



## SOCIAL SECURITY

Office of the Inspector General

September 30, 2010

The Honorable Kay Granger  
House of Representatives  
Washington, D.C. 20515

Dear Ms. Granger:

I am pleased to provide the enclosed report addressing your October 13, 2009 letter requesting information related to the Social Security Administration's (SSA) Consent Based Social Security Number Verification (CBSV) program. Specifically, you requested that the audit address the following issues.

- The accuracy of CBSV's underlying cost allocation and cost estimates, including why SSA elected to use a 3-year amortization schedule instead of a 5-year or longer schedule.
- The timing and accuracy of SSA's transaction projections.
- Upfront enrollment fees paid by participants previously covered the program cost for the Social Security Number Verification Pilot for Private Businesses and Interim Verification Program. Why did SSA abandon this precedent for the CBSV program? Is SSA willing to reconsider this option once the costs of the CBSV program are established?

Thank you for bringing your concerns to my attention. The enclosed report highlights various facts pertaining to the issues raised in your letter. To ensure SSA is aware of the information provided to your office, we are forwarding a copy of this report to the Agency.

If you have any questions, please call me or have your staff contact Misha Kelly, Congressional and Intra-Governmental Liaison, at (202) 358-6319.

Sincerely,

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

Patrick P. O'Carroll, Jr.  
Inspector General

Enclosure

cc:

Michael J. Astrue

# **CONGRESSIONAL RESPONSE REPORT**

## *The Social Security Administration's Cost Estimates for the Consent Based Social Security Number Verification Program*

**A-03-10-21060**



September 2010

## 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.

# *Background*

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## **OBJECTIVE**

Our objectives were to assess the (1) accuracy of the Consent Based Social Security Number Verification (CBSV) program's underlying cost estimates and allocation, including the use of a 3-year amortization schedule and (2) timing and accuracy of transaction projections. In addition, we determined whether the Social Security Administration (SSA) recouped its costs for developing the Social Security Number Verification Pilot for Private Businesses (Pilot) and Interim Verification Program (IVP).

## **BACKGROUND**

In 2002, SSA developed a centralized automated process that could quickly assist organizations and companies with Social Security number (SSN) verification for non-program-related reasons and lessen the burden on field office resources to meet the high demand for verification requests. To participate in the automated verification program, users are required to sign a user agreement with the Agency, pay the required fees, and obtain a valid signed consent form from each individual who is to be verified. Since its inception, there have been three iterations of this verification program.

**Pilot (October 2002 through February 2005).** The Pilot was both a manual and an electronic SSN verification process. Although verification data were transferred to SSA electronically via dial up or over the Internet, SSA employees had to manually complete the verification process by organizing source files, submitting the files to the verification process, and downloading and reporting the verification results to participating companies. Four companies participated in the Pilot and were required to pay (1) a registration fee of \$40,000 to assist with the Agency's start-up costs and (2) advanced fees for their total estimated annual verification requests. SSA decreased the advanced fees it charged participating companies over the nearly 3 years the Pilot was in operation. In October 2002, SSA charged \$0.06 per transmission<sup>1</sup> and \$0.0047 per verification request. In October 2003, the transmission fee increased to \$0.12, while the verification fee was reduced to \$0.000113. By October 2004, SSA was no longer charging a transmission fee, but was charging \$0.000109 per verification request during the Pilot.

**IVP (March 2005 through November 2008).** IVP replaced the Pilot in March 2005. From March 2005 until October 2007, the IVP required manual submission of verification requests with consent forms via compact disc (CD). During this period, SSA employees manually received, uploaded, and processed the CDs. Further, they had to manually verify that each request included a valid consent form. SSA charged companies a \$77 one-time registration fee and a \$157 transaction fee per CD

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<sup>1</sup> Initially, the transmission cost was \$0.26; however, in February 2003, the Agency retroactively reduced the transmission fee to \$0.06.

submission to process verification requests. In November 2007, SSA required electronic submissions of verification requests<sup>2</sup> and charged companies already enrolled a registration fee of \$246.66 and newly registered companies \$281.16. The cost for electronic submissions remained at \$157. There were nine companies (including the four original companies) registered for IVP.

**CBSV (November 2008 to present):** CBSV, unlike the previous consent-based verification programs, is a fully automated program that provides instant verification responses and easily handles large volume requests. It is available to private businesses and Federal, State, and local government agencies that need consent-based client SSN verification. Participating companies who wish to register to use CBSV must log onto SSA's Business Services Online (BSO)<sup>3</sup> Website and complete the registration process, see Appendix B for more detail. As part of this process, SSA verifies the registering individual's information with its records to ensure the individual has a relationship with the participating company.

As of September 15, 2010, we found that 124 companies paid the registration fee to participate in the CBSV program. However, since the program's inception, only 60 companies have actively used CBSV by submitting SSN data for verification. These companies were required to pay a registration fee of \$5,000 and advanced fees for each SSN verification request. Effective October 2009, the transaction fee per verification request increased from \$0.56 to \$5.00.

