods remaining in 2004. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2003. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck . . . . . 9 \$ \_\_\_\_\_

**Table 1: Two-Earner/Two-Job Worksheet**

Married Filing Jointly			Married Filing Jointly			All Others	
If wages from <b>HIGHEST</b> paying job are—	AND, wages from <b>LOWEST</b> paying job are—	Enter on line 2 above	If wages from <b>HIGHEST</b> paying job are—	AND, wages from <b>LOWEST</b> paying job are—	Enter on line 2 above	If wages from <b>LOWEST</b> paying job are—	Enter on line 2 above
\$0 - \$40,000	\$0 - \$4,000 4,001 - 8,000 8,001 - 17,000 17,001 and over	0 1 2 3	\$40,001 and over	31,001 - 38,000 38,001 - 44,000 44,001 - 50,000 50,001 - 55,000 55,001 - 65,000 65,001 - 75,000 75,001 - 85,000 85,001 - 100,000 100,001 - 115,000 115,001 and over	6 7 8 9 10 11 12 13 14 15	\$0 - \$6,000 6,001 - 11,000 11,001 - 18,000 18,001 - 25,000 25,001 - 31,000 31,001 - 44,000 44,001 - 55,000 55,001 - 70,000 70,001 - 80,000 80,001 - 100,000 100,001 and over	0 1 2 3 4 5 6 7 8 9 10
\$40,001 and over	\$0 - \$4,000 4,001 - 8,000 8,001 - 15,000 15,001 - 22,000 22,001 - 25,000 25,001 - 31,000	0 1 2 3 4 5					

**Table 2: Two-Earner/Two-Job Worksheet**

Married Filing Jointly		All Others	
If wages from <b>HIGHEST</b> paying job are—	Enter on line 7 above	If wages from <b>HIGHEST</b> paying job are—	Enter on line 7 above
\$0 - \$60,000	\$470	\$0 - \$30,000	\$470
60,001 - 110,000	780	30,001 - 70,000	780
110,001 - 150,000	870	70,001 - 140,000	870
150,001 - 270,000	1,020	140,001 - 320,000	1,020
270,001 and over	1,090	320,001 and over	1,090

**Privacy Act and Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may also subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, and the District of Columbia for use in administering their tax laws, and using it in the National Directory of New Hires. We may also disclose this information to Federal and state agencies to enforce Federal nontax criminal laws and to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB

control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 46 min.; Learning about the law or the form, 13 min.; Preparing the form, 59 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Products Coordinating Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. Do not send Form W-4 to this address. Instead, give it to your employer.



## **Appendix D**

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### **Listing of Federal Entities**

In Tax Year (TY) 1998, the Department of Interior's National Business Center (NBC) started processing Social Security Administration's (SSA) payroll through its Federal Personnel Payroll System. As shown below, SSA was among 35 Federal entities receiving personnel and payroll services from NBC in TY 2004.

- 1      Advisory Council Historic Preservation
- 2      African Development Foundation
- 3      Arctic Research Commission
- 4      Chemical Safety and Hazard Investigation Board
- 5      Commission of Fine Arts
- 6      Consumer Product Safety Commission
- 7      Department of Education
- 8      Department of the Interior
- 9      Department of Transportation
- 10     Equal Employment Opportunity Commission
- 11     Executive Residence/White House
- 12     Federal Labor Relations Authority
- 13     Federal Trade Commission
- 14     Harry S. Truman Scholarship Foundation
- 15     Inter-American Foundation
- 16     James Madison Memorial Fellowship Foundation
- 17     Millennium Challenge Corporation
- 18     National Aeronautics and Space Administration
- 19     National Commission on Libraries and Information Science
- 20     National Labor Relations Board
- 21     National Science Foundation
- 22     National Transportation Safety Board
- 23     Nuclear Regulatory Commission
- 24     Office of Navajo Hopi Indian Relocation
- 25     Overseas Private Investment Corporation
- 26     Pension Benefit Guaranty Corporation
- 27     Presidio Trust
- 28     Securities and Exchange Commission
- 29     Selective Service System
- 30     Social Security Administration
- 31     Trade and Development Agency
- 32     United States Holocaust Memorial Museum
- 33     United States International Trade Commission
- 34     Utah Reclamation Mitigation Conservation Commission
- 35     Valles Caldera Trust

