

Office of the Inspector General

September 29, 1999

John R. Dyer
Principal Deputy Commissioner
of Social Security

Acting Inspector General

Review of Controls over Nonwork Social Security Numbers (A-08-97-41002)

Attached is a copy of our final report, which presents results of the subject audit. The objectives of this audit were to: (1) analyze Social Security benefits being paid to individuals under nonwork Social Security numbers (SSN), (2) analyze earnings reported for nonwork SSNs, and (3) determine whether the Social Security Administration had adequate controls over the issuance of nonwork SSNs. The report contains recommendations that we believe will preserve trust fund resources and strengthen controls over the issuance of nonwork SSNs.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Daniel R. Devlin, Acting Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**REVIEW OF CONTROLS
OVER NONWORK SOCIAL
SECURITY NUMBERS**

September 1999

A-08-97-41002

AUDIT REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objectives of this audit were to: (1) analyze Social Security benefits being paid to individuals under nonwork Social Security numbers (SSN), (2) analyze earnings reported for nonwork SSNs, and (3) determine whether the Social Security Administration (SSA) had adequate controls over the issuance of nonwork SSNs.

BACKGROUND

Nonwork SSNs are issued to aliens¹ who do not have authorization from the Immigration and Naturalization Service (INS) to work while they are in the United States. The original Social Security Act, Public Law 74-271, enacted August 14, 1935, included no provision for issuing nonwork SSNs. Use of the SSN spread to other Federal and private entities, and it became apparent that many aliens who were lawfully present in the United States without work authorization needed SSNs for other purposes. Therefore, SSA began issuing nonwork SSNs to these aliens.

SSA regulations regarding the assignment of nonwork SSNs were published in March 1974,² during the Agency's implementation of the Social Security Amendments of 1972.³ SSA policies implementing these regulations required that applicants for nonwork SSNs document a valid reason for needing an SSN,⁴ but it was not until January 1996 that SSA officially defined what constituted a valid reason.⁵ Before SSA implemented this definition, it issued nonwork SSNs for a variety of reasons including tax, banking, school, insurance, driver's license, and Government benefit purposes.

As of August 1997, SSA had issued approximately 7 million nonwork SSNs. In Fiscal Year 1998, SSA issued only 148,159 original nonwork SSNs. The number of nonwork SSNs has declined because SSA has limited the circumstances under which it will issue these numbers. Specifically, in 1996, SSA restricted the issuance of nonwork SSNs to those individuals requiring a number to obtain a benefit or service, as mandated by a Federal, State or local statute/regulation (for example, State driver's licenses).

To accomplish our objectives, we reviewed applicable laws, regulations, and SSA procedures. In addition, we interviewed SSA Headquarters personnel and visited field offices (FO) in Brownsville, Texas; Chula Vista, California; and Chicago, Illinois. We

¹ According to SSA's Program Operations Manual System (POMS), section GN 00303.400, an alien is an individual who is not a citizen or a national of the United States.

² 20 CFR § 422.104(b) and (c).

³ Public Law 92-603, section 137.

⁴ POMS, section RM 00203.001.

⁵ POMS, section RM 00203.510.

also reviewed 1,000 randomly selected nonwork SSNs to analyze earnings posted to the accounts and determine the extent to which the SSN holders and/or their dependents have received Social Security benefits. For those individuals with earnings and/or benefits posted to their accounts, we requested information from INS regarding if and when the individuals had been authorized to work.

RESULTS OF REVIEW

UNAUTHORIZED EARNINGS ASSOCIATED WITH NONWORK SSNs MAY COST SSA TRUST FUNDS \$1.7 BILLION

SSA's policy of crediting nonwork SSN accounts with earnings and related quarters of coverage (QC) for periods of unauthorized work has been, and will continue to be, costly to the trust funds unless it is changed. Based on the results of our sample, we estimate that, as of May 1998, unauthorized earnings associated with nonwork SSNs may have already cost SSA trust funds \$287 million. If SSA continues to pay benefits based on unauthorized earnings, it may spend an additional \$63 million in trust fund resources per year. Over the lifetimes of the nonwork SSN holders and their dependents, we estimate that unauthorized earnings associated with these nonwork SSNs may cost the trust funds over \$1.7 billion.⁶

We were unable to estimate the effects of nonwork QCs on individuals age 61 and under. However, any benefit payments made to individuals in this population would increase the total trust fund expenditures associated with nonwork SSNs. As such, we encourage SSA management to study our sample results and consider the implications of facts presented.

We also recognize that the impact on past and future benefits to the trust funds is financially negated by employer and employee contributions for nonwork quarters. However, because the contributions were made as a result of aliens working illegally in the United States, we do not believe SSA should consider these contributions when determining whether the individuals are entitled to Social Security benefits.

CONTROLS OVER THE ISSUANCE OF NONWORK SSNs WERE NOT ALWAYS SUFFICIENT

Our review of nonwork SSN applications processed by three FOs disclosed numerous coding and keying errors on the SSN applications and Modernized Enumeration System screens. The most significant errors, which were attributable to a temporary Service Representative (SR) employed in a California FO, resulted in unrestricted SSN cards being issued to aliens who were not authorized to work. FO management corrected some of the applications processed by this individual, but they were unable to identify

⁶ By the Year 2019, we estimate that SSA will pay \$1.7 billion in Old-Age, Survivors and Disability Insurance benefits to individuals currently age 62 and over and/or to their survivors for earnings associated with periods that they were not authorized to work in the United States. This estimate was derived using a combination of statistical and nonstatistical techniques.

and correct all of the errors. At the same FO, we also noted instances where nonwork SSNs were issued for reasons SSA no longer considered valid. For example, the FO issued nonwork SSNs to individuals who asserted that they needed a number for school or insurance purposes.

CONCLUSIONS AND RECOMMENDATIONS

Based on our audit results, we believe there is a need for legislation prohibiting the crediting of SSN accounts with earnings and related QCs for periods of unauthorized work. The amount of benefit payments resulting from the credits is significant. We estimate that about \$63 million in benefits will be paid under the accounts of SSN holders who were age 62 and over as of August 7, 1997, for the 12-month period ended May 1999 as a result of the credits. In addition, we estimate that \$1.7 billion will have been paid under these accounts by the Year 2019 as a result of the credits.