## METHODOLOGY

We reviewed cost data related to the three iterations of the consent-based SSN verification program that covered the period October 2002 to September 2010. Specifically, we analyzed data related to (1) registration, transmission, and verification fees; (2) advance payment and refund information; and (3) system support and personnel cost information. See Appendix C for additional information on our scope and methodology.

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<sup>2</sup> SSA created a secured Website, known as e-Data, for the electronic submission of verification requests by the IVP companies.

<sup>3</sup> BSO is a suite of Internet services for businesses and employers to exchange information with SSA.

# *Results of Review*

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Based on our review of financial records and other supporting documentation, we determined the underlying costs (about \$7.4 million) for developing the CBSV program were generally valid and supported. Furthermore, the 3-year cost recovery model the Agency used is consistent with Federal accounting standards, which allow costs to be recovered over the useful life of the program.

With respect to the timing and accuracy of transaction projections, we found SSA overestimated transaction projections for the first year of the CBSV program. The transaction projections were based on estimates provided by participating companies. In FY 2009, SSA estimated it would receive about 5.7 million verification requests from participating companies, but it only processed about 875,000 (15 percent) requests. However, for the second year (FY 2010), it appeared SSA was on target to meet its projection. As of September 15, 2010, SSA had processed approximately 1.1 million (92 percent) of the 1.2 million estimated transactions. Even though SSA's transaction projection was overstated during the first year of operation, the Agency has the potential to recoup its costs within the 3 years because the 3-year recovery model allows for adjustments to the transaction fee charged to participating companies when the actual volume of transactions is less than anticipated. As to SSA reconsidering the increase of the transaction fee from \$0.56 to \$5.00, we believe it would not be prudent given that the Agency has yet to recover the \$7.4 million in development costs for the CBSV program. If SSA had not increased the transaction fee to \$5.00, it would have subsidized private enterprises with taxpayer dollars because the development costs would not have been recovered within the useful life of the CBSV program.

We also looked at development costs for the two predecessor programs—Pilot and IVP. We found that SSA had not recovered the full costs for developing and operating the previous programs. Specifically, SSA did not recover approximately \$294,000 in costs for the two programs—about \$116,000 for Pilot and \$178,000 for IVP. However, the Agency recognized the need to improve its cost recovery for SSN verification to private companies and has taken the appropriate measures to ensure full cost recovery for the CBSV program.

## **UNDERLYING COSTS FOR THE CBSV PROGRAM**

SSA's underlying costs for developing the CBSV program were generally valid and supported. Our review of financial records and other supporting documentation found that from October 2005 through January 2009, the Agency incurred about \$7.4 million in personnel, system, and contractor costs to develop the fully automated CBSV program (see Table 1).

**Table 1: CBSV Program Development Cost**

Types of Costs	Amount
Personnel Cost for Operation/Policy	\$665,004
Personnel Cost for Systems	\$2,507,451
Contractor Cost	\$4,256,855
<b>Total</b>	<b>\$7,429,310</b>

Specifically, we found the following.

- SSA incurred about \$665,000 in personnel costs for SSA staff to develop the initial CBSV user agreements, develop the CBSV policy, design the new system, and develop the enrollment and registration process for CBSV.
- SSA incurred about \$2.5 million in personnel costs for SSA systems staff to develop the three modes of access and delivery options for CBSV.<sup>4</sup> In addition, systems staff developed the capability of using BSO to authenticate registered users and develop management information reports to track CBSV usage by users.
- SSA incurred about \$4.3 million in contractor costs for work performed to include planning, development, testing/validation, implementation, post-release review, and maintenance of the CBSV application.

## COST RECOVERY MODELS

The *Social Security Act*<sup>5</sup> and SSA's fiscal policy<sup>6</sup> permit SSA to require that individuals (including companies) requesting information pay the full cost of supplying that information for any purpose not directly related to the administration of the programs under the *Social Security Act*. These charges compensate SSA for its work, so the Agency's appropriation does not bear costs that are not directly related to the administration of SSA programs.

To ensure full cost recovery for the CBSV program, SSA evaluated several cost recovery models to determine the optimal approach. In 2005, SSA's approach was to recover its cost for developing the CBSV program within the first year of implementing the program. At that time, SSA estimated the full cost would be about \$7.2 million. However, SSA realized this recovery model would require that the Agency charge a

<sup>4</sup> The three access modes are Real-Time Response Web Service, Real-Time Response Internet On-line, and Batch File Process. See Appendix B for more details about the access modes.

<sup>5</sup> The *Social Security Act* § 1106(c), 42 U.S.C. § 1306(c).

<sup>6</sup> *Administrative Instructions Manual System*, Financial Management, Interagency and Reimbursable Agreements, Authorizing and Accounting for Reimbursable Work, section 05.02.02B, *Funding Reimbursable Work*.

\$40,000 registration fee. Based on public comments from the December 2005 Federal Register<sup>7</sup> announcement for CBSV and guidance from the Office of Management and Budget, the Agency determined this high fee could have prohibited smaller, less financially secure companies from participating in the verification program.