### **Description of SSA's Payroll Process**

When a new Social Security Administration (SSA) employee is hired, he or she must complete a Form W-4, *Employee's Withholding Allowance Certificate*, so the correct amount of Federal income tax can be withheld from the wages. A SSA Human Resource Specialist enters into the Department of Interior's (DOI) Federal Personnel and Payroll System (FPPS), the complete personnel record for the employee, including the job title, Social Security number, grade and salary, number of allowances (via Form W-4), and full or part-time status. A Standard Form 52, *Request for Personnel Action*, and Standard Form 50, *Notification of Personnel Action*, are processed by DOI's FPPS. DOI in turn sends SSA an electronic file to update SSA's Human Resources Management Information System (HRMIS).<sup>1</sup>

At the end of each pay period, SSA enters the employee's time and leave data into its Mainframe Time and Attendance System (MTAS).<sup>2</sup> The data is then electronically transmitted to FPPS to generate the employee's pay. DOI uses a commercial tax package to calculate the applicable Federal, State and local taxes.<sup>3</sup> During this process the FPPS master payroll record is updated and FPPS produces an accounting feeder file for the current pay period for SSA employees as well as a *Leave and Earnings Statement* for each employee. The payroll data is then transmitted electronically by DOI to the Department of Treasury for disbursement. The Department of Treasury transmits direct deposit data to the Federal Reserve, which in turn transmits direct deposit data to various banks nationwide. This data serves as the basis for the issuance of payroll checks and direct deposit payments to SSA employees.

At the completion of the pay period, DOI uses FEDTAX II to deposit Federal employment taxes withheld from employee wages to the Internal Revenue Service (IRS). The Federal employment taxes include Federal income, Social Security and Medicare taxes. DOI reports this data to the IRS at the aggregate level for 35 Federal entities under a single Employer Identification Number. On a quarterly basis, DOI prepares the Form 941, *Employer's Quarterly Federal Tax Return*, to report the liability

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<sup>1</sup> HRMIS is a computer-based, multi-file personnel records system designed to meet SSA's needs for data, statistics, and information on the characteristics of SSA's workforce. HRMIS serves as the database for SSA staffing, promotion plan operations, personnel research and program evaluation, equal opportunity statistics, management information, planning and budgeting for training, internal and external reporting, and position control.

<sup>2</sup> MTAS is a computerized system for processing pay and leave data pertaining to SSA employees. MTAS allows timekeepers to record time and attendance information indicating the number of hours an employee has worked each day and the hours the employee has been absent.

<sup>3</sup> DOI uses a commercial tax package to compute taxes shown in FPPS. The software is a subprogram that interfaces with most payroll systems to calculate U.S. and Canadian payroll withholding taxes.