We recommend that SSA:

- Propose legislation to prohibit the crediting of nonwork earnings and related QCs for purposes of benefit entitlement.
- Perform its own actuarial calculations of the effects of the nonwork QCs on benefit payments, if deemed necessary to support changes in legislation.
- Conduct periodic quality reviews of processed SSN applications and provide timely feedback to FO personnel.
- Review the 452 unrestricted SSNs processed by the California FO's temporary SR to identify other coding errors that resulted in the incorrect issuance of SSN cards containing work authorization.

AGENCY COMMENTS

In its response, SSA stated that it had long been concerned about the use of nonwork SSNs in the employment sector. However, the Agency believed that the issue of unauthorized work could be dealt with more effectively through pilot projects for determining work eligibility than through a legislative proposal. SSA asserted that the legislative proposal we recommended would be extremely difficult to administer because the Agency's records would not allow the determination of when an individual may or may not be allowed to work. Additionally, SSA stated that it was considering an amendment to its regulations that will permit the assignment of a nonwork SSN only when a number is required by a Federal statute or regulation to receive a federally-funded benefit or service. Finally, SSA asserted that our \$1.7 billion estimate of trust fund resources the Agency may expend by the year 2019 for benefits associated with nonwork QCs should be offset by the taxes paid into the trust funds as a result of those nonwork earnings.

Although SSA did not agree to implement our recommendation that the Agency conduct periodic quality reviews of processed SSN applications, it will conduct a study to determine whether problems reported are common to SSA offices nationwide. Based on this study, SSA will take whatever action is necessary.

SSA also did not agree to review the 452 unrestricted SSNs processed by the California FO's temporary service representative to identify other coding errors that may have resulted in the incorrect issuance of SSN cards containing work authorization. The Agency stated that Office of the Inspector General (OIG) found no indication of fraud and it would be impossible to determine from a review of the affected applications whether the individuals involved continue to be ineligible for unrestricted SSNs.

In its response, SSA provided technical comments that were considered and incorporated, where appropriate in this final report. The full text of SSA's comments is included as Appendix A.

OIG RESPONSE

We commend SSA for its participation in the pilot project with INS and its proposed efforts to amend the regulations pertaining to the issuance of nonwork SSNs. However, we do not believe that these initiatives sufficiently address nonwork SSNs used in the past to illegally obtain employment in the U.S. Specifically, neither of these actions address (1) wages already posted as a result of unauthorized work or (2) future earnings of employees who continue to work illegally in their present jobs.

We also point out that the pilot project SSA is participating in with INS only covers a small number of States and employers. Additionally, as determined in focus group discussions that SSA recently held with certain industry representatives, some employers are reluctant to use such verification services. Although we applaud the intent of this program, we question whether it will adequately address the use of nonwork SSNs by noncitizens to illegally obtain future employment.

We also disagree that the implementation of our legislative proposal would be extremely difficult to administer. In its response, SSA asserted that the Agency's records would not allow the determination of when an individual may or may not have been authorized to work. Under these circumstances, SSA's policy should require collaborative information from the individual. It is our contention that it is the responsibility of each nonwork number holder to amend his or her SSN record when they become eligible to work in the U.S. Accordingly, we believe that if a nonwork number holder applies for SSA benefits, he or she should be required to prove that they have sufficient QCs as a legal worker in the U.S. before those benefits are approved.

We firmly believe there is a need for legislation that prohibits aliens who work illegally in the U.S. from receiving Social Security entitlement credits for those earnings. Therefore, we disagree with SSA's position that our \$1.7 billion estimate of trust fund expenditures that may be paid by 2019 as a result of nonwork earnings should be offset

by Federal Insurance Contributions Act (FICA) taxes paid by the employee and employer. In our opinion, these taxes are paid to individuals who were illegally employed. Any QCs associated with this employment should not be used to later reward these offenders. We also point out that the \$1.7 billion estimate does not include potential benefit payments to the even larger population of nonwork number holders who are 61 and under who have received QCs.

Regarding our recommendation that SSA conduct periodic quality reviews of processed SSN applications and provide timely feedback to FO personnel, we agree with SSA's planned action. OIG will issue additional audit reports in the coming months that will further illustrate the need for such reviews. However, if SSA wishes to conduct its own study to confirm the reported information, we encourage the Agency to do so.

Finally, regarding our recommendation that SSA review the 452 unrestricted SSNs processed by the California FO's temporary SR to identify other coding errors that resulted in the incorrect issuance of SSN cards containing work authorization, we disagree with SSA's response. We acknowledge that the SR made similar errors on the applications we reviewed. However, we believe these circumstances give weight to our recommendation that SSA review the remaining applications to determine whether additional unrestricted SSNs were issued in error. If necessary, SSA could contact INS to determine the work eligibility status of any applicants in question.

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INTRODUCTION

OBJECTIVE

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BACKGROUND

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Legislative Proposal

SSA declined to pursue a Fiscal Year 1997 Office of the Inspector General (OIG) legislative proposal regarding earnings attributed to nonwork SSNs. The legislative proposal prohibited legal and illegal aliens who were not authorized to work from earning quarters of coverage for illegal work activity. In its declination of our proposal, SSA asserted that such a law would be administratively burdensome for the Agency. SSA believed the issue could be dealt with more effectively through pilot projects for determining work eligibility (for example, the Enumeration Verification Service program), which SSA and INS were implementing. The information presented in this report serves as a response to SSA's declination of that legislative proposal.