SSA elected to use a 3-year cost recovery model<sup>8</sup> because it allowed the Agency to recoup the \$7.4 million in development costs during the useful life of the program, as permitted by the Federal Accounting Standards Advisory Board (FASAB), *Statement of Federal Financial Accounting Standards Number 10, Accounting for Internal Use Software*.<sup>9</sup> According to the Statement, software that is capitalized pursuant to this standard should be amortized<sup>10</sup> in a systematic and rational manner over the estimated useful life (normal operating life in terms of utility) of the software. The estimated useful life used for amortization should be consistent with that used for planning the software's acquisition. In 2007, SSA determined the useful life of the CBSV program would be 3 years, which was consistent with the previous iterations of the consent-based verification program. For instance, the Pilot was in operation for about 2.5 years (October 2002 through February 2005) while the IVP was in operation for about 3.5 years (March 2005 through November 2008).

In addition, the 3-year cost recovery model appeared appropriate because it allowed the Agency to charge a lower registration fee of \$5,000, which would less likely deter small to midsize companies from participating in the CBSV program. Additionally, the 3-year cost recovery model permitted the Agency to adjust the transaction fee to accommodate the recovery of additional costs.

In 2009, SSA reviewed options for recovering its costs for the CBSV program. The options ranged from extending the full recovery period to 5 years and increasing the transaction fee from \$.56 to \$3.41 to keeping the 3-year recovery period and increasing the transaction fee from \$.56 to \$5.00 (see Table 2). Although the 5-year recovery model would have allowed SSA to charge a lower transaction fee than the 3-year recovery model, it would have led SSA to subsidize private enterprises with taxpayer dollars because the development costs may not have been recovered within the useful life of the CBSV program.

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<sup>7</sup> Federal Register, Vol. 70, No. 250, 70 FR 77439, December 30, 2005.

<sup>8</sup> The 3-year recovery model spreads the development cost (that is, building the necessary computer system and associated labor) over the number of transactions in the 3-year period.

<sup>9</sup> The statement provides accounting standards for internal-use software used by Federal entities. It establishes accounting standards for the cost of software developed or obtained for internal use. This includes software used to operate the Federal entity's programs and software used to produce the entity's goods and services.

<sup>10</sup> Amortization is the gradual extinguishment of any amount over a period of time through a systematic allocation of the amount over a number of consecutive accounting periods, FASAB, *Accounting for Internal Use Software, Statement of Federal Financial Accounting Standards Number 10, June 1998*.

**Table 2: Comparison of 3- and 5-Year Recovery Models For CBSV**

	3-Year Recovery Model <sup>a</sup>		5-Year Recovery Model <sup>b</sup>	
	FY 2009 <sup>c</sup>	FY 2010 <sup>d</sup>	FY 2009 <sup>c</sup>	FY 2010 <sup>d</sup>
<b>Costs Incurred</b>				
Development Costs	\$2,476,000	\$2,476,000	\$1,486,000	\$1,486,000
Operating Expense	\$1,059,000	\$1,170,000	\$1,059,000	\$1,170,000
Carryover		\$2,510,000		\$1,520,000
<b>Total Cost Incurred</b>	<b>\$3,535,000</b>	<b>\$6,156,000</b>	<b>\$2,545,000</b>	<b>\$4,176,000</b>
<b>Fees Collected</b>				
Verification Fees	\$490,000	\$6,000,000	\$490,000	\$4,092,000
Registration Fees	\$535,000		\$535,000	
<b>Total Fees Collected</b>	<b>\$1,025,000</b>	<b>\$6,000,000</b>	<b>\$1,025,000</b>	<b>\$4,092,000</b>
<b>Amount Not Recovered<sup>e</sup></b>	<b>\$2,510,000</b>	<b>\$156,000</b>	<b>\$1,520,000</b>	<b>\$84,000</b>
Transaction fee	\$0.56	\$5.00	\$0.56	\$3.41

Note a: For the 3-year recovery model, SSA expected to recover the \$7.4 million in development costs within 3 years, recouping about \$2.5 million in each year.

Note b: For the 5-year recovery model, SSA expected to recover the \$7.4 million in development costs within 5 years, recouping about \$1.5 million in each year.

Note c: For FY 2009, SSA actually processed about 875,000 verifications.

Note d: For FY 2010, SSA projected that it would process about 1.2 million transactions.

Note e: There are several factors that may affect the amount not recovered, such as a change in the number of transactions submitted for verification, number of companies using the program, and SSA's operating expense.

## RECOVERY OF CBSV PROGRAM DEVELOPMENT COSTS

We found SSA overestimated the transaction projections for the CBSV program for the first year. In FY 2009, SSA estimated that it would receive about 5.7 million verification requests from participating companies<sup>11</sup> but it had only processed about 875,000 (15 percent) requests. However, it appeared SSA was on target to meet its projection for the second year because it had processed 1.1 million (92 percent) of the 1.2 million estimated transactions. In addition, the Agency has the potential to recoup its costs within the 3-year recovery period because it has the flexibility to adjust the transaction fee charged to participating companies when the actual volume of transactions is less than anticipated.