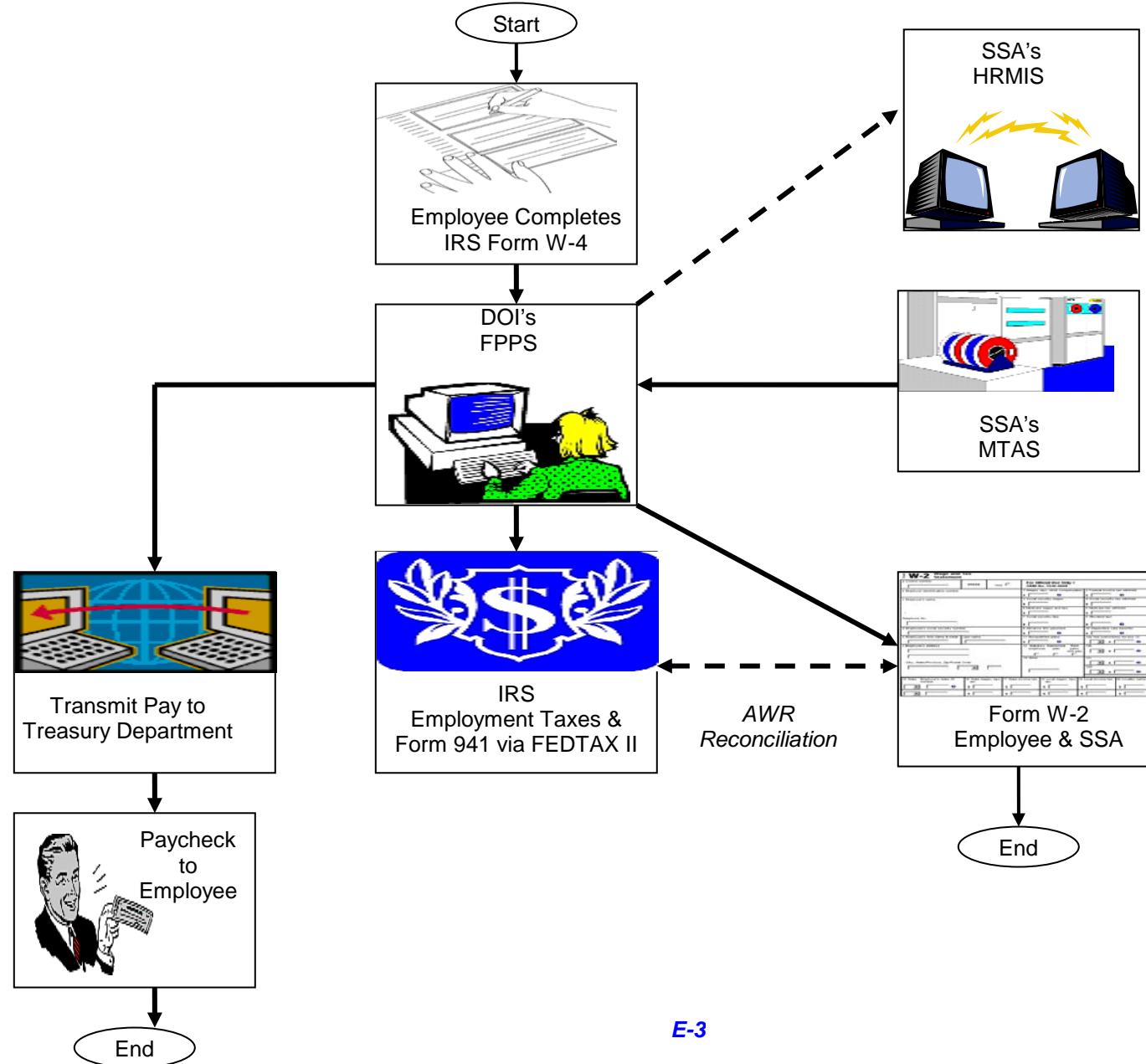
for the Federal employment taxes for its 35 Federal clients. The Forms 941 are transmitted electronically to the IRS via FEDTAX II. By January 31<sup>st</sup> of the following year, DOI generates from FPPS the Forms W-2, *Wage and Tax Statements* and sends copies of the forms to each employee and to SSA as part of the Annual Wage Reporting (AWR) process.

Each year, SSA performs the AWR reconciliation, which is a process that compares the Social Security and Medicare wage information employers report to SSA (via Forms W-2), and the IRS (via the Forms 941) to ensure the amounts balance. When more wages are reported to the IRS than to SSA, SSA is concerned that employees' earnings are not recorded correctly in the Agency's records. SSA examines these cases and attempts to resolve any difference without contacting the employer. When this effort is unsuccessful, SSA sends a notice to the employer, requesting information to resolve the case. If SSA does not receive a response within 45 days, the employer is sent a second notice. When no response is received after the second notice, the IRS is responsible for contacting the employer and may impose penalties, if necessary. When more wages are reported to SSA than to the IRS, the IRS investigates these cases because they could represent unpaid employment taxes.<sup>4</sup> A flowchart of the payroll process follows:

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<sup>4</sup> SSA, Program Operations Manual System, RM 02070.001 *SSA/IRS Reconciliation Process*.

## Flowchart of Payroll Process



# **Scope and Methodology**

To accomplish our objective, we:

- Reviewed prior Social Security Administration (SSA) Office of the Inspector General reports, as well as Government Accountability Office and Treasury Inspector General for Tax Administration reviews, related to reporting of employment taxes.
- Reviewed applicable Internal Revenue Service (IRS) regulations and circulars.
- We limited the scope of our review based on prior audit work conducted by independent auditors:
  - ✓ SSA's independent auditors performed internal control testing during Fiscal Year 2005 to determine whether: (1) procedures related to payroll, specifically new hires, were in place and operating effectively; and (2) SSA new hire information in the Human Resource Management Information System was reconciled to the Department of Interior's (DOI) Federal Personnel and Payroll System (FPPS).
  - ✓ DOI's independent auditors performed internal control testing to evaluate the reliability of the employee withholdings and employer contributions reported in DOI and SSA's *Reports of Withholdings and Contributions for Retirement, Health Benefits, and Life Insurance* for 3 pay periods in Tax Year (TY) 2004.
  - ✓ DOI's independent auditors tested controls and operational effectiveness of DOI's FPPS. The scope of the review covered October 1, 2004 to July 31, 2005.
- Met with staff at SSA and DOI to gain an understanding of the payroll process.
- Reviewed copies of the TY 2004 Forms 941, *Employer's Quarterly Federal Tax Return*, DOI submitted to the IRS.
- Reviewed the Federal Tax Pay Period Collection Reports generated from FPPS and supporting schedules for SSA employees.<sup>1</sup>

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<sup>1</sup> The Federal Tax Pay Period Collection report is generated from FPPS and summarizes the Federal tax liability amount for each DOI client.