Requirements for a Nonwork SSN

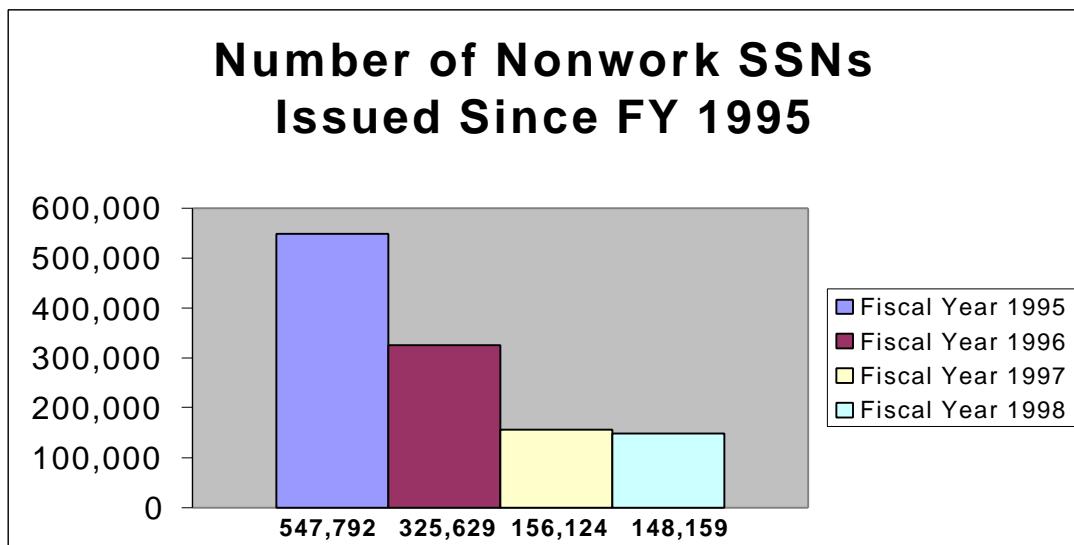
SSA's policy for assigning nonwork SSNs evolved during its implementation of Social Security Amendments of 1972, which also introduced SSN evidence requirements. In March 1974, SSA published regulations authorizing the issuance of nonwork SSNs.

SSA's policies require that applicants for a nonwork SSN provide documentation that they are lawfully present in the United States and have a valid reason for the SSN. However, SSA did not officially define a valid reason for needing a nonwork SSN until

January 1996. Specifically, SSA restricted the issuance of nonwork SSNs to those individuals that required a number to obtain a benefit or service, as mandated by a Federal, State, or local statute/regulation. Before SSA implemented this definition, it issued nonwork SSNs for a variety of reasons including tax, banking, school, insurance, driver's license, and Government benefit purposes. Driver's license and Government benefit purposes are the only two reasons still considered valid, as of October 1998.

Number of Nonwork SSNs Issued

SSA has issued over 7 million nonwork SSNs between March 1974 and October 1998.⁷ SSA tightened the requirements for a nonwork SSN in January 1996 by officially defining what it considered to be a valid reason for needing such an SSN. As detailed in the following chart, SSA has reduced the number of nonwork SSNs that it issues each year.



SSN Application Process

As described in Section RM 00202 of SSA's Program Operations Manual System (POMS) and part 13 of SSA's Modernized Systems Operations Manual, field office (FO) staff accept applications for SSNs (Form SS-5) and process them through the Modernized Enumeration System (MES). First-time applicants age 18 and over are required to apply in person and have face-to-face interviews with FO staff. All applicants must provide evidence of age, identity, and citizenship/alien status. Aliens must also have an unexpired INS document that proves their lawful alien status.

FO staff who process SSN applications must examine documents presented by applicants to determine whether they are valid. If FO personnel suspect a document is fraudulent, they must request verification from the issuing agency.

⁷In 1997 and 1998, SSA credited earnings to 606,513 and 599,977 nonwork SSN accounts, respectively.

For example, if SSA FO personnel suspect that an INS document is fraudulent, they are required to request secondary verification from INS using Form G-845 (Document Verification Request) and annotate the INS request in the MES.

FO staff are required to document the nature of evidence presented by applicants such as proof of age, identity, and citizenship/alien status. They are also required to annotate evidence blocks on the SS-5 and/or the MES to indicate whether:

- they examined evidence to support the applicant's alleged age, identity, and citizenship/alien status;
- an applicant allowed to work is a permanent resident alien (PRA); and
- a nonimmigrant⁸ without authorization to work has given a valid reason for needing a nonwork SSN.

Depending on an applicant's allegations as to his or her citizenship/alien status, place of birth, and the FO's coding of certain evidence blocks (for example, PRA status and valid nonwork reason), the MES automatically assigns an evidence code (IDN) on the Numident file. Based on the IDN code, SSA then issues an SSN card to the individual, which may contain one of the following legends:

- "Not Valid for Employment" (for nonimmigrants not allowed to work) or
- "Valid for Work Only With INS Authorization" (for nonimmigrants and temporary immigrants allowed to work).

SSA began adding these legends to SSN cards in May 1982 and September 1992, respectively. Cards issued to PRAs do not contain a legend.

SSA FOs retain completed SS-5s in temporary holding files for about 45 days before forwarding them to SSA's Security Records Center in Boyers, Pennsylvania, for microfilming and storage.

Posting of Earnings

In accordance with the Social Security Act § 205(c)(2)(A) and 20 CFR § 422.103, SSA maintains an earnings record for each SSN holder. SSA applies this rule to aliens who obtain nonwork SSNs and work without INS authorization. These aliens are credited with quarters of coverage (QC) for the unauthorized work, which could result in subsequent entitlement to Social Security benefits.

⁷ According to POMS GN 00303.400, a nonimmigrant is an alien temporarily in the U.S. for a specific purpose. This group includes foreign government officials, visitors, students and temporary employees.

1989 OIG Management Advisory Report

On October 5, 1989, the Department of Health and Human Services, Office of Inspector General (HHS/OIG) issued a Management Advisory Report entitled *Payment of Social Security Benefits to Aliens Working Illegally* (OAI-09-89-01880). In that Report, HHS/OIG stated that an SSA data base showed individuals with nonwork SSNs had used the numbers to obtain employment. The HHS/OIG estimated that approximately \$35 million would be paid in 1988 to aliens not authorized to work and that future benefits could range from \$1.8 to \$5.4 billion by 2032.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed applicable laws, regulations, and SSA procedures. In addition, we interviewed SSA Headquarters personnel and visited SSA FOs in Brownsville, Texas; Chula Vista, California; and Chicago, Illinois. We judgmentally selected these three FOs because they processed large numbers of nonwork SSN applications.