In FY 2009, the first year of CBSV, SSA expected it would receive about \$3.5 million in registration and verification fees for processing 5.7 million verification requests at the rate of \$0.56 per request. The \$3.5 million was to cover the \$2.5 million in development

<sup>11</sup> For the first year of CBSV, SSA's transaction projection was based on the number of verification requests that the participating companies estimated they would submit to SSA.

costs<sup>12</sup> and \$1 million in operating costs. However, the Agency only received about \$1 million (\$490,000 in transaction fees and \$535,000 in registration fees) because participating companies only submitted about 875,000 verification requests. This left a \$2.5-million shortfall that was not recouped (see Table 3).

In FY 2010, SSA estimated it needed to recoup approximately \$6.2 million to cover the \$2.5 million in development costs, \$1.2 million in annual operating costs, and \$2.5 million shortfall from FY 2009. Based on feedback from participating companies, actual year-to-date usage figures, and the application of a growth factor, SSA estimated it would process about 1.2 million verification requests in FY 2010.<sup>13</sup> Because CBSV is a fee-per-transaction model, which spreads the costs of the program over the number of transactions requested to ensure full cost recovery, SSA adjusts fees when the actual volume of transactions is less than anticipated. In FY 2010, SSA increased the transaction fee from \$0.56 to \$5.00, about an 800-percent increase, to recoup about \$6 million.

We found that, as of September 15, 2010, SSA had processed about 1.1 million verification requests, totaling approximately \$5.4 million, and received \$85,000 in registration fees (see Table 3). Therefore, it appeared SSA was on target to recoup about \$6 million by the end of FY 2010. The increase of the transaction fee from \$0.56 to \$5.00 greatly contributed to SSA recovering its costs. Therefore, for FY 2011, SSA should establish a transaction fee that will ensure the Agency recovers the remaining \$2.5 million in development costs; the annual operating costs, which are estimated to be about \$700,000; and any shortfalls from FY 2010.

**Table 3: Actual Costs for CBSV (FYs 2009 – 2010)**

Agency Costs Incurred	Actual FY 2009	Actual FY 2010 <sup>a</sup>
Costs Not Recovered	\$2,510,000	\$600,000
Transaction Fees	\$490,000	\$5,400,000
Registration Fees	\$535,000	\$85,000
<b>Total</b>	<b>\$3,535,000</b>	<b>\$6,085,000</b>
Transaction fee	\$0.56	\$5.00

Note a: As of September 15, 2010.

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<sup>12</sup> To recover the \$7.4 million within the 3-year period, SSA would have to recoup about \$2.5 million each year.

<sup>13</sup> The participating companies indicated they would submit approximately 1 million verification requests in FY 2010. SSA allowed for the possibility of growth in the program by adding a growth factor of 20 percent to the 1 million. This resulted in the 1.2 million projected transactions.

## COST RECOVERY FOR THE PILOT PROGRAM AND IVP

Although permitted by the *Social Security Act*<sup>14</sup> and SSA's fiscal policy, SSA did not recover its full cost for developing and operating the Pilot and IVP. We found that SSA did not recover approximately \$294,000 in costs for the two programs—about \$116,000 for Pilot and \$178,000 for IVP.

**Table 4: Costs Incurred and Fees Collected for Pilot and IVP Programs**

	Pilot	IVP	Total
<b>Agency Costs Incurred<sup>a</sup></b>			
Development	\$333,000	\$291,000	\$624,000
Operating	\$76,000	\$609,000	\$685,000
<b>Total Costs Incurred</b>	<b>\$409,000</b>	<b>\$900,000</b>	<b>\$1,309,000</b>
<b>Fees Collected<sup>a</sup></b>			
Registration	\$160,000	\$3,000	\$163,000
Verification and Other Fees	\$133,000	\$821,000	\$954,000
Refunds		(\$102,000)	(\$102,000)
<b>Total Fees Collected</b>	<b>\$293,000</b>	<b>\$722,000</b>	<b>\$1,015,000</b>
<b>Amount Not Recovered</b>	<b>\$116,000</b>	<b>\$178,000</b>	<b>\$294,000</b>

Note a: Costs and fees were calculated using both estimated and actual data provided by the Agency.

### PILOT PROGRAM

We found that SSA had not recouped all costs incurred for developing and operating the Pilot. In June 2002, SSA recognized the need to provide SSN verification to private companies. As a result, SSA developed the Pilot, which was made available to a limited number of companies. Four participating companies submitted their verification data to SSA electronically via dial up or over the Internet, and SSA employees manually completed the verification process by organizing source files, submitting the files to the verification process, and downloading and reporting the verification results to participating companies. While the Pilot was in operation, SSA processed about 551,000 verification requests submitted by the 4 companies.

Our review of SSA's financial records showed the Agency had incurred about \$409,000 in personnel and systems costs to develop and operate the Pilot, (see Table 4). However, the Agency only collected about \$293,000<sup>15</sup> in registration, verification, and other fees from the four participating companies, representing

<sup>14</sup> The Social Security Act § 1106(c), 42 U.S.C. § 1306(c).