- Reviewed copies of the TY 2004 deposit confirmations generated from the FEDTAX II system.<sup>2</sup>
- Reviewed the results from the TY 2004 Annual Wage Reporting reconciliation. As part of the reconciliation process, SSA compares Social Security and Medicare wage information employers report to SSA and the IRS via the Forms W-2, *Wage and Tax Statements*, and the Forms 941.<sup>3</sup>
- Obtained a listing from DOI's FPPS of SSA employees who were in pay status during TY 2004.
- Obtained from DOI, a listing of SSA employees who submitted either paper or electronic Forms W-4, *Employee's Withholding Allowance Certificate*, during TY 2004. We requested and reviewed leave and earnings statements from FPPS for 100 sample employees and compared this information to the actual Forms W-4. The Forms W-4 were provided by the relevant SSA Servicing Personnel Office. See Appendix G for our sample methodology.

We determined the data used in our audit work was sufficiently reliable to meet the audit objectives. We conducted our audit work from April 2006 to January 2007 in Philadelphia, Pennsylvania. The SSA entity reviewed was the Center for Personnel Management Information Systems and Payroll within the office of the Deputy Commissioner for Human Resources. We conducted our audit in accordance with generally accepted government auditing standards.

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<sup>2</sup> NBC uses the FEDTAX II system, which facilitates the electronic payment of Federal taxes by Federal clients. FEDTAX II also enables federal entities to electronically sign and transmit to the IRS the Form 941, *Employer's Quarterly Federal Tax Return*.

<sup>3</sup> SSA, Program Operations Manual System, RM 02070.001- SSA/IRS Reconciliation Process.

# Sampling Methodology

For Tax Year (TY) 2004, we obtained a listing of Social Security Administration (SSA) employees from the Department of Interior's Federal Personnel Payroll System (FFPS).<sup>1</sup> The listing included 70,537 SSA employees who were in active status anytime during TY 2004. To focus our analysis better, we divided the population into two groups:

- The first group consisted of 12,709 employees who submitted Internal Revenue Service (IRS) Forms W-4,<sup>2</sup> *Employee's Withholding Allowance Certificate*, during TY 2004. We randomly selected 50 employees from this group. We reviewed their FPPS records for the pay period prior to the effective date of the Form W-4 and the pay period immediately following to determine if SSA correctly processed the Forms W-4.<sup>3</sup> Further, we calculated the withholding amounts of Federal income, Social Security, and Medicare taxes for the applicable pay periods to determine whether the correct amounts of Federal employment taxes were withheld from their pay.<sup>4</sup>
- The second group consisted of 57,828 employees who did not submit Forms W-4 during TY 2004. We randomly selected 50 sample employees from this group and reviewed their first and last payroll records during TY 2004 to determine if there were any changes in the amount of Federal income taxes withheld. Further, we calculated the withholding amounts of Federal income, Social Security, and Medicare taxes for the last pay period in TY 2004 to determine whether the correct amounts of Federal employment taxes were withheld from their pay.

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<sup>1</sup> FPPS is a mainframe-based, on-line, and real time personnel and payroll system. The system provides personnel and payroll support to numerous Federal entities, servicing over 200,000 accounts.

<sup>2</sup> The employee completes the Form W-4 so the employer can withhold the correct Federal income tax from their pay. Employees can file Forms W-4 at any time to adjust their tax withholdings. Federal employees have an option to complete manual or electronic versions of Form W-4. Employees access the electronic version of Form W-4 through Employee Express, an automated system that Federal employees can use to make changes to their personnel and payroll records.

<sup>3</sup> Of the 50 sample employees, we found 14 submitted manual Forms W-4 while 36 employees submitted electronic Forms W-4 through Employee Express.

<sup>4</sup> We used IRS Publication 15, *Circular E, Employers Tax Guide*, to calculate the amount of Federal income, Social Security, and Medicare withholdings. We used the Percentage Method to calculate the Federal income withholdings because it can be used for any number of allowances claimed by the employee on the Form W-4 and any amount of wages. To calculate the Social Security and Medicare taxes, we used the employee tax rates of 6.2 percent and 1.45 percent, respectively.