During our site visits, we discussed practices FOs followed in processing SSN applications and examined one MES weekly integrity review sample listing in each FO. We also examined 94 judgmentally selected applications for nonwork SSNs. These included 88 original nonwork SSN applications and 6 replacement card applications. We selected these applications from the total at each FO awaiting monthly shipment to SSA's records storage facility. Specifically, we chose all nonwork applications that were processed on selected dates within the month that we visited each office.

To test FO controls over the processing of nonwork SSN applications included in our sample, we performed the following steps:

- Reviewed the codes that FO personnel placed in the evidence blocks on each Form SS-5 to determine whether the codes coincided with other information the applicant provided. When we noted discrepancies, we examined information contained on the MES Transaction History File to determine whether FO personnel made data entry errors when processing the applications.
- Reviewed the "Evidence Submitted" block on each Form SS-5 to determine whether FO personnel documented the reason the applicant requested a nonwork SSN and, if so, whether the reason complied with SSA policies.
- Examined Numident file records for processed applications to determine whether the citizenship and evidence codes properly reflected the applicant's status in accordance with the evidence descriptions documented on the Forms SS-5.

- For applications with evidence descriptions that provided alien registration numbers, we queried INS' Systematic Alien Verification for Entitlement program to verify the aliens' purported statuses. We also requested secondary verification from INS on 39 applications processed by the California FO.

To analyze earnings and Old-Age, Survivors and Disability Insurance (OASDI) benefits associated with nonwork SSNs, we obtained a Numident extract of all accounts that contained nonwork IDN and/or CSP (citizenship) codes. We took the extract on August 7, 1997, and it contained 7,169,641 accounts: 655,300 for individuals age 62 and over and 6,514,341 for individuals under the age of 62. We randomly selected a sample of 1,000 of these SSNs for review (500 from each stratum).

Using this sample, we examined earnings queries and master beneficiary records to identify accounts that contained earnings and/or OASDI benefit payments. We also obtained on-line computational earnings queries showing the QCs that had been credited to the accounts. We requested information from INS to verify that these individuals had been authorized to work.

We determined the number of nonwork QCs along with the monetary effects on OASDI benefit payments for periods when the sampled SSN holders were not authorized to work. Based on the sample results, we then used a combination of statistical and non-statistical techniques to estimate the monetary effects of nonwork QCs on benefit payments made to the age 62 and over population. We did not calculate interest costs associated with the benefit payments.

In developing our future dollar estimates, we made the following assumptions:

- SSN holders age 62 and over who were not receiving benefits as of May 1998 will file for benefits at age 65; SSN holders age 65 and over who were not receiving benefits as of May 1998 will file for benefits at age 70.
- Factors affecting payment levels will remain constant throughout the recipients' life expectancies.
- Recipients' (SSN holders and/or auxiliaries) life expectancies equal the estimates contained in SSA's actuarial life tables.
- No new or additional auxiliary beneficiaries (e.g., spouse and/or children of primary beneficiary) will be added in the future.

See Appendices B through D for our sample appraisals and non-statistical estimates.

We performed our audit work at SSA Headquarters in Baltimore, Maryland, and the SSA FOs in Brownsville, Texas; Chula Vista, California; and Chicago, Illinois. We completed our audit field work between August 1997 and October 1998. We conducted our audit in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Congress and SSA are searching for methods to prolong SSA's trust fund solvency. We believe the policy of providing individuals credit for work that they were not authorized to perform will prove extremely costly. We recognize that SSA has taken important steps to limit the circumstances under which an alien may obtain a nonwork SSN, which limits the number of future SSNs assigned. Nevertheless, we believe that legislative and policy changes are essential to reduce the monetary impact that unauthorized earnings associated with previously issued nonwork SSNs may have on SSA trust funds. Additionally, we note that FO controls were not always sufficient to prevent the unauthorized or inaccurate issuance of nonwork SSNs. Therefore, we recommend that SSA institute additional reviews of SSN processing to ensure the proper issuance of these numbers.

UNAUTHORIZED EARNINGS ASSOCIATED WITH NONWORK SSNs MAY COST SSA TRUST FUNDS \$1.7 BILLION

Based on the results of our sample, we estimate that, as of May 1998, unauthorized earnings associated with nonwork SSNs had cost SSA trust funds \$287 million. If SSA continues to pay benefits based on unauthorized work, it may spend an additional \$63 million per year of trust fund resources. Over the lifetimes of the nonwork SSN holders and their dependents, we estimate that unauthorized earnings associated with these nonwork SSNs may cost the trust funds over \$1.7 billion.

We were unable to estimate the effects of nonwork QCs on individuals age 61 and under. However, any benefit payments made to individuals in this population would increase the total trust fund expenditures associated with nonwork SSNs. As such, we encourage SSA management to study our sample results and consider the implications of the facts presented.

We also recognize that the impact on past and future benefits to the trust funds is financially negated by employer and employee contributions for nonwork quarters. However, because the contributions were made as a result of aliens working illegally in the United States, we do not believe SSA should consider these contributions when determining whether the individuals are entitled to Social Security benefits.

OASDI Benefits for Nonwork SSN Holders Age 62 and Over

Of the 500 nonwork SSNs examined for individuals age 62 and over, SSA paid OASDI benefits to 15 accounts where the SSN holders had earnings during periods that they were not authorized to work. As a result, we estimate that

approximately \$1.12 billion in OASDI benefits attributable to the nonwork QCs will be paid over the SSN holders' and/or their survivors' lifetimes.

We also noted that 6 other individuals age 62 and over had accumulated 40 or more QCs and were eligible to receive Old-Age and Survivors Insurance (OASI) benefits but had not yet received them. Based on the nonwork QCs credited to these six accounts, we estimate that an additional \$581 million in benefits attributable to nonwork QCs will be paid to individuals age 62 and over who have not yet received OASI benefits. In total, we estimate that by 2019, \$1.7 billion will have been paid in OASDI benefits to individuals currently age 62 and over and/or their survivors based on credits received for unauthorized work.