<sup>15</sup> See Appendix D for more details about the four participating companies.

\$160,000 in registration fees and \$133,000 in verification and other fees.<sup>16</sup> As a result, SSA's appropriation was not replenished by about \$116,000 for the Pilot. The primary reason SSA did not recoup these costs was that the Agency failed to recover the development costs from the participating companies.

SSA estimated the development costs for the Pilot program at about \$360,000 (the actual cost was about \$333,000) and expected that nine companies would participate in the verification program. SSA required that each company pay \$40,000 or one-ninth in registration fees to cover the Agency's start-up costs for the Pilot program. However, through discussions with SSA staff as well as reviewing financial records, we found that only four companies actually participated in the verification program, and each paid the \$40,000 registration fee. Therefore, SSA only collected \$160,000 in registration fees, falling short by \$200,000.

We did not find evidence that SSA took steps to recover the outstanding development costs by increasing the fees charged to participating companies as permitted by the Pilot's user agreements.<sup>17</sup> In fact, during the nearly 3 years the Pilot was in operation, SSA decreased the fees charged to participating companies, further preventing the Agency from recovering its development costs. As shown in Table 5, in October 2002, SSA charged companies \$0.06 for each transmission and \$0.0047 for each individual record to be verified. Although the transmission fee increased to \$0.12 in October 2003, the verification fee was reduced to \$0.000113 at the same time. By June 2004, SSA had eliminated the transmission fee, but the verification fee remained at \$.000113. By October 2004, SSA once again reduced the verification fee to \$0.000109 per verification request.

**Table 5: Pilot Program's Transaction Fees**

Timeframe	Transaction Fees	
	Transmission	Verification
10/2002 – 09/2003	\$0.06 per transmission <sup>a</sup>	\$0.0047 per verification
10/2003 – 05/2004	\$0.12 per transmission	\$0.000113 per verification
06/2004 – 09/2004	Not applicable	\$0.000113 per verification
10/2004 – 02/2005	Not applicable	\$0.000109 per verification

Note a: The transmission fee was initially \$0.26 but SSA retroactively reduced the rate to \$0.06.

<sup>16</sup> SSA erroneously provided the four companies with credits totaling \$36,000 that were applied towards the IVP. We discuss the issue in more detail in the IVP section of the report.

<sup>17</sup> The user agreements stated that costs related to providing services contemplated in this agreement will be recalculated periodically, (annually at a minimum) and draw down charges (fees) will be adjusted accordingly.

## IVP

SSA did not recoup all costs incurred for the IVP, which replaced the Pilot in March 2005. Unlike the Pilot, the IVP required manual submission of verification requests with consent forms via CDs. SSA employees had to manually receive, upload, and process the CDs. Further, they had to manually verify that each request included a valid consent form. In November 2007, SSA required electronic submissions of verification requests. While the IVP was in effect, SSA processed about 1.8 million verification requests submitted by 7 of the 9 participating companies.

Our review of SSA's financial records showed the Agency incurred about \$900,000 in personnel and systems costs to develop and operate the IVP from March 2005 to November 2008 (see Table 4). However, the Agency only collected about \$722,000<sup>18</sup> in registration and verification fees from the nine participating companies. Therefore, SSA's appropriation was not reimbursed about \$178,000 for the IVP. SSA did not recoup these costs because it failed to collect about \$55,000 in verification fees from five companies, and it did not adjust fees charged to participating companies to recoup the remaining \$123,000.

Based on our review of submission and registration data, we determined that five of the nine companies should have reimbursed SSA about \$673,000 in registration and verification fees (see Table 6).<sup>19</sup> These companies initially provided SSA with about \$585,000 in registration fees. SSA issued refunds totaling approximately \$3,000 to three of the five companies. In addition, we determined that SSA issued credits totaling about \$36,000 to four of the companies under the Pilot. SSA determined these companies had a balance due from the Pilot ranging from \$8,800 to \$9,200 and applied the balances to the IVP even though SSA had not recouped all costs incurred for the Pilot. Because of the refunds and credits, SSA only collected about \$618,000 from the five companies, leaving \$55,000 still owed to the Agency.

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<sup>18</sup> Initially, SSA collected about \$824,000 in fees from the nine participating companies. However, the Agency issued refunds totaling \$102,000 to seven of the participating companies. Of the seven companies, two received a total of \$42,000 in refunds because they decided not to participate in the IVP, two received a total of \$57,000 in refunds because they submitted fewer verification requests than estimated, and three received refunds totaling \$3,000 even though they did not reimburse SSA for all their submissions. See Appendix E for more details about the nine participating companies.

<sup>19</sup> To determine the amount the five companies should have reimbursed SSA, we multiplied the total submissions for each company by the \$157 submission rate and added the registration fees. For example, Company 1 owed \$147,276, which was derived by multiplying 936 submissions by the \$157 verification rate and adding \$324 in registration fees.