## ***Appendix H***

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# **Annual Wage Reporting Reconciliation**

In our review of the Social Security Administration's (SSA) Tax Year (TY) 2004 Annual Wage Reporting (AWR) reconciliation, we found the Department of Interior (DOI) may have underreported Social Security and Medicare wages totaling \$230,000 on the Form 941, *Employer's Quarterly Tax Return*. While the \$230,000 represents a relatively small percentage (.001 percent) of the reported Social Security and Medicare wages reported during TY 2004 for all 35 Federal entities, we believe it is incumbent upon DOI to ensure that it accurately reports wage and tax information to both SSA and the Internal Revenue Service (IRS). Under the current AWR reconciliation process, this wage difference is a matter to be resolved between DOI and the IRS.

### **RECONCILIATION PROCESS**

As part of the AWR reconciliation process, SSA compares the Social Security and Medicare wages employers report to SSA and the IRS to ensure the amounts balance. This process can identify instances where employers may have under/over-reported the amount of Social Security and Medicare wages, which could result in an under/over-reporting of employment taxes. As of January 2007, the TY 2004 reconciliation showed DOI may have underreported about \$230,000 in Social Security and Medicare wages to the IRS (see table below). We determined the underreported wages could potentially represent approximately \$22,500 in unpaid employment taxes. We were not able to conclude whether the underreported wages related to SSA because the amounts were reported at the aggregate level for 35 Federal entities and we did not have access to records for the other 34 entities.<sup>1</sup>

**TY 2004 SSA/IRS Reconciliation**

<b>Agency</b>	<b>Social Security Wages</b>	<b>Medicare Wages</b>	<b>Total</b>
IRS	\$6,098,775,621.19	\$10,297,557,229.51	\$16,396,332,850.70
SSA	\$6,098,942,040.93	\$10,297,621,193.71	\$16,396,563,234.64
<b>Difference</b>	<b>(\$166,419.74)</b>	<b>(\$63,964.20)</b>	<b>(\$230,383.94)</b>
<b>Taxes</b>	<b>(\$20,636.05)</b>	<b>(\$1,854.96)</b>	<b>(\$22,491.01)</b>

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<sup>1</sup> This difference of approximately \$230,000 is not the same as the \$44,000 difference cited in the body of the report related to SSA's employee tax deposits. This earlier difference was simply an adjustment to earlier tax years and did not relate to TY 2004 tax liabilities.

The IRS investigates the discrepancy when higher Social Security and Medicare wages are reported to SSA than to the IRS.<sup>2</sup> According to DOI staff, they made attempts to resolve the discrepancies by submitting three corrected Forms 941 to the IRS from June 2005 to October 2006. Furthermore, we found as of August 2006, DOI submitted numerous corrected Forms W-2 to SSA that adjusted the wage amounts.

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<sup>2</sup> When more wages are reported to the IRS than to SSA, SSA is concerned that employees' earnings are not recorded correctly in the Agency's records. SSA examines these cases and attempts to resolve any difference without contacting the employer. When this effort is unsuccessful, SSA sends notices to the employer, requesting information to resolve the case. If SSA does not receive a response to the notices, the case is referred to the IRS and they may impose penalties, if necessary.

## ***Appendix I***

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### **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: March 30, 2007 Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.  
Inspector General

From: Larry W. Dye /s/

Subject: Office of the Inspector General (OIG) Draft Report, "The Social Security Administration's (SSA) Compliance with Employee Tax Requirements" (A-03-06-16062) -- INFORMATION

We appreciate OIG's efforts in conducting this review. We are pleased that this review found our Agency to be within full compliance with regulations regarding employee tax requirements and payroll procedures. In addition, the review did not disclose any material discrepancies with the amount of taxes deposited with the Internal Revenue Service for SSA employees during the review periods and found the Department of Interior is properly withholding Federal employment taxes for Agency employees.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff, on extension 54636.

## **Appendix J**

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# OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Walter Bayer, Director, Philadelphia Audit Division, (215) 597-4080

Cylinda McCloud-Keal, Audit Manager, (215) 597-0572

### ***Acknowledgments***

In addition to those named above:

Frank Trzaska, Auditor-in-Charge

Damon Mahoner, Auditor

Mildred Soto, Auditor

For additional copies of this report, please visit our web site at  
[www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-03-06-16062.

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Chairman and Ranking Minority Member, Senate Special Committee on Aging  
Social Security Advisory Board

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The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Chief Counsel to the Inspector General**

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

### **Office of Resource Management**

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.