Age 62 and Over and Already Receiving OASDI Benefits. Within our sample, we found that SSA paid OASDI benefits to 15 accounts for which the SSN holders had earnings during periods that they were not authorized to work. Payments made to these 15 accounts through May 1998 totaled \$278,390. If SSA had not credited these SSN holders' accounts with QCs during the periods they were not authorized to work, 12 of the SSN holders would not have been entitled to OASDI benefits. Additionally, payments under the remaining three accounts would have been reduced by 12 percent. Accordingly, only \$59,128 in benefits would have been paid, for a savings of \$219,262. Based on United States Life Table functions contained in SSA's 1998 Trustees Report, we estimate that future payments and lifetime benefits attributable to the nonwork QCs under these 15 accounts will total about \$634,977 and \$854,239, respectively.

Using the sample results, we estimate that there are approximately 19,659 similar cases in the population. We further estimate that, as of May 1998, SSA had paid \$287 million in OASDI benefits to these SSN holders and/or their survivors. If SSA continues to pay benefits based on unauthorized earnings, it may have spent an additional \$63 million in trust fund resources by May 1999. Over the lifetimes of the individuals and/or their dependents, we estimate that SSA may pay \$1.12 billion (\$287 million past and \$832 million future) in OASDI benefits attributable to nonwork QCs earned by individuals within this population. See Appendices B and C for our sample appraisals and non-statistical estimates.

Age 62 and Over Who Have Not Received OASI Benefits. Our review of the age 62 and over sample cases also showed that 38 other SSN holders had been credited with QCs for periods that they were not authorized to work. On average, the 38 SSN holders had been credited with 19 QCs. However, 6 of the SSN holders had 40 or more QCs and therefore would be entitled to OASI benefits.

One of the six individuals had applied for OASI benefits. Although this individual established entitlement to OASI benefits, he was placed in "work suspense" until

December 1998.⁹ With the assistance of an analyst employed at SSA's Southeastern Program Service Center (SEPSC), we determined prospective monthly OASI benefits for the other 5 SSN holders with 40 or more QCs. In making her calculations, the analyst made certain assumptions, at our request, concerning the onset of benefits. Specifically, she assumed that the SSN holders who had not reached the age of 65 would begin receiving benefits at age 65, and the SSN holders over the age of 65 would begin receiving benefits at age 70.

Using the prospective monthly benefits, the analyst calculated for the five accounts, the May 1998 benefit amount for the SSN holder currently in suspense status, and the United States Life Table functions, we estimated future payments attributable to the nonwork QCs for the six accounts. According to our calculations, crediting of the nonwork QCs could result in approximately \$443,357 additional lifetime benefits for the six SSN holders.

Based on these 6 accounts, we estimate that there are approximately 7,864 similar cases in the population. We also estimate that approximately \$581 million in OASI benefits attributable to nonwork QCs will be paid under these accounts over the SSN holders' estimated lifetimes. See Appendix D for our calculations of these nonstatistical estimates.

OASDI Benefits for Nonwork SSN Holders Age 61 and Under

Within the sample of 500 nonwork SSNs assigned to individuals age 61 and under, SSA has made Disability Insurance (DI) benefit payments to 3 (0.6 percent) who had received QCs when they were not authorized to work. We have not attempted to estimate the number of similar cases in the age 61 and under population. However, we believe the monetary impact of unauthorized work attributable to these individuals could be significant.

Age 61 and Under and Already Receiving DI Benefits. Disability benefit payments made to 3 individuals identified within our sample of 500 nonwork SSN holders age 61 and under totaled \$56,457 through May 1998. If QCs had not been credited for the periods of unauthorized work, only \$19,241 would have been paid to these individuals. Accordingly, SSA would have realized a savings of \$37,216. We estimate that future payments and lifetime benefits attributable to the nonwork QCs under these three accounts will total about \$3,287¹⁰ and \$40,503, respectively.

Occurrences of DI payments to nonwork SSN holders age 61 and under who were within our sample were minimal. Accordingly, we did not attempt to calculate the

⁹ Beneficiaries who report estimated earnings that exceed specified levels are placed in "work suspense" during the period of the excess earnings. SSA withholds their benefit payments (totally or in part) until their earnings fall below the specified levels.

¹⁰ Representatives from the Office of the Actuary informed us that, on the average, an individual received disability benefits for approximately 8 years. We used this figure in making our calculations.

monetary impact resulting from benefit payments to this population. Nevertheless, we believe that benefit payments made to this population warrant consideration when SSA determines whether to implement recommendations made in this report.

Age 61 and Under Who Have Not Received OASDI Benefits. Review of the age 61 and under sample cases in which benefits had not been paid showed that 117 (23 percent) had been credited with QCs for periods when they were not authorized to work. The average age of the 117 SSN holders was 36.¹¹ These SSN holders had been credited with an average of 21 QCs, of which 10 (about 48 percent) were for periods of unauthorized work. Twenty-three of the SSN holders averaged 54 QCs, of which 18 (about 34 percent) were for periods of unauthorized work.

During our analysis of the 117 accounts, we recognized that the methodology used in making the previously discussed estimates could not be used in this instance. Specifically, we recognized that before any estimates could be made, the 6.1 million strata would have to be adjusted to reflect the fact that some of the SSN holders would not reach retirement age. In addition, some of the SSN holders could become disabled before reaching retirement age and apply for disability benefits.

Further, it became apparent that we needed the assistance of an individual highly trained in statistical and/or actuarial techniques to estimate the SSN holders in the strata with nonwork QCs and the effects of those QCs on any future benefit payments they might receive. Therefore, we requested the assistance of SSA's Office of the Actuary.

When we discussed our request with representatives from that Office, they expressed concern over the size of our sample and the fact that we had not been able to obtain verification from INS on a number of the cases. They further stated that the methodology we used in making our calculations was similar to the methodology they would use. As such, they believed their time would be better spent on other priority projects. They did not make any substantive suggestions as to how we might estimate the effects of the nonwork QCs on the age 61 and under SSN holders who were not receiving benefits. Accordingly, we have not used any of the conclusions reached in this sample to make inferences about the remaining population. Again, we encourage SSA management to study our sample results and consider the implications of the facts presented.