**Table 6: Summary of Uncollected Verification Fees**

Company	Fees Collected	Refunds	Credits	Net Fees Collected	Fees Owed	Fees Uncollected
Company 1	\$126,800	(\$1,100)	\$9,200	\$134,900	\$147,300	\$12,400
Company 2	\$124,100	(\$1,000)	\$9,200	\$132,300	\$144,800	\$12,500
Company 3	\$128,000	(\$900)	\$9,100	\$136,200	\$148,500	\$12,300
Company 4	\$122,500		\$8,800	\$131,300	\$148,100	\$16,800
Company 5	\$83,700			\$83,700	\$84,300	\$600
<b>Total</b>	<b>\$585,100</b>	<b>(\$3,000)</b>	<b>\$36,300</b>	<b>\$618,400</b>	<b>\$673,000</b>	<b>\$54,600</b>

We believe that if SSA properly tracked and monitored the costs for the IVP, the Agency would have realized it needed to adjust its verification fees to recoup the \$178,000 shortfall. The user agreements signed by participating companies permitted SSA to adjust the fees charged to ensure that the Agency recouped all costs incurred for the IVP. Specifically, the agreement stated, “Periodically, but no less frequently than annually, SSA will recalculate its costs related to providing the services in this agreement and will adjust the fees charged accordingly.” We found that SSA did not take steps to adjust the verifications fees during the period that IVP was in operation.

## **Conclusions**

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Based on our review of SSA's records, we found that the Agency's underlying costs for developing the CBSV program were generally valid and supported. SSA incurred about \$7.4 million in costs to develop the fully automated CBSV program. Furthermore, the 3-year recovery model the Agency selected to ensure full cost recovery for the CBSV program was appropriate because it allowed SSA to recover its development and operating costs during the useful life of the program. In addition, we found SSA overestimated the transaction projections for the first year of the CBSV program. However, for the second year, it appeared SSA was on target to meet its projections because it processed about 92 percent of the estimated transactions. Even though SSA's transaction projection was overstated during the first year of operation, the Agency has the potential to recoup its costs within the 3 years because the 3-year recovery model allows adjustments to the transaction fee charged to participating companies when the actual volume of transactions is less than anticipated.

Finally, we found that the Agency did not recover all costs incurred for the two predecessor programs—Pilot and IVP. Specifically, SSA did not recover approximately \$294,000 in costs for the two programs—about \$116,000 for Pilot and \$178,000 for IVP. Although the Agency did not recover all costs for Pilot and IVP, SSA indicated it expects to recover all of the estimated expenses associated with the CBSV program.

# **Appendices**

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[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Business Services Online

[APPENDIX C](#) – Scope and Methodology

[APPENDIX D](#) – Social Security Number Verification Pilot for Private Businesses  
Participating Companies

[APPENDIX E](#) – Interim Verification Program Participating Companies

## ***Appendix A***

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### **Acronyms**

BSO	Business Services Online
CBSV	Consent Based Social Security Number Verification
CD	Compact Disc
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
IVP	Interim Verification Program
MOU	Memorandum of Understanding
Pilot	Social Security Number Verification Pilot for Private Businesses
SSA	Social Security Administration
SSN	Social Security Number
U.S.C.	United States Code

#### **Forms**

Form SSA-1033	<i>Estimated Cost for Negotiating Reimbursable Services</i>
Form SSA-1036	<i>Actual Cost for Reimbursable Services</i>
Form SSA-1235	<i>Agreement Covering Reimbursable Services</i>

### **Business Services Online**

Participating companies who wish to register to use the Consent Based Social Security Number Verification (CBSV) program must log onto the Social Security Administration's (SSA) Business Services Online Website and complete the registration process. As part of this process, SSA verifies the individual's information with its records to ensure the individual has a relationship with the participating company. Participating companies have three ways of connecting to CBSV.

- Real-Time Response Web Service: This option was designed to support interoperable machine-to-machine interaction over the Internet. It provides instantaneous responses and handles large volumes easily.
- Real-Time Response Internet On-line: This option allows companies to request verification of up to 10 names and Social Security numbers at 1 time and receive instantaneous results.
- Batch File Process: This option allows companies to submit their requests through an overnight batch submission.

Social Security Online

[www.socialsecurity.gov](http://www.socialsecurity.gov)

Online Services Availability

Monday-Friday: 5 AM - 1 AM ET  
 Saturday: 5 AM - 11 PM ET  
 Sunday: 8 AM - 11:30 PM ET

DON'T USE YOUR BROWSER'S BACK BUTTON

BSO Information

- [BSO Electronic W-2 Filing Handbook](#)
- [Tutorial](#)
- [Suite of Services](#)
- [Navigation](#)
- [Online Security Policy](#)

Wage Reporting

Social Security

- [Frequently Asked Questions](#)
- [Employer W-2 Filing Instructions & Information](#)
- [W-2 News - Subscribe Today!](#)
- [Contact Us](#)

Internal Revenue Service

- [IRS Employment Tax & W-2 Requirements](#)
- [Apply For EIN](#)

SSN Verification

- [SSNVS Handbook](#)

Other Governmental & Employment Links

- [The Privacy Act and the Freedom of Information Act](#)
- [Electronic Records Express](#)
- [Government to Government Services Online](#)

News

- [Wage News](#)
- [Electronic Records Express News](#)
- [Social Security Number Verification News](#)
- [Consent Based SSN Verification News](#)
- [Form SSA-1694 News](#)

Business Services Online

Home | Questions? | Contact Us | Search | GO | BSO HELP

Business Services Online

Welcome to Business Services Online

Business Services Online (BSO) enables organizations and authorized individuals to conduct business with and submit confidential information to the Social Security Administration. You must Register to use this website. Registered users may Request, Activate and Access various BSO services and functions.

**REGISTRATION** - If you are a new user, select the "Register" button to create a password and receive your User ID. If you have started and need to complete your Registration process, select the "Complete Phone Registration" button. In either case, after your Registration is complete, you can Request, Activate and Access services and functions.

**LOG IN to REQUEST, ACTIVATE AND ACCESS FUNCTIONS** - Registered users can select the "Log In" button to login and display the BSO Main Menu. Then you may access services and functions you have already activated, or you may select links from the left panel to manage your account information (deactivate your User ID and password) or manage your services (request new services, view pending services, and enter activation codes to manage your employer information).

[Informacion para el Empleador en Espanol](#)

**Select the Register Button**

Log in to Business Services Online here

New user? Register for Business Services Online here

Complete Phone Registration [what is this?](#)

Explanation of BSO Services

**Reporting Wages to the SSA**

Allows you to send forms W-2 and W-2c to Social Security by uploading a specifically formatted electronic file or by directly keying W-2 and W-2c information into an online form. Capability to view Submission and Report processing status is available. If you have received a notice requesting that you resubmit your wage file, it can be acknowledged online. Additionally, you may ask for a one time 15-day extension to the deadline for resubmitting your wage file.

[More information about Reporting Wages](#)

**Social Security Number Verification Service (SSNVS)**

For the purposes of completing W-2 and W-2c SSNVS allows you to complete an online form or submit specifically formatted files to request verification of names and Social Security Numbers of employees of the company for which you work or the company that has hired you to perform this service.

[More information about Verifying Social Security Numbers](#)

**Form SSA-1694 Request for Business Entity Taxpayer Information**

Business entities that have attorney and/or non-attorney representatives as partners or employees who receive direct payment must provide SSA with taxpayer identification information using the Form SSA-1694. For information on how to register, contact [OCO.AREP.Registration@ssa.gov](mailto:OCO.AREP.Registration@ssa.gov).

**Select Login** to complete, update or view the Form SSA-1694.

**Select Register** to obtain a User ID and password to complete the Form SSA-1694.

[More information about the Attorney Fee Service](#)

Have a question? Call 1-800-772-6270 to speak with Employer Customer Service personnel.  
 For TDD/TTY call 1-800-325-0778.

# Scope and Methodology

To accomplish our objective, we:

- Reviewed applicable Federal laws and sections of the Social Security Administration's (SSA) regulations, policies, and procedures.
- Reviewed Office of the Inspector General reports and other relevant documents.
- Reviewed SSA's Administrative Instructions Manual System.
- For SSA's Social Security Number Verification Pilot for Private Businesses, we obtained
  - a list of registered companies;
  - documentation for registration, transmission, and verification fees;
  - advance payment and refund information;
  - system support and personnel cost information;
  - support for development costs;
  - copies of the *Estimated Cost for Negotiating Reimbursable Services* (Form SSA-1033);
  - copies of the *Agreement Covering Reimbursable Services* (Form SSA-1235);
  - copies of the *Actual Cost for Reimbursable Services* (Form SSA-1036); and
  - copies of Memorandums of Understanding (MOU).
- For the Interim Verification Program, we obtained
  - a list of registered companies;
  - documentation for registration and verification fees;
  - advance payment and refund information;
  - system support and personnel cost information;
  - support for development costs;
  - copies of Form SSA-1033;
  - copies of Form SSA-1235;
  - copies of Form SSA-1036; and
  - copies of MOUs.

- For the Consent-Based Social Security Number Verification program, we obtained
  - a list of registered companies;
  - documentation for registration and verification fees;
  - advance payment and refund information;
  - system support and personnel cost information;
  - support for development costs; and
  - copies of Cost Analysis System Report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We tested the data obtained for our audit and determined the data were sufficiently reliable to meet our objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The entities audited were the Offices of Public Service and Operations Support under the Deputy Commissioner for Operations, Systems Electronic Services under the Deputy Commissioner for Systems, and Financial Policy and Operations under the Deputy Commissioner for Budget, Finance and Management. We conducted the audit between November 2009 and September 2010 in Philadelphia, Pennsylvania.

## **Appendix D**

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# **Social Security Number Verification Pilot for Private Businesses Participating Companies**

In June 2002, the Social Security Administration (SSA) recognized the need to provide Social Security number verification to private companies. As a result, SSA developed the Social Security Number Verification Pilot for Private Businesses (Pilot) program, which was made available to a limited number of companies. Four companies participated in the Pilot and were required to pay a registration fee of \$40,000 to assist with the Agency's start-up costs as well as pay advance fees for their total estimated annual verification requests. While the Pilot program was in operation, SSA processed about 551,000 verification requests for the four companies and collected about \$293,000 in fees (see Table D-1).