¹¹ Three of the SSN holders were under the age of 16 (one was 10 years of age and the other two were 15 years of age), which indicates that the wages were earned by someone other than the SSN holders. We plan to provide information on these cases to our Office of Investigations for further review.

CONTROLS OVER THE ISSUANCE OF NONWORK SSNs WERE NOT ALWAYS SUFFICIENT

Based on our review of nonwork SSN applications processed at three SSA FOs, we do not believe the controls over this process were always sufficient. As a result, SSN cards permitting work were erroneously issued to individuals not authorized to work, and nonwork SSN cards were issued to individuals who did not have a justifiable reason for them. For example, during our review of 94 SSN applications, we noted that, in 24 cases (25 percent), the applicant received an improper SSN. Additionally, contrary to SSA requirements, 34 of the applications (36 percent) did not contain documentation showing the reason nonwork SSNs were needed.

Errors Resulting in the Issuance of Improper SSNs

Errors made in processing 24 (25 percent) of the 94 applications we examined caused improper SSNs to be issued to the applicants. In 18 instances, an SSA FO made incorrect entries in the MES that resulted in the issuance of improper SSNs to aliens not authorized to work in the United States. Additionally, in six cases, a FO approved nonwork SSN applications for individuals who did not provide valid reasons for needing these numbers.

Improper SSNs. We noted all 24 of these errors at the California FO and found that they resulted from the actions of one temporary Service Representative (SR). For example, the temporary SR improperly coded the PRA block on 18 of the SSN applications and in the MES. As a result, the MES issued 15 SSN cards without any restriction and 3 cards with the legend, "Valid for Work Only With INS Authorization." These cards were issued between August 27 and September 9, 1997. Accordingly, the applicants received SSN cards authorizing employment even though their alien status in the United States did not warrant such authorization.

During a follow-up visit to the FO, we were informed that the temporary SR's employment was terminated at the end of September 1997. We were also informed that FO staff had identified all applications in the holding file that the temporary SR had processed and attempted to correct the errors. The Operations Supervisor stated that letters were sent to applicants requesting that they come in to the FO so their documents could be re-examined. When asked, the Operations Supervisor said she did not have a list of all the cases they had reviewed, and the documents were destroyed once the corrections were made. She did provide us with a folder that contained copies of applications taken by the SR in August and September 1997 and letters to applicants dated November 3, 1997.

We asked if they had attempted to obtain a listing of all applications the SR had processed during his employment. The Operations Supervisor stated that she had discussed the matter with her Regional Security Officer and was informed that

they could not provide her with a listing unless she suspected fraud. She further stated that, since fraud was not suspected, she did not proceed with a request for a listing.

We subsequently obtained information showing that the temporary SR had processed 2,505 SSN applications over the period February through September 1997. Of the applications he processed, 452 aliens received original SSN cards authorizing employment. We recognize that many of these SSNs may have been accurately issued; however, based on the discrepancies identified in a sample of the temporary SR's work, we believe SSA should, at a minimum, review these 452 SSNs.

Invalid Nonwork Reasons. During our review of applications processed by the California FO, we also noted six instances in which FO staff accepted invalid reasons for needing a nonwork SSN. In three of the six cases, applicants listed "school purposes" as the reason. In two other cases, applicants listed "insurance purposes" as the reason. In the sixth case, the applicant requested a replacement card.

Section RM 00203.001 of SSA's POMS requires that aliens who apply for original or replacement nonwork SSNs have valid nonwork reasons for needing the SSN. Furthermore, section RM 00203.510 E. of the POMS lists examples of common **invalid** reasons for needing a nonwork SSN. School purposes and insurance purposes are on the list. The Operations Supervisor in this FO stated that the individual who had accepted school and insurance purposes as valid nonwork reasons had misinterpreted the POMS criteria.

Nonwork Reasons Not Documented by FO Personnel

We also noted 33 instances in the California FO and 1 instance in the Illinois FO in which applications did not document the applicants' reasons for needing nonwork SSNs. Section RM 00203.510 B.2. of SSA's POMS requires that the nonwork reason given by the applicant be documented in the Evidence Submitted Block of the SS-5. Because the information was not documented, we were unable to determine whether the justifications provided by the 34 applicants warranted the issuance of nonwork SSNs.

Although most of the errors we found in the California FO could be attributed to the temporary SR, the Operations Supervisor for that FO stated that the temporary SR was aware of the requirement. The individual who made the error in the Illinois FO was aware of the requirement to document the nonwork reason because he had done so on other applications.

Routine Supervisory Quality Reviews of Processed Applications Not Required

During our visits to the FOs, we learned that SSA policies do not require routine supervisory quality reviews of processed applications. FO supervisors are required to conduct weekly MES Sample Listing Integrity Reviews. However, these reviews focus on detecting and deterring internal fraud. They do not focus on the overall quality of SSN applications processed. For example, these reviews are not designed to detect coding and keying errors such as those made by the temporary SR in the California FO. To identify these errors, FO supervisors need to review Numident File records for applications processed to ascertain whether proper IDNs had been assigned. As evidenced by applications that the California FO's temporary SR processed, coding and keying discrepancies can result in the improper issuance of SSNs. Therefore, we believe SSA should consider requiring FOs to perform routine periodic quality reviews of processed applications.

CONCLUSIONS AND RECOMMENDATIONS

We firmly believe there is a need for legislation that prohibits aliens who work illegally in the United States from receiving Social Security entitlement credits for those earnings. The amount of benefit payments resulting from the credits is significant. We estimate that about \$63 million in benefits will be paid under the accounts of SSN holders who were age 62 and over as of August 7, 1997, for the 12-month period ended May 1999. In addition, we estimate that \$1.7 billion will have been paid under these accounts by the Year 2019 as a result of the credits.

We believe the limited trust fund resources and the findings presented in this report provide further support for our assertions that a change in legislation should be proposed. We also believe there is a need for FO supervisory personnel to perform routine periodic quality reviews of processed SSN applications. Such reviews would help management identify situations where prescribed policies are not being followed and/or additional training is necessary.