**Table D-1: Review of Pilot Program Participants**

Company	Fees Collected			Verification Data	
	Registration	Verification	Total	Total Submissions <sup>a</sup>	Total Verifications <sup>b</sup>
Company 1	\$40,000	\$33,900	\$73,900	1,512	309,112
Company 2	\$40,000	\$41,700	\$81,700	890	98,340
Company 3	\$40,000	\$28,800	\$68,800	2,921	50,682
Company 4	\$40,000	\$28,400	\$68,400	1,427	93,152
<b>Total</b>	<b>\$160,000</b>	<b>\$132,800</b>	<b>\$292,800</b>	<b>6,750</b>	<b>551,286</b>

Note a: After May 2004, SSA did not track the number of submissions because the Agency no longer charged a transmission fee.

Note b: In October 2002, SSA charged \$0.06 per transmission and \$0.0047 per verification request. In October 2003, the transmission fee increased to \$0.12 while the verification fee reduced to \$0.000113. By October 2004, SSA only charged \$0.000109 per verification request during the Pilot program.

# **Interim Verification Program Participating Companies**

In March 2005, the Interim Verification Program (IVP) replaced the Social Security Number Verification Pilot for Private Businesses (Pilot) program. From March 2005 until October 2007, the IVP program required manual submission of verification requests with consent forms via compact disc (CD). During this period, Social Security Administration (SSA) employees had to manually receive, upload, and process the CDs. Further, they had to manually verify that each request included a valid consent form. SSA charged companies a one-time registration fee of \$77 and a transaction fee of \$157 per CD submission to process verification requests. In November 2007, SSA required electronic submission of verification requests<sup>1</sup> and charged companies already enrolled a registration fee of \$246.66 and newly registered companies \$281.16. The cost for electronic submissions remained at \$157. There were nine companies (including the four original companies) registered for this program. While the IVP program was in operation, SSA processed about 1.8 million verification requests for 7 of the 9 participating companies and collected about \$758,000 in fees, after issuing about \$102,000 in refunds and applying about \$36,000 in credits to the companies (see Table E-1).

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<sup>1</sup> SSA created a secured Website, known as e-Data, for the electronic submission of verification requests by the IVP companies.

**Table E-1: Review of IVP Program Participants**

Company	Fees Collected						Verification Data	
	Total Fees Due SSA <sup>a</sup>	Total Fees Collected	Refunds	Credits	Net Fees Collected	Amount Under Paid	Total Submissions	Total Verifications
Company 1 <sup>b</sup>	\$147,300	\$126,800	(\$1,100)	\$9,200	\$134,900	\$12,400	936	1,214,837
Company 2 <sup>b</sup>	\$144,800	\$124,100	(\$1,000)	\$9,200	\$132,300	\$12,500	920	102,902
Company 3 <sup>b</sup>	\$148,500	\$128,000	(\$900)	\$9,100	\$136,200	\$12,300	944	153,889
Company 4 <sup>b</sup>	\$148,100	\$122,500		\$8,800	\$131,300	\$16,800	941	311,701
Company 5	\$84,300	\$83,700			\$83,700	\$600	535	4,193
Company 6 <sup>c</sup>		\$11,700	(\$11,700)					
Company 7 <sup>c</sup>		\$30,300	(\$30,300)					
Company 8	\$106,300	\$118,300	(\$9,800)		\$108,500	See note d	675	27,770
Company 9	\$28,900	\$78,300	(\$47,000)		\$31,300	See note d	182	7,439
<b>Total</b>	<b>\$808,200</b>	<b>\$823,700</b>	<b>(\$101,800)</b>	<b>\$36,300</b>	<b>\$758,200</b>	<b>\$54,600<sup>e</sup></b>	<b>5,133</b>	<b>1,822,731</b>

Note a: The amount of total fees due to SSA was based on fees remaining at \$157 per submission during the period IVP was in operation.

Note b: These four companies participated in the Pilot program.

Note c: These two companies received full refunds because they decided not to participate in the IVP program.

Note d: While it appeared that Companies 8 and 9 may have overpaid SSA for their verification submissions, we do not believe SSA should have reimbursed these companies because it did not recoup its full costs for the IVP program.

Note e: This figure does not include the overpayments for Companies 8 and 9.

## **DISTRIBUTION SCHEDULE**

Commissioner of Social Security  
Chairman and Ranking Member, Committee on Ways and Means  
Chief of Staff, Committee on Ways and Means  
Chairman and Ranking Minority Member, Subcommittee on Social Security  
Majority and Minority Staff Director, Subcommittee on Social Security  
Chairman and Ranking Minority Member, Committee on the Budget, House of Representatives  
Chairman and Ranking Minority Member, Committee on Oversight and Government Reform  
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Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations,  
House of Representatives  
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Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate  
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Social Security Advisory Board

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

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.