We recommend that SSA:

1. Propose legislation to prohibit the crediting of nonwork earnings and related QCs for purposes of benefit entitlement.
2. Perform its own actuarial calculations of the effects of the nonwork QCs on benefit payments, if deemed necessary to support changes in legislation.
3. Conduct periodic quality reviews of processed SSN applications and provide timely feedback to FO personnel.
4. Review the 452 unrestricted SSNs processed by the California FO's temporary SR to identify other coding errors that resulted in the incorrect issuance of SSN cards containing work authorization.

AGENCY COMMENTS

SSA did not agree with three of the four recommendations made in our audit report (Recommendations 1, 2, and 4). Although SSA did not agree to implement the remaining recommendation (Recommendation 3), the Agency will conduct a study to determine whether problems reported are common to SSA offices nationwide. Based on this study, SSA will take whatever action is necessary.

In its response, SSA stated that it had long been concerned about the use of nonwork SSNs in the employment sector. However, the Agency believed that the issue of unauthorized work could be dealt with more effectively through pilot projects for

determining work eligibility than through a legislative proposal. SSA asserted that the legislative proposal we recommended would be extremely difficult to administer because the Agency's records would not allow the determination of when an individual may or may not be allowed to work. Additionally, SSA stated that it was considering an amendment to its regulations that will permit the assignment of a nonwork SSN only when a number is required by a Federal statute or regulation to receive a federally-funded benefit or service. Finally, SSA asserted that our \$1.7 billion estimate of trust fund resources the Agency may expend by the year 2019 for benefits associated with nonwork QCs should be offset by the taxes paid into the trust funds as a result of those nonwork earnings.

SSA also did not agree to review the 452 unrestricted SSNs processed by the California FO's temporary service representative to identify other coding errors that may have resulted in the incorrect issuance of SSN cards containing work authorization. The Agency stated that OIG found no indication of fraud and it would be impossible to determine from a review of the affected applications whether the individuals involved continue to be ineligible for unrestricted SSNs.

In its response, SSA provided technical comments that were considered and incorporated, where appropriate in this final report. The full text of SSA's comments is included as Appendix A.

OIG RESPONSE

We commend SSA for its participation in the pilot project with INS and its proposed efforts to amend the regulations pertaining to the issuance of nonwork SSNs. However, we do not believe that these initiatives sufficiently address nonwork SSNs used in the past to illegally obtain employment in the U.S. Specifically, neither of these actions address (1) wages already posted as a result of unauthorized work or (2) future earnings of employees who continue to work illegally in their present jobs.

We also point out that the pilot project SSA is participating in with INS only covers a small number of States and employers. Additionally, as determined in focus group discussions that SSA recently held with certain industry representatives, some employers are reluctant to use verification services, such as the one being tested by INS and SSA. In fact, some agriculture employers stated that they would not voluntarily use such a service because they knew that the majority of their workforce is made up of illegal aliens. They further explained that if agriculture employers were forced to verify the work eligibility of all employees and retain only those legally allowed to work in the U.S., there would not be enough workers available to pick crops. Although we applaud the intent of this program, we question whether it will adequately address the use of nonwork SSNs by noncitizens to illegally obtain future employment.

We also disagree that the implementation of our proposed legislative proposal would be extremely difficult to administer. In its response, SSA asserted that the Agency's records would not allow the determination of when an individual may or may not be

authorized to work. Under these circumstances, SSA's policy should require collaborative information from the individual. It is our contention that it is the responsibility of each nonwork number holder to amend his or her SSN record when they become eligible to work in the U.S. Each nonwork SSN card clearly states that the number is not valid for employment purposes. As such, noncitizens who, subsequent to the assignment of a nonwork SSN, become eligible to work in the U.S. should be held responsible for changing his or her status with SSA, just as they must with INS. We believe that if a nonwork number holder applies for SSA benefits, he or she should be required to prove that they have sufficient QCAs as a legal worker in the U.S. before those benefits are approved.

As stated previously in this report, we firmly believe there is a need for legislation that prohibits aliens who work illegally in the U.S. from receiving Social Security entitlement credits for those earnings. Therefore, we disagree with SSA's position that our \$1.7 billion estimate of trust fund expenditures that may be paid by 2019 as a result of nonwork earnings should be offset by FICA taxes paid by the employee and employer. In our opinion, these taxes are paid to individuals who were illegally employed. Any QCAs associated with this employment should not be used to later reward the offenders. Finally, we point out that the \$1.7 billion estimate does not include potential benefit payments to the even larger population of nonwork number holders who are 61 and under who have received QCAs. We encourage SSA to reconsider Recommendations 1 and 2.

Regarding our recommendation that SSA conduct periodic quality reviews of processed SSN applications and provide timely feedback to FO personnel (Recommendation 3), we agree with SSA's planned action. OIG will issue additional audit reports in the coming months that will further illustrate the need for such reviews. However, if SSA wishes to conduct its own study to confirm the reported information, we encourage the Agency to do so.

Finally, regarding our recommendation that SSA review the 452 unrestricted SSNs processed by the California FO's temporary SR to identify other coding errors that resulted in the incorrect issuance of SSN cards containing work authorization, we disagree with SSA's response. SSA asserted that (1) the SR made virtually the same errors on all of the processed applications, (2) no fraud appeared to be involved, and (3) it would be impossible to determine from a review of the affected applications whether the individuals would still be ineligible to work. Therefore, SSA declined to review the applications. We acknowledge that the SR made similar errors on all of the applications we reviewed. However, we believe these circumstances give weight to our recommendation that SSA review the remaining applications to determine whether additional unrestricted SSNs were issued in error. If necessary, SSA could contact INS to determine the work eligibility status of any applicants in question. Accordingly, we encourage SSA to reconsider Recommendation 4.

APPENDICES

APPENDIX A

SSA COMMENTS

**SAMPLE APPRAISALS FOR NONWORK SOCIAL SECURITY
NUMBER HOLDERS AGE 62 AND OVER WHO WERE
RECEIVING OLD-AGE, SURVIVORS AND DISABILITY
INSURANCE BENEFITS AS OF MAY 1998**

**ESTIMATED EFFECT OF UNAUTHORIZED WORK ON
OLD-AGE, SURVIVORS AND DISABILITY INSURANCE
(OASDI) BENEFITS PAID THROUGH MAY 1998**

Variable Appraisal

OASDI Benefit Payments Resulting From Unauthorized Work	\$	219,262 ¹
Total Sample Size		500
Average Benefit Payments Per Sample Case (\$219,262 / 500)	\$	438.52
Total Population Age 62 and Over		655,300
Total Value of Projected Payments to the Population Resulting From Unauthorized Work		<u>\$287,364,777</u>

CONFIDENCE LEVEL: We are 90-percent confident that the actual value of OASDI benefit payments made through May 1998 to the age 62 and over population as a result of unauthorized work is between \$110,664,873 and \$464,064,682.

Attributes Appraisal

Total Population Age 62 and Over	655,300
Total Sample Size	500
Number of Cases With OASDI Payments Resulting from Unauthorized Work	15
Projection of the Number of Cases in the Total Population With OASDI Benefit Payments Resulting From Unauthorized Work	<u>19,659</u>

CONFIDENCE LEVEL: We are 90-percent confident that the actual number of cases in the total population with OASDI benefit payments resulting from unauthorized work is between 12,178 and 30,022.

¹ An analyst at the Social Security Administration's (SSA) Southeastern Program Service Center (SEPSC) determined the effect of the nonwork quarters of coverage (QC) on benefit payments made through May 1998 for each case.

ESTIMATE OF ANNUAL OASDI BENEFITS RESULTING FROM UNAUTHORIZED WORK²

Variable Appraisal

Estimated OASDI Benefits Resulting From Unauthorized Work for the 12-Month Period Ending May 1999	\$	48,012 ³
Total Sample Size		500
Average Benefit Payments Per Sample Case (\$48,012 / 500)	\$	96.02
Total Population Age 62 and Over		655,300
Total Value of Projected Annual Payments Resulting From Unauthorized Work		<u>\$62,924,527</u>

CONFIDENCE LEVEL: We are 90-percent confident that the actual value of annual OASDI benefit payments to the age 62 and over population as a result of unauthorized work is between \$22,484,580 and \$103,364,474.

² Our future dollar estimate was based on the assumption that payment amounts remained at the May 1998 level throughout the entire 12-month period.

³ An analyst at SSA's SEPSC determined the effect of the nonwork QCs on benefit payments made for May 1998 recipients. We then annualized monthly amounts for the May 12, 1998, recipients.

APPENDIX C

**NON-STATISTICAL ESTIMATE OF FUTURE OLD-AGE,
SURVIVORS AND DISABILITY INSURANCE BENEFITS FOR
NONWORK SOCIAL SECURITY NUMBER HOLDERS AGE
62 AND OVER WHO WERE RECEIVING BENEFITS
AS OF MAY 1998¹**

**ESTIMATED EFFECT OF UNAUTHORIZED WORK ON FUTURE
OLD-AGE, SURVIVORS AND DISABILITY INSURANCE (OASDI)
FOR MAY 1998 RECIPIENTS**

Variable Estimate

Future OASDI Benefits Resulting from Unauthorized Work	\$ 634,977 ²
Total Sample Size	500
Average Benefit Payment Per Sample Case (\$634,997 / 500)	\$ 1,269.95
Total Population Age 62 and Over	655,300
Total Value of Estimated Payments to the Population Resulting from Unauthorized Work	<u>\$832,200,856</u>

¹ Our future dollar estimates were based on the following assumptions: (1) factors affecting payment levels will remain constant throughout the recipients' life expectancies, (2) recipients' life expectancies equal the estimates in SSA's life tables, and (3) no new auxiliaries will be added in future years.

² An SSA analyst determined the effect of the nonwork QCs on benefit payments made for May 1998 recipients. We then annualized the amounts calculated by the analyst and applied life table functions to estimate future benefits. The life table functions used were provided by the Office of the Actuary. We used the age and sex of the recipients to determine the particular function(s) to apply in each case.

**NONSTATISTICAL ESTIMATE OF FUTURE OLD-AGE AND
SURVIVORS INSURANCE BENEFITS FOR NONWORK
SOCIAL SECURITY NUMBER HOLDERS AGE 62 AND OVER
WHO WERE NOT RECEIVING BENEFITS AS OF MAY 1998¹**

**ESTIMATED EFFECT OF UNAUTHORIZED WORK ON FUTURE OLD-AGE
AND SURVIVORS INSURANCE (OASI) BENEFITS FOR NONWORK SSN
HOLDERS NOT RECEIVING BENEFITS AS OF MAY 1998**

Variable Estimate

Future OASI Benefits Resulting From Unauthorized Work	\$ 443,357 ²
Total Sample Size	500
Average Benefit Payments Per Sample Case (\$1,078,334 / 500)	\$ 886.71
Total Population Age 62 and Over	655,300
Total Value of Estimated Payments to the Population Resulting from Unauthorized Work	\$581,063,684

¹ Our future dollar estimates were based on the following assumptions: (1) Social Security number (SSN) holders not yet age 65 will file for benefits when they reach age 65 and SSN holders already age 65 will file for benefits at age 70, (2) factors affecting payment levels will remain constant through 2019, (3) recipients' life expectancies equal the estimates contained in the Social Security Administration's (SSA) life tables, and (4) no auxiliaries will be added in future years.

² The amount shown relates to 6 SSN holders age 62 and over who were not receiving benefits as of May 1998, but who had 40 or more total quarters of coverage (QC) credited to their accounts. An analyst at SSA's Southwestern Program Service Center calculated the effect of nonwork QC on the estimated future monthly payment amounts. We then annualized these amounts and applied life table functions to estimate future benefits.

Attributes Estimate

Total Population Age 62 and Over	655,300
Total Sample Size	500
Number of Cases With OASI Benefit Payments Resulting From Unauthorized Work	6
Estimate of the Number of Cases in Total Population With OASI Benefit Payments Resulting From Unauthorized Work	<u>7,864</u>

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APPENDIX F

SSA ORGANIZATIONAL CHART
